

Notes to the Financial Statements

1 Accounting policies

The following statements outline the main accounting policies applied in the preparation of the financial statements.

Basis of accounting

The financial statements are prepared under the historical cost convention as modified for the revaluation of investment properties and in accordance with United Kingdom accounting standards.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and a summary of the financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Business Review Section on pages 5 to 11 and in notes 6 and 19. The Company has considerable financial resources, a wide and varied customer base within Jersey, steady demand for its products and services and a stable and well established treatment and distribution network. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore selected the going concern basis in preparing the financial statements.

Turnover

Turnover represents the total value of water charges together with minor contracts and rental income. Income from minor contracts is recognised within turnover upon completion of the contracted works. Income arising on minor contracts to be provided in the future is treated as deferred income.

Stocks of water

In accordance with normal industry practice, no value is placed on stocks of water held within reservoirs, treatment works or the mains network.

Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

Water charges

Water is billed either as a fixed rate (in advance) or as a metered charge (in arrears). Both fixed rate and metered water income is recognised for the year up to 31 December.

Fixed assets and depreciation

Fixed assets under construction are recognised within 'Uncompleted Works' until such time as they are first brought into use. At this point the asset is transferred to 'Property and Completed Works' and depreciation commences. Subsequent qualifying expenditure is transferred directly to 'Property and Completed Works'.

Depreciation is charged on a straight line basis in accordance with the rates of depreciation set out below for each major asset type. No depreciation is provided on freehold land.

Asset type	Depreciation period
Water mains - Ductile Iron.....	80 years
- Others.....	50 years
Buildings.....	30-100 years
Impounding reservoirs & dams.....	60-100 years
Pumping plant.....	10-40 years
Reinforced concrete structures.....	100 years
Water Meters.....	10 years
Motor vehicles.....	5-8 years
Mobile plant and tools.....	3-10 years
Reverse osmosis membranes.....	10 years

Investment property

Certain of the Company's properties originally acquired for business purposes, or otherwise used within the business, are no longer so used and are now held for investment purposes. These properties are treated as investment properties and accounted for in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties, and are included in the balance sheet at open market value. The surplus or deficit on revaluation is taken to the revaluation reserve. No depreciation is provided in respect of freehold investment property.

Deferred taxation

Deferred taxation is calculated on a full provision basis in accordance with Financial Reporting Standard 19 'Deferred Taxation'. As permitted under Financial Reporting Standard 19, deferred tax balances are not discounted to reflect the time value of money.

Retirement benefits

The Company values its liability in respect of defined retirement benefits in accordance with FRS 17 and following the projected unit cost method of calculation.

Any surplus or deficit in the defined benefit plan, being the difference between the value of the plan assets and the present value of the plan liabilities, is recognised in the balance sheet as an asset or liability to the extent that any surplus is recoverable through future reduced contributions or that, conversely, any deficit reflects a legal or constructive obligation. The defined benefit asset or liability is shown net of any related deferred tax liability or asset.

Cash at Bank and liquid resources

Included within liquid resources in the cash flow statement are cash balances held on fixed deposit for a term of one month or greater. These items are included within Bank and cash in the balance sheet.

Notes to the Financial Statements - continued

2 Fixed assets

	Property and completed works	Freehold investment property	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Brought forward	83,730		105	2,136	85,971
Additions	3,095		106	259	3,460
Disposals	(57)			(392)	(449)
Transfers	75	21	(96)	-	-
Surplus on revaluation	-	1,314	-	-	1,314
	<u>£86,843</u>	<u>£1,335</u>	<u>£115</u>	<u>£2,003</u>	<u>£90,296</u>
Depreciation					
Brought forward	(23,201)	-	-	(1,600)	(24,801)
Charge for the year	(1,578)	-	-	(242)	(1,820)
Disposals	28	-	-	382	410
	<u>£(24,751)</u>	<u>£ -</u>	<u>£ -</u>	<u>£(1,460)</u>	<u>£(26,211)</u>
Net book value					
Brought forward	<u>£60,529</u>	<u>£ -</u>	<u>£105</u>	<u>£536</u>	<u>£61,170</u>
Carried forward	<u>£62,092</u>	<u>£1,335</u>	<u>£115</u>	<u>£543</u>	<u>£64,085</u>

Of the £1,820,000 depreciation charge for the year, £242,000 relating to motor vehicles, mobile plant and equipment has been allocated to various cost centres included within the Cost of Sales and Administration expense categories in the Profit and Loss Account.

At 31 December 2010 capital commitments contracted for amounted to £NIL (2009: £50,000).

Provision for impairment

In 2002, the Company constructed a standby water quality improvement plant to enhance the quality of raw water collected from the Le Mourier catchment area through the use of reverse osmosis and ultra-filtration. Whilst the plant remains operational, changes in the Company's water capture, transfer and treatment processes since 2002 have reduced the likelihood of the use of the standby plant in the future. As a result of the consequent impairment review a charge for impairment of £422,000 was recognised in 2009, writing off the remaining net book value of the plant.

Market value of freehold investment properties

In 2010, the Company reclassified two freehold residential properties that are no longer held for use within the business as investment properties. The properties, which had a combined net book value of £21,000, were revalued as at 31 December 2010 at £1,335,000.

The freehold investment properties were valued by an external valuer, CB Richard Ellis Limited, on the basis of open market value in accordance with the requirements of the RICS Appraisal and Valuation Standards.

Notes to the Financial Statements - continued

3 Debtors

	2010	2009
	£'000	£'000
Trade debtors	3,538	3,836
Prepayments	376	394
Accrued income and other debtors	788	712
	£4,702	£4,942

4 Creditors and accruals

	2010	2009
	£'000	£'000
Trade creditors	698	509
Other creditors	422	340
Contract retentions	-	8
Accruals and deferred income	1,600	1,810
	£2,720	£2,667

5 Jersey income tax

	2010	2009
	£'000	£'000
Current tax		
Income tax on the profit for the year	500	531
Under provision for previous years	2	-
Total current tax	502	531
Deferred tax		
Charge for the year	328	255
Total deferred tax	328	255
Total tax charge for the year	£830	£786

Notes to the Financial Statements - continued

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of Jersey income tax (20%) applicable to utility companies. The differences are explained below:

	2010	2009
	£'000	£'000
Profit before tax	£4,151	£4,085
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	830	817
Tax at 20% on:		
Capital allowances for period in excess of depreciation	(164)	(175)
Capital expenditure, deductible for tax purposes	(223)	(143)
Profit on sale of fixed assets	(19)	(128)
Dividends on non-equity shares - Non deductible	76	76
Provision for impairment of fixed assets	-	84
Current tax charge for year	£500	£531

6 Bank loans

	Repayment Dates	2010	2009
		£'000	£'000
Facilities drawn down			
HSBC Bank plc	2010	-	3,650
HSBC Bank plc	2011	5,250	5,250
HSBC Bank plc	2013	6,000	6,000
HSBC Bank plc	2015	3,650	-
		£14,900	£14,900
Loans falling due within one year		5,250	3,650
Loans falling due between one and two years		-	5,250
Loans falling due after two years but less than five years		9,650	6,000
		£14,900	£14,900

The Company has a rolling overdraft facility with HSBC Bank plc. Unconditional guarantees have been given by the States of Jersey for the repayment of the principal and interest on loans up to a maximum of £16.2m taken out to fund the Company's capital works programme.

Subsequent to the year end, the facility for £5,250,000 due for repayment in 2011 was renewed for a further period of ten years and is now due for repayment in 2021.

Notes to the Financial Statements - continued

7 Deferred taxation

	2010	2009
	£'000	£'000
Accelerated capital allowances	5,356	5,028
Net liability	£5,356	£5,028
Brought forward	5,028	4,560
Amounts charged in the profit and loss account	328	255
Amounts charged in the statement of total recognised gains and losses	-	213
At 31 December	£5,356	£5,028

8 Pensions

The Company operates two formal pension schemes; a defined contribution scheme and a defined benefit scheme. There are also certain past employees whose pension or pension supplements, which are of a defined benefit nature, have not been funded by the Company's present or previous pension agreements (the 'unfunded scheme'). Where applicable, the liability of the Company in respect of the unfunded scheme is included within the disclosure below relating to the defined benefit section. The defined benefit section of the scheme was closed to new entrants with effect from 1 January 2003.

The defined contribution scheme and defined benefit scheme are both sections of The Jersey Water Pension Plan.

Defined contribution section

The defined contribution section of the plan was opened to new members on 1 May 2003. Employer contributions during the period to 31 December 2010 totalled £53,000 (2009: £54,000).

Defined benefit section and unfunded scheme

The full FRS17 actuarial valuation as at 31 December 2010 shows an improvement from the 2009 deficit of £854,000 to a surplus of £388,000 in 2010.

The major assumptions used by the actuary were:

	2010	2009
Rate of increase in salaries	4.69%	4.94%
Rate of increase in pensions accrued after 1 January 1999	3.39%	3.50%
Discount rate	5.47%	5.80%
Expected return on plan assets	5.78%	6.18%
Inflation assumption	3.69%	3.94%
Life expectancy assumptions		
Current pensioners at 65 - Male	86	86
Current pensioners at 65 - Female	88	88
Future pensioners at 65 - Male	87	87
Future pensioners at 65 - Female	89	89

The post-retirement mortality assumptions allow for expected increases in longevity.

The overall expected rate of return is based on the weighted average return of each class of asset at the start of each accounting period.

Notes to the Financial Statements - continued

	2010 £'000	2009 £'000
Reconciliation of the present value of scheme liabilities		
Opening scheme liabilities	15,383	13,508
Current service cost	249	230
Employee contributions	92	113
Interest cost	887	828
Actuarial losses	534	1,769
Past service costs	17	248
Gains on curtailment	-	(782)
Benefits paid	(864)	(531)
	<u>£16,298</u>	<u>£15,383</u>
Analysis of funded and wholly unfunded scheme liabilities		
Funded scheme	16,191	15,263
Wholly unfunded scheme	107	120
	<u>£16,298</u>	<u>£15,383</u>
Reconciliation of the fair value of scheme assets		
Opening fair value of scheme assets	14,316	12,188
Expected return	912	688
Employer contributions	1,671	926
Employee contributions	92	113
Actuarial gains	640	914
Benefits paid	(848)	(513)
	<u>£16,783</u>	<u>£14,316</u>
Actual return on scheme assets		
	<u>£1,552</u>	<u>£1,602</u>
Analysis of amounts shown in the balance sheet		
Fair value of plan assets	16,783	14,316
Present value scheme liabilities	(16,298)	(15,383)
	<u>485</u>	<u>(1,067)</u>
Surplus / (deficit)		
Related deferred tax (liability) / asset	(97)	213
	<u>£388</u>	<u>£(854)</u>
Net surplus / (deficit)		

Notes to the Financial Statements - continued

	2010	2009
	£'000	£'000
Analysis of amounts recognised in the profit and loss account		
Current service cost	(249)	(230)
Expected return on pension plan assets	912	688
Interest on pension plan liabilities	(887)	(828)
Past service cost	(17)	(248)
Curtailments	-	782
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Total	£(241)	£164
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Current service costs, past service cost and curtailments are included within administration expenses in the profit and loss account. Expected returns on pension plan assets and interest on pension plan liabilities are shown net within other finance income in the profit and loss account.

	2010	2009
	£'000	£'000
Analysis of amounts recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	640	914
Experience gains / (losses) arising on scheme liabilities	90	(310)
Changes in assumptions underlying the present value of scheme liabilities	(624)	(1,459)
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Actuarial gain / (loss) recognised in the statement of total recognised gains and losses	106	(855)
Current tax relief	288	435
Movement in deferred tax relating to net asset / liability	(310)	(51)
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Gain / (loss) recognised in the statement of total recognised gains and losses	£84	£(471)
	<hr/> <hr/>	<hr/> <hr/>
Cumulative amounts recognised in the statement of total recognised gains and losses	£(3,153)	£(3,237)
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	2010	2009
	% of total fair value of scheme assets	% of total fair value of scheme assets
Equities	43%	46%
Property	8%	8%
Corporate bonds	42%	43%
Cash and receivables	7%	3%
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	100%	100%
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Notes to the Financial Statements - continued

History of experience gains and losses

	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Present value of scheme assets	16,783	14,316	12,188	14,191	12,514
Present value of scheme liabilities	(16,298)	(15,383)	(13,508)	(13,966)	(15,043)
Gross scheme surplus / (deficit)	£485	£(1,067)	£(1,320)	£225	£(2,529)

Experience gains / (losses) on scheme liabilities

Amount	90	(310)	185	241	290
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Difference between the expected and actual return on scheme assets

Amount	640	914	(3,013)	(288)	(22)
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Funding of the defined benefit pension scheme

The actual funding of the defined benefit pension scheme is determined by the triennial actuarial valuation and this differs from the amount that is required to be charged to the profit and loss account under Financial Reporting Standard 17.

During the year, the Company made scheduled retirement benefit contributions into the defined benefit scheme totalling £671,000 (2009: £926,000) and special contributions of £1,000,000 (2009: £Nil).

Following the results of the latest actuarial valuation as at 1 January 2009, the contribution rate for 2009, 2010 and 2011 was set at 9.9% of Pensionable Salaries plus £445,000 per annum, of which £445,000 represents contributions to reduce the scheme deficit.

9 Share capital**a) Equity share capital**

	2010	2009
	£'000	£'000
Authorised		
252,000 ordinary shares of £1	252	252
231,000 'A' ordinary shares of £1	231	231
	£483	£483
Issued and fully paid		
252,000 ordinary shares of £1	252	252
231,000 'A' ordinary shares of £1	231	231
	£483	£483

Ordinary and 'A' ordinary shares carry no right to fixed income and rank after preference shares and other liabilities. Each ordinary share carries one vote in the event of a poll. Each 'A' ordinary share, whilst in the ownership of the States of Jersey, entitles the holder to such additional votes at a poll as brings the total number of votes attaching to the 'A' ordinary shares to twice the number of votes cast in respect of all other shares.

Notes to the Financial Statements - continued

b) Non-equity preference share capital

	2010	2009
	£'000	£'000
Authorised		
20,000 cumulative preference shares of £5	100	100
20,000 cumulative second preference shares of £5	100	100
100,000 cumulative third preference shares of £5	500	500
100,645 cumulative fourth preference shares of £5	503	503
900,000 cumulative fifth preference shares of £5	4,500	4,500
	<u>£5,703</u>	<u>£5,703</u>
Issued and fully paid		
17,261 5% cumulative preference shares of £5	86	86
17,402 3.5% cumulative second preference shares of £5	87	87
23,509 3% cumulative third preference shares of £5	118	118
16,036 3.75% cumulative third preference shares of £5	80	80
11,400 5% cumulative third preference shares of £5	57	57
90,877 2% cumulative fourth preference shares of £5	454	454
900,000 10% cumulative fifth preference shares of £5	4,500	4,500
	<u>£5,382</u>	<u>£5,382</u>

Preference shares bear interest at the rates indicated above and rank, in the order listed, above ordinary and 'A' ordinary equity shares in the event of winding up.

Upon a poll, every holder of a preference share present at a general meeting in person or by proxy shall have one vote only for all the preference shares held by him, irrespective of the number and class of such preference shares.

10 Reserves

	Revaluation reserve	Retained profit	Total
	£'000	£'000	£'000
Brought forward	-	39,648	39,648
Profit for the financial year	-	3,321	3,321
Surplus on revaluation of investment properties in year	1,314	-	1,314
Equity dividends	-	(2,695)	(2,695)
Gain relating to pension plan recognised in the statement of total recognised gains and losses	-	84	84
Carried forward	<u>£1,314</u>	<u>£40,358</u>	<u>£41,672</u>

Notes to the Financial Statements - continued

11 Reconciliation of movement in equity shareholders' funds

	2010	2009
	£'000	£'000
Profit for the year	3,321	3,299
Equity dividends	(2,695)	(1,444)
	<hr/>	<hr/>
Retained profit for the year	626	1,855
Gain / (loss) arising on pension plan	84	(471)
Reversal of other deferred tax timing differences	-	(213)
Surplus on revaluation of investment properties in year	1,314	-
Opening equity shareholders' funds	40,933	39,762
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Closing equity shareholders' funds	£42,957	£40,933
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12 Water supply charges

	2010	2009
	£'000	£'000
Measured water charges	7,465	6,874
Unmeasured water charges	5,772	6,262
Service charges and other charges for water	617	630
	<hr/>	<hr/>
	£13,854	£13,766
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13 Administration expenses

	2010	2009
	£'000	£'000
Included in administration expenses are the following:		
Reorganisation costs	-	(633)
Gains on pension curtailment (note 8)	-	782
	<hr/>	<hr/>
Net gain on reorganisation	-	149
Directors' fees (note 20)	(80)	(105)
Auditors' fees - Statutory audit	(40)	(34)
- Other services (Tax compliance)	(2)	(4)
- Other services (Pension scheme audit)	(9)	(8)

14 Interest payable

	2010	2009
	£'000	£'000
On loans and overdrafts from banks	£654	£646
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Notes to the Financial Statements - continued

15 Non-equity dividends

	Paid	2010 Payable	Charge for the year	Paid	2009 Payable	Charge for the year
	£'000	£'000	£'000	£'000	£'000	£'000
5% cumulative preference shares	2	2	4	2	2	4
3.5% cumulative second preference shares	2	1	3	2	1	3
3% cumulative third preference shares	3	-	3	3	-	3
3.75% cumulative third preference shares	2	-	2	2	-	2
5% cumulative third preference shares	2	-	2	2	-	2
2% cumulative fourth preference shares	7	-	7	7	-	7
10% cumulative fifth preference shares	360	-	360	360	-	360
	<u>2</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>3</u>
Total dividends on non-equity shares recognised in the year	<u>£378</u>	<u>£ 3</u>	<u>£381</u>	<u>£378</u>	<u>£ 3</u>	<u>£381</u>

16 Equity dividends

Ordinary and 'A' ordinary shares	2010	2009	2010 £'000	2009 £'000
Dividends paid				
Final dividend for the previous year	£2.14	£1.94	1,034	937
Special dividend for the previous year	£2.28	-	1,101	-
Interim dividend for the current year	£1.16	£1.05	560	507
	<u>£5.58</u>	<u>£2.99</u>	<u>£2,695</u>	<u>£1,444</u>
Dividends proposed				
Final dividend for the current year	£2.24	£2.14	1,082	1,034
Special dividend for the current year	-	£2.28	-	1,101
	<u>£2.24</u>	<u>£4.42</u>	<u>£1,082</u>	<u>£2,135</u>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements.

17 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £3,321,000 (2009: £3,299,000), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

Notes to the Financial Statements - continued

18 Reconciliation of operating profit to net cash flow from operating activities

	2010	2009
	£'000	£'000
Operating profit	5,058	4,577
Depreciation	1,820	1,913
Provision for impairment	-	422
Change in order to bring pension charges onto a contribution basis	(1,422)	(1,248)
Decrease in stock and work in progress	259	153
Decrease / (increase) in debtors	222	(391)
Decrease in creditors	(181)	(1,284)
	<hr/>	<hr/>
Net cash inflow from operating activities	£5,756	£4,142
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19 Analysis of changes in net debt

	At 1 January 2010	Cash Flows	Other Changes	At 31 December 2010
	£'000	£'000	£'000	£'000
Total bank and cash per balance sheet	2,791	(1,139)	-	1,652
Debt due within one year	(3,650)	-	(1,600)	(5,250)
Debt due after one year	(16,632)	-	1,600	(15,032)
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Total	£(17,491)	£(1,139)	£-	£(18,630)
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20 Directors' emoluments

	Salary	Fee	Benefits	Total Emoluments		
		<i>(excluding pension contributions)</i>				
	£'000	£'000	£'000	2010 £'000	2009 £'000	
Executives						
Howard Snowden ¹	117	-	9	126	124	
Helier Smith ²	108	-	4	112	110	
Non-Executives						
Kevin Keen	-	20	-	20	17	
Tony Cooke	-	12	-	12	12	
Mary Curtis	-	12	-	12	12	
Carl Hinault	-	12	-	12	12	
Stephen Marie	-	12	-	12	12	
David Norman	-	-	-	-	9	
Peter Yates	-	12	-	12	7	

¹ For the year ended 31 December 2010 the Company's contribution in respect of Howard Snowden's pension was £10,403.

² For the year ended 31 December 2010 the Company's contribution in respect of Helier Smith's pension was £10,440.

Benefits for Mr Snowden consist of full expenses for the use of a motor car, private health care and prolonged disability and death in service insurance. Benefits for Mr Smith consist of motor fuel, private health care and prolonged disability and death in service insurance. With effect from 1 January 2010, neither Mr Snowden nor Mr Smith receives separate fees for their services as Directors, their remuneration being deemed part of their salary. During 2010, a discretionary executive director bonus scheme was established for Mr Snowden and Mr Smith.

Notes to the Financial Statements - continued

21 Related party transactions

The Company has identified the following material related party transactions:

Counterparty	Value of goods & services supplied by Jersey Water		Value of goods & services purchased by Jersey Water		Amount due to Jersey Water		Amount due by Jersey Water	
	2010	2009	2010	2009	2010	2009	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
The States of Jersey	2,196	1,846	69	66	463	525	1	1
Jersey Electricity Plc	82	78	806	834	16	28	61	74
JT Group Limited	20	7	52	57	2	3	4	4
Jersey Post International Limited	8	8	77	73	2	2	-	1

The States of Jersey is the Company's majority and controlling shareholder. Jersey Electricity Plc is majority owned and controlled by the States of Jersey. JT Group Limited and Jersey Post International Limited are both wholly owned by the States of Jersey. All transactions are undertaken on an arm's length basis.

In addition to the transactions included above with the States of Jersey, the Company made payments of income tax, social security, GST, water resource licence fees and other statutory payments.

The Company leases the site of the La Rosiere Desalination Plant from the States of Jersey on a 99 year lease ending in 2067. Under the terms of the lease, the rental, which for 2010 was £25,000 (2009: £25,000) increases every five years in line with the movement on the Jersey Retail Price Index.

22 Post balance sheet events

Subsequent to the year end the Company entered into two contracts totalling £1.6 million for the lining of the upstream face of the dam at Val de La Mare with a water proof membrane in 2011.

23 Ultimate controlling party

The ultimate controlling party of The Jersey New Waterworks Company Limited is the States of Jersey.