

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 and in accordance with United Kingdom accounting standards.

Turnover

Turnover represents the total value of water charges together with minor contracts and rental income.

Stocks of water

No value is placed on stocks of water held in reservoirs, which may vary from year to year.

Stock and work in progress

Stores are valued at the lower of cost and net realisable value.

Water charges

Water is billed either as a fixed rate (in advance or arrears) 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 - Iron.....	80 years
- Others.....	50 years
Buildings.....	60 years
Dams.....	60-100 years
Pumping plant.....	30 years
Reinforced concrete structures.....	80 years
Meters.....	10 years
Motor vehicles.....	3-6 years
Mobile plant and tools.....	3-10 years
Reverse osmosis plants.....	10 years

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 unit cost method of calculation.

In December 2006, the Accounting Standards Board issued an amendment to FRS17 applicable to accounting periods commencing on or after 6 April 2007, with early adoption of the changes being encouraged. The Company adopted the changes within the financial statements for the year ended 31 December 2007.

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.

Notes to the financial statements (continued)

2 Fixed assets

	Property and completed works £'000	Uncompleted works £'000	Motor vehicles mobile plant & equipment £'000	Total £'000
Cost				
Brought forward	77,799	530	2,235	80,564
Additions	-	2,721	259	2,980
Disposals	(307)	-	(121)	(428)
Transfers	2,510	(2,558)	48	-
Carried forward	<u>£80,002</u>	<u>£693</u>	<u>£2,421</u>	<u>£83,116</u>
Depreciation				
Brought forward	(19,208)	-	(1,525)	(20,733)
Charge for the year	(2,212)	-	(258)	(2,470)
Disposals	272	-	118	390
Carried forward	<u>£(21,148)</u>	<u>£-</u>	<u>£(1,665)</u>	<u>£(22,813)</u>
Net book value				
Brought forward	<u>£58,591</u>	<u>£530</u>	<u>£710</u>	<u>£59,831</u>
Carried forward	<u><u>£58,854</u></u>	<u><u>£693</u></u>	<u><u>£756</u></u>	<u><u>£60,303</u></u>

Of the £2,470,000 depreciation charge for the year, £258,000 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 2008 capital commitments contracted for amounted to £348,000 (2007: £91,000).

3 Debtors

	2008	2007
	£'000	£'000
Trade debtors	3,458	3,198
Prepayments	352	365
Accrued income and other debtors	769	662
	<u>£4,579</u>	<u>£4,225</u>

Notes to the financial statements (continued)

4 Creditors and accruals

	2008	2007
	£'000	£'000
Trade creditors	661	312
Other creditors	477	358
Defined benefit pension scheme contributions	1,065	-
Contract retentions	6	78
Accruals and deferred income	1,870	1,642
	<u>£4,079</u>	<u>£2,390</u>

Subsequent to the year end, the Company paid the special contribution into the defined benefit pension scheme totalling £1,065,000.

5 Creditors due after more than one year

	2008	2007
	£'000	£'000
Defined benefit pension scheme contributions	-	1,065
Contract retentions	-	2
	<u>£-</u>	<u>£1,067</u>

6 Jersey income tax

	2008	2007
	£'000	£'000
Current tax		
Income tax on the profits for the year	240	280
Over provision for previous years	(2)	(57)
Total current tax	<u>238</u>	<u>223</u>
Deferred tax		
(Credit) / Charge for the year	(234)	50
Total deferred tax	<u>(234)</u>	<u>50</u>
Total tax charge for the year	<u>£4</u>	<u>£273</u>

Notes to the financial statements (continued)

Factors affecting tax charge for year

The basis of assessment of trading income to Jersey tax is changing from a prior year basis to a current year basis from 2008. The trading profits shown in these accounts are subject to transitional provisions under the Income Tax (Amendment No 28) (Jersey) Law 2007.

The profits chargeable to tax for the year of assessment 2008 will be the average of the adjusted profits for the 2007 and 2008 accounting periods.

Previously, the Company accrued for current tax based on the taxable profit for that accounting period notwithstanding that tax was charged on the Company on a prior year basis. The accounting impact of the transition to an actual basis from 2008 is that only half of the year's profits for 2007 and 2008 year ends will suffer tax at 20%.

The tax provision included in the results for the year is the tax liability for the Year of Assessment 2008, less the provision made in the 31 December 2007 financial statements.

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

	2008	2007
	£'000	£'000
Profit before tax	<u>£4,034</u>	<u>£3,526</u>
Profit before tax multiplied by the standard rate of Jersey income tax of 20%.	807	705
Tax at 20% on:		
Capital allowances for period in excess of depreciation	(84)	(14)
Capital expenditure, deductible for tax purposes	(172)	(176)
Profit on sale of fixed assets	(99)	(35)
Dividends on non-equity shares - Non deductible	76	76
Effect of transitional provisions	<u>(288)</u>	<u>(276)</u>
Current tax charge for year	<u>£240</u>	<u>£280</u>

Notes to the financial statements (continued)

7 Bank loans

	Repayment Dates	2008 £'000	2007 £'000
Facilities drawn down			
HSBC Bank plc	2010	3,650	3,650
HSBC Bank plc	2011	5,250	5,250
HSBC Bank plc	2013	6,000	6,000
		£14,900	£14,900
Loans falling due within one year		-	-
Loans falling due between one and two years		8,900	8,900
Loans falling due after two years but less than five years		6,000	6,000
Loans falling due after five years or more		-	-
		£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.

8 Deferred taxation

	2008 £'000	2007 £'000
Capital allowances	£4,773	£5,007
Brought forward	5,007	4,957
Transfer (to) / from profit and loss account	(234)	50
At 31 December	£4,773	£5,007

9 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 (the name of the plan was changed from The Jersey New Waterworks Retirement Benefits Plan 1987 on 20 November 2008).

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 2008 totalled £37,000 (2007: £32,000).

Defined benefit section and unfunded scheme

The full FRS17 actuarial valuation as at 31 December 2008 shows a change from the 2007 surplus of £180,000 to a deficit of £1,056,000 in 2008.

Notes to the financial statements (continued)

The major assumptions used by the actuary were:

	2008	2007
Rate of increase in salaries	3.93%	4.68%
Rate of increase in pensions accrued after 1 January 1999	2.88%	3.43%
Discount rate	6.10%	5.88%
Expected return on plan assets	5.52%	6.55%
Inflation assumption	2.93%	3.68%
Life expectancy assumptions		
Current pensioners at 65 - Male	86	84
Current pensioners at 65 - Female	88	87
Future Pensioners at 65 - Male	87	85
Future pensioners at 65 - Female	89	88

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.

	2008	2007
	£'000	£'000
Reconciliation of the present value of scheme liabilities		
Opening scheme liabilities	13,966	15,043
Current service cost	272	423
Employee contributions	55	29
Interest cost	825	785
Actuarial gains	(1,085)	(1,736)
Benefits paid	(525)	(578)
Closing scheme liabilities	£13,508	£13,966

Analysis of funded and wholly unfunded scheme liabilities

Funded scheme	13,389	13,837
Wholly unfunded scheme	119	129
Total present value of scheme liabilities	£13,508	£13,966

Reconciliation of the fair value of scheme assets

Opening fair value of scheme assets	14,191	12,514
Expected return	932	846
Employer contributions	532	1,651
Employee contributions	55	29
Actuarial losses	(3,013)	(288)
Benefits paid	(509)	(561)
Closing fair value of scheme assets	£12,188	£14,191
Actual (loss) / return on scheme assets	£(2,081)	£558

Notes to the financial statements (continued)

	2008 £'000	2007 £'000
Analysis of amounts shown in the balance sheet		
Fair value of plan assets	12,188	14,191
Present value scheme liabilities	<u>(13,508)</u>	<u>(13,966)</u>
(Deficit) / Surplus	(1,320)	225
Related deferred tax asset / (liability)	<u>264</u>	<u>(45)</u>
Net (deficit) / surplus	<u>£(1,056)</u>	<u>£180</u>

Analysis of amounts recognised in the profit and loss account

Current service cost	(272)	(423)
Expected return on pension plan assets	932	846
Interest on pension plan liabilities	<u>(825)</u>	<u>(785)</u>
Total	<u>£(165)</u>	<u>£(362)</u>

Current service costs 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.

Analysis of amounts recognised in the statement of total recognised gains and losses

	2008 £'000	2007 £'000
Actual return less expected return on pension scheme assets	(3,013)	(288)
Experience gains arising on scheme liabilities	185	241
Changes in assumptions underlying the present value of scheme liabilities	<u>900</u>	<u>1,495</u>
Actuarial (loss) / gain recognised in the statement of total recognised gains and losses	(1,928)	1,448
Current tax relief	38	24
Movement in deferred tax relating to net liability / surplus	<u>309</u>	<u>(551)</u>
(Loss) / Gain recognised in the statement of total recognised gains and losses	<u>£(1,581)</u>	<u>£921</u>

Cumulative amounts recognised in the statement of total recognised gains and losses

<u>£(2,766)</u>	<u>£(1,185)</u>
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Analysis of scheme assets

	2008 % of total fair value of scheme assets	2007 % of total fair value of scheme assets
Equities	48%	48%
Corporate bonds	43%	44%
Cash and receivables	<u>9%</u>	<u>8%</u>
	<u>100%</u>	<u>100%</u>

Notes to the financial statements (continued)

History of experience gains and losses	2008	2007	2006	2005	2004 Not restated
	£'000	£'000	£'000	£'000	£'000
Present value of scheme assets	12,188	14,191	12,514	11,655	9,197
Present value of scheme liabilities	(13,508)	(13,966)	(15,043)	(15,532)	(13,096)
Gross scheme (deficit) / surplus	£(1,320)	£225	£(2,529)	£(3,877)	£(3,899)

Experience gains and (losses) on scheme liabilities

Amount	185	241	290	136	194
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Difference between the expected and actual return on scheme assets

Amount	(3,013)	(288)	(22)	1,108	162
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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 £532,000 (2007: 586,000), no special contributions were made during the year (2007: £1,065,000).

Prior to 1 January 2008, Company and member contributions were 14.6% and 5.0% (for contributory members). Future benefit changes with effect from 1 January 2008 have led to the following changes in contribution rates. Company contributions were paid at the rate of 12.3% of pensionable salaries from 1 January 2008, reducing to 9.8% in January 2009, plus fixed amounts of £250,000 per annum. Members contribute at rates of 2.5% and 5.0% of pensionable salaries from 1 January 2008 and 1 January 2009 respectively. These rates will remain in force until the results of the formal actuarial valuation of the plan as at 1 January 2009 are known.

10 Share capital

a) Equity share capital

	2008	2007
	£'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

	2008 £'000	2007 £'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.

11 Reserves

	Retained profit £'000	Capital reserve £'000	Total £'000
Brought forward	32,881	4,190	37,071
Profit for the financial year	4,030	-	4,030
Equity Dividends	(1,256)	-	(1,256)
Transfer of profit on sale of fixed assets to capital reserve	(493)	493	-
Loss relating to pension plan deficit recognised in the statement of total recognised gains and losses	(1,581)	-	(1,581)
Carried forward	<u>£33,581</u>	<u>£4,683</u>	<u>£38,264</u>

Notes to the financial statements (continued)

12 Reconciliation of movement in equity shareholders' funds

	2008	2007
	£'000	£'000
Profit for the year	4,030	3,253
Equity dividends	(1,256)	(1,124)
Retained profit for the year	2,774	2,129
(Loss)/ gain arising on pension plan	(1,581)	921
Opening equity shareholders' funds	38,356	35,306
Closing equity shareholders' funds	£39,549	£38,356

13 Water supply charges

	2008	2007
	£'000	£'000
Measured water charges	6,487	5,972
Unmeasured water charges	6,421	6,362
Service charges and other charges for water	555	578
	£13,463	£12,912

14 Administration expenses

	2008	2007
	£'000	£'000
Included in administration expenses are the following:		
Directors' fees (note 21)	84	63
Auditors' fees - Statutory audit	30	30
- Other services (Tax advisory and compliance)	4	4

15 Interest payable

	2008	2007
	£'000	£'000
On loans and overdrafts from banks	£835	£872

Notes to the financial statements (continued)

16 Non-equity dividends

	2008			2007		
	Paid	Payable	Charge for the year	Paid	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
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>

17 Equity dividends

Ordinary and 'A' Ordinary shares

	2008	2007	2008	2007
			£'000	£'000
Dividends paid				
Final dividend for the previous year	£1.64	£1.45	792	699
Interim dividend for the current year	£0.96	£0.88	464	425
			<u>£1,256</u>	<u>£1,124</u>
Dividends proposed				
Final dividend for the current year	£1.94	£1.64	£937	£792

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.

18 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £4,030,000 (2007: £3,253,000), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

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

	2008	2007
	£'000	£'000
Operating profit	4,472	4,498
Depreciation	2,470	2,339
Change in order to bring pension charges onto a contribution basis	(278)	(1,245)
(Increase) / Decrease in stock and work in progress	(37)	25
Increase in debtors	(176)	(243)
Increase in creditors	391	1,065
Net cash inflow from operating activities	<u>£6,842</u>	<u>£6,439</u>

Notes to the financial statements (continued)

20 Analysis of changes in net debt

	At 1 January 2008	Cash Flows	Other Changes	At 31 December 2008
	£'000	£'000	£'000	£'000
Bank and cash	2,259	(11)	-	2,248
Liquid Resources	-	2,000	-	2,000
Debt due after one year	(20,282)	-	-	(20,282)
Total	<u>£(18,023)</u>	<u>£1,989</u>	<u>£-</u>	<u>£(16,034)</u>

21 Directors' emoluments

	Salary	Fee	Benefits	Total Emoluments	
	<i>(excluding pension contributions)</i>				
	£'000	£'000	£'000	2008 £'000	2007 £'000
Executives					
Howard Snowden ¹	98	10	8	116	113
Helier Smith ²	90	10	3	103	99
Non-Executives					
David Norman	-	18	-	18	15
Tony Cooke	-	6	-	6	-
Mary Curtis	-	6	-	6	-
Carl Hinault	-	10	-	10	8
Kevin Keen	-	10	-	10	5
Stephen Marie	-	10	-	10	8
Richard Pirouet	-	4	-	4	8
Leonard Norman	-	-	-	-	3

¹ For the year ended 31 December 2008 the Company's contribution in respect of Howard Snowden's pension was £11,000.

² For the year ended 31 December 2008 the Company's contribution in respect of Helier Smith's pension was £9,000.

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.

22 Ultimate controlling party

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