

THE NATIONAL WATER COMMISSION

FINANCIAL STATEMENTS

MARCH 31, 2007



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To the Commissioners of
The National Water Commission

Report on the Financial Statements

We have audited the financial statements of The National Water Commission (the commission), set out on pages 3 to 31, which comprise the balance sheet as at March 31, 2007, the statements of income, changes in reserves and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the Commissioners of
The National Water Commission

Report on the Financial Statements, cont'd

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the commission as at March 31, 2007, and of its financial performance, changes in reserves and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

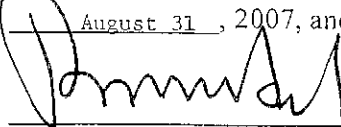
August 31, 2007

THE NATIONAL WATER COMMISSION

Balance Sheet
March 31, 2007

		<u>Thousands of Dollars</u>	
	<u>Notes</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS			
Cash and cash equivalents	3	225,390	299,025
Short-term investments	4	501,387	191,427
Consumers' accounts receivable	5	1,601,594	1,133,185
Other accounts receivable and prepaid expenses	6	477,424	337,089*
Inventories	7	<u>1,114,330</u>	<u>913,604</u>
		<u>3,920,125</u>	<u>2,874,330</u>
CURRENT LIABILITIES			
Bank overdrafts and loans	8	418,357	321,490
Current maturities of long-term loans	15	446,883	130,990
Deposits and retentions		87,975	61,864
Trade accounts payable		612,006	613,522
Other accounts payable	9	734,753	664,377
Taxation payable		<u>163,500</u>	<u>163,500</u> *
		<u>2,463,474</u>	<u>1,955,743</u>
NET CURRENT ASSETS		1,456,651	918,587
NON CURRENT ASSETS			
Investments	10	725,981	634,352
Intangible asset	11	2,802	2,338
Property, plant & equipment	12	25,504,201	25,843,874
Deferred tax asset	13	<u>596,639</u>	<u>137,685</u> *
		<u>28,286,274</u>	<u>27,536,836</u>
Represented by:			
Capital reserves	14	15,677,161	15,681,305
Accumulated deficit		<u>(2,615,866)</u>	<u>(1,363,590)</u> *
		13,061,295	14,317,715
NON CURRENT LIABILITIES			
Long-term loans	15	2,806,030	2,168,004
Deferred income	16	4,449,770	4,084,243
Employee benefit obligations	17	<u>7,969,179</u>	<u>6,966,874</u>
		<u>28,286,274</u>	<u>27,536,836</u>

The financial statements on pages 3 to 31, were approved by the Commissioners on August 31, 2007, and signed on their behalf by:


 Richard O. Byles

Chairman


 Keith Goodison

Commissioner

* Restated (see note 24) and reclassified to conform to 2007 presentation.
 The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSIONIncome Statement
Year ended March 31, 2007

	Notes	<u>Thousands of Dollars</u>	
		<u>2007</u>	<u>2006</u>
Operating revenue	18	9,579,326	8,542,951
Operating expenses		(9,795,724)	(8,355,730)
Operating (loss)/profit		(216,398)	<u>187,221</u>
Miscellaneous income:			
Interest income		99,221	63,252
Project management fees		7,854	-
Gain on disposal of property, plant & equipment		2,880	-
Amortisation of capital grants	16	268,470	267,180
Other income	19(a)	<u>291,229</u>	<u>246,259</u>
		<u>669,654</u>	<u>576,691</u>
		<u>453,256</u>	<u>763,912</u>
Other expenditure:			
Bank charges and interest		4,808	4,372
Loan interest		192,808	134,750
Depreciation and amortisation	11,12	1,834,368	1,769,007
Foreign exchange loss, net		<u>122,274</u>	<u>66,011</u>
		<u>2,154,258</u>	<u>1,974,140</u>
Loss for the year before taxation	19(b)	(1,701,002)	(1,210,228)
Taxation	22	<u>448,726</u>	<u>2,941,688*</u>
Net (loss)/ profit for the year after taxation		(<u>1,252,276</u>)	<u>1,731,460*</u>

* Restated (see note 24).

The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSIONStatement of Changes in Reserves
Year ended March 31, 2007

	<u>Thousands of Dollars</u>		
	<u>Capital reserves</u> (note 14)	<u>Accumulated deficit</u>	<u>Total</u>
Balances at March 31, 2005	15,677,645	(3,095,050)	12,582,595
Fair value adjustment on investments	3,660	-	3,660 *
Net loss for the year:			
As previously reported	-	(798,637)	(798,637)
Adjustment in respect of prior year (note 24)	-	<u>2,530,097</u>	<u>2,530,097</u>
Net profit for the year, as restated	-	<u>1,731,460</u>	<u>1,731,460*</u>
Balances at March 31, 2006, as restated	15,681,305	(1,363,590)	14,317,715
Fair value adjustment on investments	(4,144)	-	(4,144)*
Net loss for the year	-	<u>(1,252,276)</u>	<u>(1,252,276)*</u>
Balances at March 31, 2007	<u>15,677,161</u>	<u>(2,615,866)</u>	<u>13,061,295</u>

*Total recognised losses for the year netted \$1,256,420,000 (2006: gains of \$2,533,757,000).

The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSION

Statement of Cash Flows
Year ended March 31, 2007

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss)/profit for the year	(1,252,276)	1,731,460*
Adjustments for:		
Depreciation and amortisation	1,834,368	1,769,007 *
Gain on disposal of property, plant & equipment	(2,880)	-
Employee benefits	1,002,305	628,188
Deferred taxation	(458,954)	(2,952,859)*
Current income tax expense, net	10,228	11,171 *
Interest income	(99,221)	(63,252)
Unrealised foreign exchange gain on investments	(16,341)	-
Interest expense	192,808	134,750
Unrealised foreign exchange losses on long-term liabilities	241,141	76,886
Capital grants amortised	(268,470)	(267,180)
	1,182,708	1,068,171
(Increase)/decrease in current assets		
Consumers' accounts receivable	(468,409)	23,236
Other accounts receivable and prepaid expenses	(128,467)	(84,352)*
Inventories	(200,726)	(248,298)
(Decrease)/increase in current liabilities		
Deposits and retentions	26,111	2,272
Trade accounts payable	(1,516)	135,983
Other accounts payable	15,906	127,174
Cash provided by operating activities	425,607	1,024,186
Net tax paid	(10,228)	(11,171)*
Interest paid	(138,338)	(118,820)
Net cash provided by operating activities	<u>277,041</u>	<u>894,195</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term investments, net	(309,960)	194,719
Purchase of investments	(79,432)	(630,692)
Purchase of property, plant & equipment and intangible assets	(1,495,672)	(2,100,335)
Proceeds from disposal of property, plant & equipment and intangible asset	3,393	-
Interest received	87,353	54,415
Net cash used by investing activities	<u>(1,794,318)</u>	<u>(2,481,893)</u>
Net cash used before financing activities c/fwd	<u>(1,517,277)</u>	<u>(1,587,698)</u>

* Restated (see note 24) and reclassified to conform to 2007 presentation.

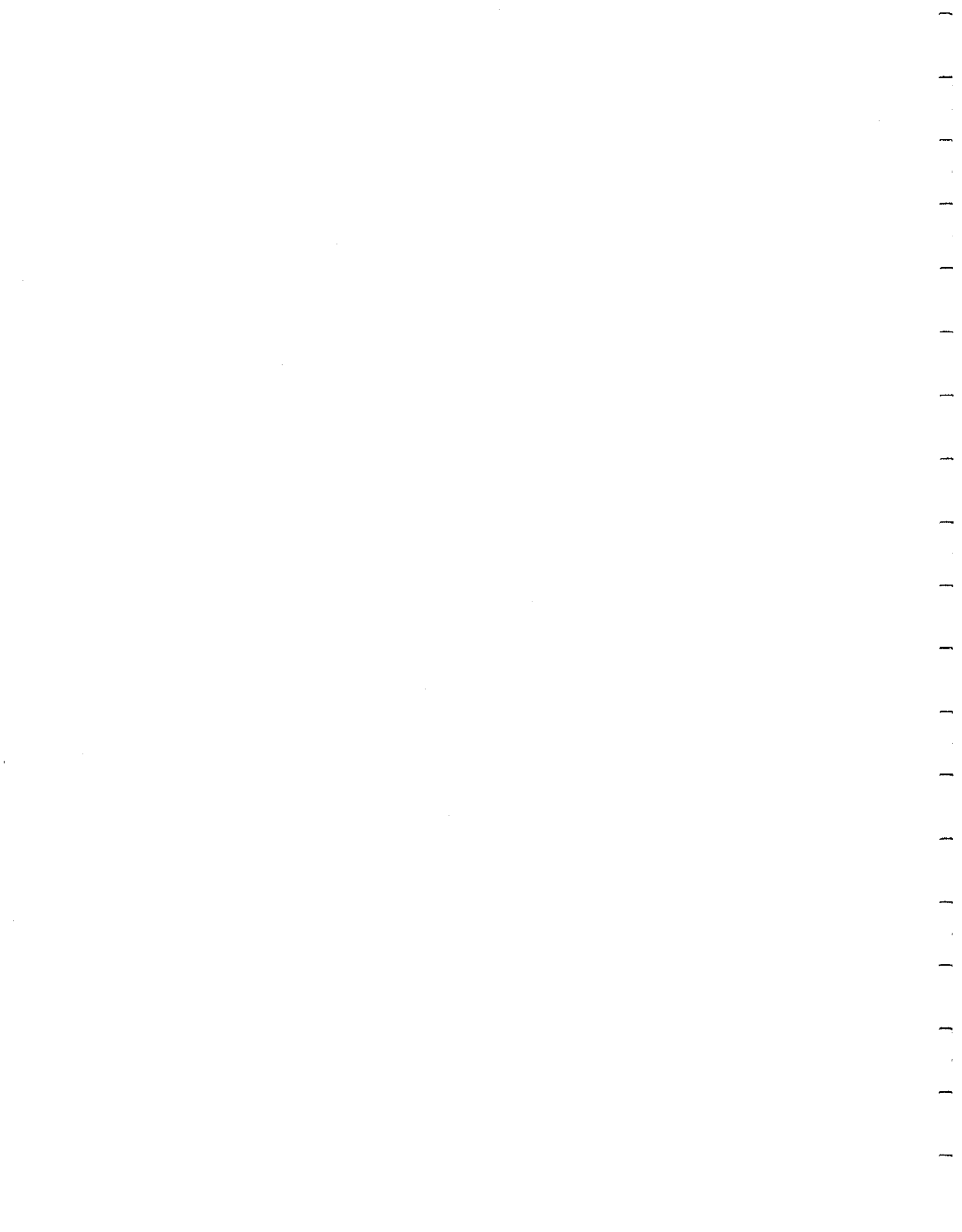
The accompanying notes form an integral part of the financial statements.

THE NATIONAL WATER COMMISSION

Statement of Cash Flows (Continued)
Year ended March 31, 2007

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Net cash used before financing activities b/fwd	(1,517,277)	(1,587,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term loan, net	34,910	105,427
Long-term loan received	851,206	1,298,974
Repayment of long-term liabilities	(138,428)	(170,000)
Capital grants received	<u>633,997</u>	<u>344,854</u>
Net cash provided by financing activities	<u>1,381,685</u>	<u>1,579,255</u>
Net decrease in cash and cash equivalents	(135,592)	(8,443)
Cash and cash equivalents at beginning of year	<u>167,655</u>	<u>176,098</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>32,063</u></u>	<u><u>167,655</u></u>
Comprising:		
Cash and bank balances	225,390	299,025
Bank overdrafts	(193,327)	(131,370)
	<u><u>32,063</u></u>	<u><u>167,655</u></u>

The accompanying notes form an integral part of the financial statements.



THE NATIONAL WATER COMMISSION

Notes to the Financial Statements

March 31, 2007

1. The Commission

The National Water Commission (the commission) is a statutory body of the Government of Jamaica, which, under the provisions of The National Water Commission Act, 1963, as amended by The Water Resources Act, 1995, with attendant regulations, is responsible for providing and operating water supply services in the urban and the rural areas of Jamaica. It also provides sewerage facilities in the same areas.

At March 31, 2007, the commission's employees aggregated 2,177 (2006: 2,174), of which 1,554 (2006: 1,576) were represented in collective bargaining arrangements.

2. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB).

During the year, certain new standards, interpretations and amendments to the existing standards became effective. Management has assessed that the following interpretations and amendments were relevant to preparation of these financial statements.

- IAS 19 (Amendment), Employee Benefits (effective from January 1, 2006)
- IAS 39 (Amendment), The Fair Value Option (effective from January 1, 2006)
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from January 1 2006)

The adoption of the IAS 19 amendment requires additional disclosures in respect of the commission's retirement benefits arrangements. Appropriate additional disclosures and restatements, together with comparatives, are incorporated in these financial statements.

At the date of authorisation of the financial statements the following relevant new standards, amendments to standards and interpretations became effective for the financial years beginning after March 31, 2007 and have therefore not been applied in preparing these financial statements:

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the commission's 2008 financial statements, will require additional disclosures with respect to financial instruments and capital management.
- *IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the commission's 2008 financial statements, is not expected to have any material impact on the financial statements based on its current business activities.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(a) Statement of compliance (cont'd):

- *IAS 23, Revised – Borrowing Costs*, which will become effective for the commission's 2010 financial statements, removes the option to immediately recognise all borrowing costs as an expense. The standard requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset. Management has not quantified the impact of applying this revision to the commission's financial statements.
- *IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction* addresses the availability of a refund of surplus or a reduction in future contributions when a minimum funding requirement (MFR) exists. The impact of these revisions, which become effective for the commission's 2009 financial statements, have not, as yet, been quantified.

The significant accounting policies stated in paragraphs (b) to (u) below conform in all material respects with IFRS.

(b) Basis of preparation:

These financial statements are presented in Jamaica dollars (\$), which is the functional currency of the commission.

The financial statements are prepared on the historical cost basis, modified for the inclusion of available-for-sale investments at fair value.

(c) Use of estimates and judgement:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the balance sheet date and the income and expense for the year then ended. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Pension and other post retirement benefits:

The amounts recognised in the balance sheet and income statement for pension and other post-retirement benefits are determined actuarially using several assumptions.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(c) Use of estimates and judgement (cont'd):

(i) Pension and other post retirement benefits (cont'd):

The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The expected return on plan assets assumed considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the commission's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenor security on the market. The estimate of expected rate of increase in medical costs is determined based on existing inflationary factors. Any changes in these assumptions will affect the amounts recorded in the financial statements for these obligations.

(ii) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses on receivables in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions.

Management also makes estimates of the likely estimated future cash flows of impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(iii) Net realisable value of inventories:

Estimates of net realisable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realise. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period.

Estimates of net realisable value also take into consideration the purpose for which the inventory is held.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from those assumptions outlined above could require a material adjustment to the carrying amount reflected in the financial statements.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(d) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances and call deposits.

Bank overdrafts that are repayable on demand and form an integral part of the commission's cash management activities, are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(e) Investments:

(i) Reverse repurchase agreements:

A reverse repurchase agreement ("reverse repo") is a short-term transaction whereby an entity buys securities and simultaneously agrees to resell them on a specified date and at a specified price.

Although the security is delivered to the "buyer" at the time of the transaction, title is not actually transferred unless the counterparty fails to repurchase the securities on the date specified. Reverse repos, which are included in short-term investments, are accounted for as short-term collateralised lending.

The difference between the sale and repurchase considerations is recognised on an accrual basis over the period of the transaction and is included in interest income.

(ii) Loans and receivables:

Investment with fixed or determinable payments, and which are not quoted in an active market, are classified as loans and receivables and are measured at amortised cost less impairment losses.

(iii) Available-for-sale:

Available-for-sale investments are measured initially at cost and subsequently at fair value, except where fair value cannot be reliably determined, in which case they are stated at cost. Gains or losses arising from changes in fair value recognised directly in equity revaluation reserve, except for impairment losses.

When these investments are derecognised, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

The fair value of available-for-sale investments is based on their quoted market bid price at the balance sheet date. Where a quoted market price is not available, fair value is estimated using discounted cash flow techniques.

Available-for-sale investments are recognised or derecognised by the commission on the date it commits to purchase or sell the investments.

(f) Accounts receivable:

Consumer and other accounts receivables are stated at amortised cost less impairment losses.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(g) Inventories:

Inventories, materially comprising pipes, fittings and spare parts, are valued at the lower of cost, determined principally on a weighted average cost basis, and net realisable value.

(h) Accounts payable and other liabilities:

Trade and other payables are stated at amortised cost.

(i) Provisions:

A provision is recognised in the balance sheet when the commission has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

(j) Property, plant & equipment and intangible assets:

(i) Owned assets:

Property, plant & equipment are stated at cost, which includes "deemed cost" less accumulated depreciation and impairment losses. "Deemed cost" refers to the restated fair value of certain property, plant and equipment on or prior to the IFRS transition date April 1, 2002. All subsequent additions are carried at cost. Gains and losses on revaluation as at that date are included in capital reserve. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs:

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the income statement.

(iii) Intangible assets:

Intangible assets, including computer software, are stated at cost, less amortisation and impairment losses.

(k) Depreciation and amortisation:

Depreciation is computed on a straight-line basis at annual rates to write down the property, plant & equipment and intangible assets to their estimated residual values at the end of their expected useful lives. No depreciation is charged on freehold land or capital work-in-progress.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(k) Depreciation and amortisation (cont'd):

The depreciation rates are as follows:

Buildings and warehouses	2½%
Reservoirs pumps and sewerage plants:	
Raw water reservoirs and intakes	5%
Water treatment plants	5%
Clear water reservoirs	5%
Wells, meters and pumps	10%
Sewerage plants	5%
Motor vehicles and equipment	25%

Computer software is amortised over 3 years.

The depreciation methods, useful lives and residual values are reassessed at the reporting date.

(l) Related parties:

A party is related to the commission, if:

- (i) directly, or indirectly through one or more intermediaries, the party:
 - (a) is controlled by, or is under common control with, the commission;
 - (b) has an interest in the commission that gives it significant influence over the entity; or
 - (c) has joint control over the commission;
- (ii) the party is an associate of the commission;
- (iii) the party is a joint venture in which the commission is a venturer;
- (iv) the party is a member of the key management personnel of the commission;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the commission, or of any entity that is a related party of the entity.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(m) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Jamaica dollars at the rates of exchange ruling at that date. Gains and losses arising from fluctuations in exchange rates are included in the statement of operations.

For the purpose of the statement of cash flows, realised foreign currency gains and losses are treated as cash items, and included in cash flows from operating or financing activities, along with movements in the relevant balances.

(n) Employee benefits:

Pensions and other post-employment assets and obligations included in these financial statements have been actuarially determined by a qualified, independent actuary appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations were conducted in accordance with IAS 19, and the financial statements reflect the commission's post-employment benefit obligations as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

(i) Defined benefit arrangements:

Prior to December 31, 2001, pensions were paid to retired employees from internally generated funds under the Pensions (Parochial Officers) Act. However, effective January 1, 2002, the commission introduced a contributory superannuation scheme which was available to eligible employees, but most employees exercised their option to continue to be eligible for pensions under the Pensions (Parochial Officers) Act. While the commissioners and management have been advised administratively that the commission is responsible for all future post-retirement benefits, regardless of the option exercised by employees, appropriate legislative ratification and funding of past-service benefits is still pending. Constructive obligation, in respect of pension payable under the Pensions (Parochial Officers) Act, has been accounted for as defined benefit arrangements.

The commission's net obligation in respect of defined pension benefits under both arrangements, described above, is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate applied is the yield at balance sheet date on long-term government instruments that have maturity dates approximating the terms of the commission's obligation [see note 2(c)(i)]. The calculation is performed by an independent actuary, using the projected unit credit method.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(n) Employee benefits (cont'd):

(i) Defined benefit arrangements (cont'd):

When the benefits of the arrangements are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the statement of operations on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in the statement of operations.

In calculating the commission's obligation in respect of the arrangements at the balance sheet date, actuarial gains or losses which exceed ten percent (10%) of both the present value of the defined benefit obligation and the fair value of plan assets, are recognised in the statement of operations over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the commission, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(ii) Other post-retirement benefits:

The commission provides post-retirement benefits to pensioners as is required under the Pensions (Parochial Officers) Act. These benefits are usually conditional upon the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans and the present value of future benefits at the balance sheet date is shown as an obligation on the balance sheet.

Cumulative unrecognised gains and losses are recognised in a manner similar to the defined benefit pension plan.

(o) Impairment:

The carrying amounts of the commission's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of operations.

(i) Calculation of recoverable amounts:

The recoverable amount of the commission's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted. An impairment loss in respect of an available-for-sale investment previously recognised in equity is transferred to the income statement.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(o) Impairment (cont'd):

(i) Calculation of recoverable amounts (cont'd):

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. For financial assets measured at amortised cost and available-for-sale debt securities, the reversal is recognised in the income statement. For available-for-sale equity securities, the reversal is recognised directly in equity.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(p) Interest-bearing borrowings:

Interest-bearing borrowings are recognised initially at cost. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the statement of operations over the period of the borrowing on an effective interest basis.

(q) Revenue recognition:

Operating revenue is recognised when billings are made for services provided by the commission.

(r) Grants:

Grants received are deferred where the benefit of a grant is represented by property, plant & equipment. Annual transfers, equivalent to depreciation charged on property, plant & equipment funded by a grant, are made from the deferred credit account to the income statement. In all other cases, grants are brought to account as revenue of the period in which they are received.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

2. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(s) Income taxes:

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the statement of operations, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is computed using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the commission is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents, investments and accounts receivable. Similarly, financial liabilities include accounts payable, deposits and retentions, bank overdrafts, short and long-term loans.

(u) Determination of fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Some financial instruments lack an available trading market. These instruments have been valued using present value or other valuation techniques and the fair value shown may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)

March 31, 20073. Cash & Cash Equivalents

At March 31, 2007, cash and cash equivalents included a segregated amount of US\$26,551 (2006: US\$17,094) deposited for self insurance purposes at Citibank, N.A.

4. Short-term investments

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Reverse repurchase agreements:		
Jamaica dollars	132,556	-
United States dollars [2007: US\$4,153,268 (2006: US\$2,778,840)]	280,612	181,357
Euro dollars [2007: €882,271 (2006: € Nil)]	79,467	-
Loans and receivables:		
Certificates of deposit	<u>8,752</u>	<u>10,070</u>
	<u>501,387</u>	<u>191,427</u>

Short-term investments had maturities ranging between one and twelve months from the balance sheet date and included US\$1,649,827 (2006: US\$1,573,705) in respect of unutilised loan funding drawn-down from National Commercial Bank Jamaica Limited. Included in short-term deposits is \$25,000,000 (2006: \$Nil) held in escrow with the Government of Jamaica.

5. Consumers' accounts receivable

Consumers' accounts receivable are shown net of an allowance for impairment losses of \$4,220,858,000 (2006: \$3,666,458,000) and includes \$421,267,188 (2006: \$258,527,846) receivable from Government Agencies.

During the year, net bad debts recognised of \$670,241,578 (2006: \$679,975,337) have been debited in the income statement.

6. Other accounts receivable and prepaid expenses

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Prepayment and deposits	380,002	260,934
Interest receivable	23,437	11,569
Rent and royalty receivables	11,356	18,131
Staff loans and advances	26,775	27,942
Taxation recoverable	10,228	11,171
Other receivables	<u>25,626</u>	<u>7,342</u>
	<u>477,424</u>	<u>337,089</u>

These are shown net of an allowance for impairment losses of \$24,154,000 (2006: \$25,865,000).

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

7. Inventories

Inventories materially comprise pipes, fittings and spare parts for use in the commission's operations.

During the year, inventories written-off aggregating \$2,975,000 (2006: \$39,147,000) were recognised in the income statement.

8. Bank overdrafts and loans

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Bank overdrafts:		
Guaranteed by Government of Jamaica	75,000	75,000
Unsecured	<u>118,327</u>	<u>56,370</u>
	193,327	131,370
Bank loans:		
Guaranteed by Government of Jamaica	<u>225,030</u>	<u>190,120</u>
	<u>418,357</u>	<u>321,490</u>

Bank overdrafts and loans (including those disclosed in note 15) as indicated herein are subject to letters from the Ministry of Finance and Planning giving its irrevocable and unconditional undertaking to repay the amounts outstanding if the commission is unable to do so from its own resources.

9. Other accounts payable

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Statutory deductions	51,031	48,391
Interest payable	80,405	25,935
Other payables and accrued charges	<u>603,317</u>	<u>590,051</u>
	<u>734,753</u>	<u>664,377</u>

Other payables and accrued charges include provisions as follows:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of year	247,894	74,716
Provisions made during the year	326,754	260,197
Provisions utilised during the year	<u>(272,326)</u>	<u>(87,019)</u>
Balance at end of year	<u>302,322</u>	<u>247,894</u>
Comprised of provisions for:		
Retroactive and incentive salaries	298,158	239,498
Legal claims in process (note 21)	<u>4,164</u>	<u>8,396</u>
	<u>302,322</u>	<u>247,894</u>

Retroactive and incentive salaries are estimated based on salary rates at year-end. Actual rates could differ at final settlement.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

10. Investments

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Available-for-sale securities:		
Unquoted equities, at cost	63,818	63,818
Government of Jamaica Bonds (US\$ denominated)	202,457	127,622
Global Bonds (US\$ denominated)	459,706	442,912
	<u>725,981</u>	<u>634,352</u>

Included in investments is US\$3,010,361 (2006: US\$1,939,900) segregated for self-insurance purposes.

11. Intangible assets

This represents computer software costs capitalised for the commission as follows:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
At cost:		
At beginning of year	3,060	1,003
Additions	<u>1,229</u>	<u>2,057</u>
At end of year	<u>4,289</u>	<u>3,060</u>
Depreciation:		
At beginning of year	722	125
Charge for the year	<u>765</u>	<u>597</u>
At end of year	<u>1,487</u>	<u>722</u>
Net book value	<u>2,802</u>	<u>2,338</u>

12. Property, plant & equipment

	<u>Thousands of Dollars</u>					
	<u>Freehold land and land rights</u>	<u>Buildings and warehouses</u>	<u>Reservoirs, pumps and sewerage plants</u>	<u>Motor vehicles and equipment</u>	<u>Projects in progress</u>	<u>Total</u>
At cost:						
March 31, 2005	425,371	1,162,417	25,023,602*	837,985*	2,761,714	30,211,089*
Additions	-	9,297	120,136	85,633*	1,883,212	2,098,278*
Disposals/transfers	<u>-</u>	<u>-</u>	<u>105,632</u>	<u>-</u>	<u>(105,632)</u>	<u>-</u>
March 31, 2006	425,371	1,171,714	25,249,370*	923,618	4,539,294	32,309,367*
Additions	4,000	11,026	87,992	64,066	1,327,359	1,494,443
Disposals/transfers	<u>-</u>	<u>5,900</u>	<u>874,206</u>	<u>(4,054)</u>	<u>(880,106)</u>	<u>(4,054)</u>
March 31, 2007	<u>429,371</u>	<u>1,188,640</u>	<u>26,211,568</u>	<u>983,630</u>	<u>4,986,547</u>	<u>33,799,756*</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

12. Property, plant & equipment (cont'd)

	Thousands of Dollars					
	<u>Freehold land and land rights</u>	<u>Buildings and warehouses</u>	<u>Reservoirs, pumps and sewerage plants</u>	<u>Motor vehicles and equipment</u>	<u>Projects in progress</u>	<u>Total</u>
Depreciation:						
March 31, 2005	-	86,204	4,278,733*	332,146*	-	4,697,083*
Charge for the year	-	29,194	1,596,234	142,982*	-	1,768,410*
March 31, 2006	-	115,398	5,874,967*	475,128	-	6,465,493*
Charge for the year	-	29,381	1,692,089	112,133	-	1,833,603
Eliminated on disposal/transfers	-	-	-	(3,541)	-	(3,541)
March 31, 2007	-	144,779	7,567,056	583,720	-	8,295,555
Net book values:						
March 31, 2007	<u>429,371</u>	<u>1,043,861</u>	<u>18,644,512</u>	<u>399,910</u>	<u>4,986,547</u>	<u>25,504,201</u>
March 31, 2006	<u>425,371</u>	<u>1,056,316</u>	<u>19,374,403</u>	<u>448,490*</u>	<u>4,539,294</u>	<u>25,843,874</u>

- (a) Under Law 34 of 1936, certain of the lands are vested in the commission but titles thereto are not registered in the name of the commission, but are held by the Commissioner of Lands on its behalf.
- (b) Projects in progress include several projects that are being constructed by Rural Water Supply Limited (formerly Carib Engineering Corporation Limited), also controlled by the Government of Jamaica. At March 31, 2007, capital expenditure on these products aggregated approximately \$39,273,019 (2006: \$507,765,000).
- (c) At March 31, 2007, freehold land and land rights included \$4 million (2006: \$Nil) for reforestation of watershed area, paid to the Ministry of Agriculture, Forestry Department in accordance with an agreed programme.

* Reclassified to conform to 2007 presentation.

13. Deferred taxation

Deferred taxation arises in respect of the treatment of the following items differently for tax and accounting purposes:

	Thousands of Dollars	
	<u>2007</u>	<u>2006</u>
Accounts payable	22,947	17,003 *
Property, plant & equipment and capital grants	(2,082,701)	(2,201,609)*
Employee benefits	<u>2,656,393</u>	<u>2,322,291</u>
	<u>596,639</u>	<u>137,685*</u>

* Restated (see note 24)

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

14. Capital reserves

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Arising on transfer of assets (i)	64,026	64,026
Revaluation reserve on IFRS transition date (ii)	15,613,619	15,613,619
Investment revaluation reserve	(484)	3,660
	<u>15,677,161</u>	<u>15,681,305</u>

- (i) This primarily comprises the capitalised value of public mains in subdivisions taken over by the commission from the parish councils.
- (ii) This represents the net surpluses arising on the revaluation of the commission's property, plant and equipment as at the IFRS transition date of April 1, 2002.

15. Long-term loans

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
(a) BNP – Paribas [€ 3,596,639 (2006: 2,727,177)]	325,009	216,823
(b) BNP – Paribas [€ 6,113,854 (2006: 2,925,240)]	552,476	232,569
(c) BNP – Paribas [€ 5,501,570 (2006: 3,547,787)]	497,147	282,065
(d) BNP – Paribas [US\$4,818,180 (2006: 4,818,180)]	326,674	315,567
(e) Government of Jamaica	531,357	269,544
(f) First Global Bank [US\$1,046,825 (2006: \$Nil)]	71,046	-
(g) National Commercial Bank Jamaica Limited [US\$14,000,000 (2006: US\$15,000,000)]	<u>949,204</u>	<u>982,426</u>
	3,252,913	2,298,994
Less: Current maturities	(446,883)	(130,990)
	<u>2,806,030</u>	<u>2,168,004</u>

- (a) This loan is for a period of ten years and seven months with a moratorium on principal repayments of thirty (30) months. The loan is repayable in sixteen equal consecutive semi-annual instalments commencing May 21, 2007 and ending on May 29, 2015. Interest is payable in arrears at a fixed rate of 4.21% semi-annually commencing November 21, 2005.
- (b) This loan is for a period of five years and five months with a moratorium on principal repayments of thirty (30) months. The loan is repayable in six equal consecutive semi-annual instalments of €1,003,997 commencing April 19, 2007. The loan bears interest at EURIBOR plus 5.4% for the duration of the loan. Interest is payable in arrears, commencing six (6) months after initial drawdown on June 29, 2005.
- (c) This loan is for a period of ten years and seven months with a moratorium on principal repayments of thirty (30) months. The loan is repayable in sixteen equal consecutive semi-annual instalments commencing May 21, 2007 and ending on May 29, 2015. Interest is payable in arrears at a fixed rate of 4.56% semi-annually commencing November 21, 2005.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

15. Long-term loans (cont'd)

- (d) This loan is for a period of five years and five months with a moratorium on principal repayments of thirty (30) months. The loan is repayable in six equal consecutive semi-annual instalments of US\$803,030 commencing April 19, 2007. The loan bears interest at US LIBOR plus 5.5% for the duration of the loan. Interest is payable in arrears at any payment date, commencing six (6) months after initial drawdown on June 29, 2005.
- (e) This represents a portion of US\$12,091,898 loan extended by the Government of China to the Government of Jamaica and which was on-lent to the commission for the procurement of pipes, fittings and valves. The loan is repayable in twenty-one equal semi-annual instalments commencing March 21, 2010. It bears interest at 2%. The first interest payment commenced on March 21, 2006. The loan is repayable in Jamaica dollars.
- (f) This loan is for a period of no more than five years with a moratorium of 90 days on principal repayments after initial disbursement. The loan is repayable in quarterly instalments of US\$148,900. Interest is payable in arrears at an initial rate of 8.4% for the first twelve (12) months. Thereafter interest is payable at US LIBOR plus 3.375% with a floor rate of 8.25%. Interest is payable quarterly, commencing May 23, 2007.
- (g) This loan is for a period of seven years and six months with a moratorium on principal repayments of eighteen (18) months. The loan is repayable in eleven (11) equal semi-annual instalments of US\$1 million commencing September 17, 2006 and ending on June 30, 2012. On that date, the outstanding balance of US\$4 million will be repaid by a balloon or be refinanced. The loan bears interest at a fixed rate of 8.5% per annum for its duration. Interest is payable semi-annually, commencing September 30, 2005.

16. Deferred income

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Deferred capital grants at beginning of year	4,084,243	4,006,569
Received during the year:		
Government of Jamaica	166,180	123,015
Red Stripe (Desnoes & Geddes Limited)	25,000	50,000
International grants:		
European Union	184,965	110,836
Japan International Bank of Cooperation	<u>257,852</u>	<u>61,003</u>
	4,718,240	4,351,423
Reduced by transfers to the income statement consequent on depreciation charged for the year on property, plant & equipment purchased out of capital grants	(268,470)	(267,180)
Balance at end of year	<u>4,449,770</u>	<u>4,084,243</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

17. Employee benefit obligations

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Employee benefit obligation in respect of:		
Pensions (Parochial Officers) Act	5,553,000	4,788,000
NWC Pension Scheme	<u>328,328</u>	<u>326,184</u>
Pension benefit obligations (a)	5,881,328	5,114,184
Post-retirement medical and other benefit obligations (b)	<u>2,087,851</u>	<u>1,852,690</u>
	<u>7,969,179</u>	<u>6,966,874</u>

(a) Pension benefit obligations:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Present value of obligations	9,318,928	7,007,336
Fair value of plan assets	(208,512)	(145,891)
Unrecognised actuarial losses	<u>(3,229,088)</u>	<u>(1,747,261)</u>
Liability recognised in balance sheet	<u>5,881,328</u>	<u>5,114,184</u>

(i) Movements in liability recognised in the balance sheet:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of year	5,114,184	4,628,635
Contributions paid	(354,805)	(360,470)
Expense recognised in the income statement	<u>1,121,949</u>	<u>846,019</u>
Balance at end of year	<u>5,881,328</u>	<u>5,114,184</u>

(ii) Movements in plan assets:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Fair value of plan assets at beginning of year	145,891	104,508
Contributions paid	93,137	60,251
Expected return on plan assets	17,933	10,051
Benefit paid	(42,528)	(25,961)
Actuarial gain	<u>(5,921)</u>	<u>(2,958)</u>
Fair value of plan assets at end of year	<u>208,512</u>	<u>145,891</u>
Plan assets consist of the following:		
Equities	2,579	2,397
Fixed income securities	<u>205,933</u>	<u>143,494</u>
	<u>208,512</u>	<u>145,891</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

17. Employee benefit obligations (cont'd)

(a) Pension benefit obligations (cont'd):

(iii) Expense recognised in the income statement:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Current service costs	178,358	168,937
Interest on obligations	870,921	675,622
Expected return on plan assets	71,543	1,460
Recognised actuarial loss	<u>1,127</u>	<u>-</u>
	<u>1,121,949</u>	<u>846,019</u>
Actual gain on plan assets	<u>17,933</u>	<u>10,051</u>

(iv) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	<u>2007</u>	<u>2006</u>
Discount rate	12%	12.5%
Expected return on plan assets	12%	12.5%
Future salary increases	7.0%	7.0%
Future pension increases	<u>7.0%</u>	<u>7.0%</u>

Assumptions regarding future mortality are based on GAM 94 table. The expected long-term rate of return on plan assets is based on the assumed long-term rate of inflation.

(b) Post-retirement medical and other benefit obligations:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Present value of obligations	1,798,669	1,574,024
Unrecognised actuarial gain	<u>289,182</u>	<u>278,666</u>
Liability recognised in balance sheet	<u>2,087,851</u>	<u>1,852,690</u>

(i) Movements in liability recognised in the balance sheet:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Balance at beginning of year	1,852,690	1,710,051
Contributions paid	(25,231)	(32,092)
Expense recognised in the statement of operations	<u>260,392</u>	<u>174,731</u>
Balance at end of year	<u>2,087,851</u>	<u>1,852,690</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

17. Employee benefit obligations (cont'd)

(b) Post-retirement medical and other benefit obligations (cont'd):

(ii) Expense recognised in the income statement:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Current service costs	74,656	48,347
Interest on obligations	195,561	126,384
Actuarial gain	(9,825)	-
	<u>260,392</u>	<u>174,731</u>

(iii) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	<u>2007</u>	<u>2006</u>
Discount rate	12%	12.5%
Medical claims growth	<u>11%</u>	<u>10.5%</u>

Actuarial assumptions regarding mortality, inflation, etc. follow the same bases as those outlined in note 17 (a)(iv) above.

Assumed medical claims growth trend can have a significant effect on the amounts recognised in the income statement. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on the aggregate service and interest cost	237,723	169,463
Effect on the defined benefit obligation	<u>1,738,122</u>	<u>1,222,787</u>

(c) Historical information

(i) Defined benefit pension plan:

	<u>Thousands of Dollars</u>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Present value of the defined benefit obligation	9,318,928	7,007,336	5,435,793	5,011,451	3,989,854
Fair value of plan assets	(208,512)	(145,891)	(104,508)	(60,124)	(43,893)
Deficit	<u>9,110,416</u>	<u>6,861,445</u>	<u>5,331,285</u>	<u>4,951,327</u>	<u>3,945,961</u>
Experience adjustments arising on plan liabilities	1,566,509	1,053,164	143,495	595,544	(10,793)
Experience adjustments arising on plan assets	<u>8,445</u>	<u>7,447</u>	<u>(12,044)</u>	<u>295</u>	<u>1,437</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

17. Employee benefit obligations (cont'd)

(c) Historical information (cont'd)

(ii) Post-retirement medical and other benefit obligations:

	<u>Thousands of Dollars</u>				
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Present value of the post-retirement benefit obligation	1,798,669	1,574,024	1,280,000	1,510,000	1,231,000
Experience adjustments arising on plan liabilities	<u>165,659</u>	<u>57,334</u>	<u>(788,000)</u>	<u>61,000</u>	<u>141,000</u>

18. Operating revenue

The commission's revenue arises materially from the supply of water and sewerage services.

19. Disclosure of expenses/(income) and related party transactions

(a) Other income includes insurance proceeds of approximately \$Nil (2006: \$122.5 million) and gain on sale of investments of \$Nil (2006: \$32 million).

(b) Loss for the year before taxation is stated after charging:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Staff costs	4,090,587	3,461,897
Compensation for key management (including commissioners):		
Short-term benefits	93,050	83,504
Post retirement benefits	<u>38,685</u>	<u>9,577</u>

(c) Significant transactions with Government Agencies during the year were as follows:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Revenue:		
Water and sewerage services	(1,216,957)	(921,888)
Expenses:		
Purchases of water	39,665	38,878
Repairs and maintenance - plant & equipment	170,842	223,305
- reinstatement of roads	<u>17,422</u>	<u>16,831</u>

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

20. Commitments

(a) Capital:

At March 31, 2007, there were capital commitments amounting to approximately \$482,671,000 (2006: \$1,526,928,000) in relation to contracts for capital expenditure.

No provision has been made in these financial statements for the unexpended capital commitments as at balance sheet date although appropriate funding has been identified.

(b) Lease:

At March 31, 2007, the commission had lease commitments aggregating \$42,360,885 (2006: \$32,410,303) of which \$9,618,591 (2006: \$4,757,354) is due within one year.

21. Contingent liabilities

(a) At March 31, 2007 the commission was contingently liable in respect of various lawsuits alleging damages aggregating approximately \$40 million (2006: \$68.6 million) the outcome of which cannot be determined at this time. Consequently, these have not been provided for in these financial statements.

(b) At March 31, 2007, the commission was liable for unpaid statutory deductions aggregating \$51,031,000 (2006: \$48,171,000).

In March 1999, the commission was assessed for interest and penalties aggregating \$151,155,012 on income tax payable for the year 1997. The Ministry of Finance and Planning by letter dated October 29, 1999, granted approval for a full waiver of the outstanding penalty as at March 31, 1999. The Commissioner of Taxpayer, Audit and Assessment was informed of this decision, however, the claim has not been formally discharged.

(c) At March 31, 2007, no provision has been made in the financial statements for employee benefit and other post-retirement liabilities relating to two categories of employees who have not made a claim for their pension and other post employment benefits.

The first category comprises employees who separated, voluntarily or otherwise between 1988 and 1995, who were in non-pensionable posts at the time of separation. Employees in this category were reclassified to pensionable posts retroactively. The second category relates to employees who voluntarily separated from pensionable posts with at least 10 years of service and before the age of 55 years.

Based on inconsistent claim experience, the lack of data and the relatively long period of time since employee termination, management believes any significant liability arising will be less than probable and hence no provision has been made in the financial statements.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

22. Taxation

- (a) Taxation is computed at 33 $\frac{1}{3}$ % of the commission's results for the year, adjusted for tax purposes, and comprises:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Current tax expense:		
Income tax	180,723	115,800
Tax remitted (see note 24)	(170,495)	(104,629)
	10,228	11,171
Deferred taxation:		
Origination and reversal of temporary differences	(458,954)	(2,885,416)*
Prior year over-provision	-	(67,443)
	<u>(448,726)</u>	<u>(2,941,688)*</u>

- (b) Reconciliation of tax expense:

	<u>Thousands of Dollars</u>	
	<u>2007</u>	<u>2006</u>
Deficit before taxation	(1,701,002)	(1,210,228)
Computed "expected" tax expense @ 33 $\frac{1}{3}$ %	(567,001)	(403,409)
Difference between deficit for financial statements and tax reporting purposes in respect of:		
Adjustment in respect of prior periods (see note 24)	-	(2,530,097)*
Prior year over-provision	-	(67,443)
Disallowed expenses and other items	118,275	59,261
Actual tax (credit)/expense	<u>(448,726)</u>	<u>(2,941,688)*</u>

* Restated (see note 24)

23. Financial instruments

Exposure to financial instrument risk arises in the ordinary course of the commission's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

- (a) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

For certain consumers, the commission requires cash deposits, which generally cover their significant credit risk. Additionally, management has credit practices in place to minimise exposure to credit risk generally. This involves procedures for the disconnection of services to, and recovery of amounts owed by, defaulting customers.

There is concentration in respect of consumers' accounts receivable with agencies of the Government of Jamaica (see note 5), which at March 31, 2007, represented 7% (2006: 5%) of gross consumers' accounts receivable.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)
March 31, 2007

23. Financial instruments (cont'd)

(b) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The commission materially contracts financial liabilities at floating interest rates. These primarily relate to bank overdrafts and loans subject to interest rates fixed in advance, which may be varied by appropriate notice by the lenders.

At March 31, 2007, financial liabilities subject to interest aggregated \$3,671,270,000 (2006: \$2,620,484,000).

Interest bearing financial assets are primarily represented by investments, which are materially contracted at fixed interest rates for the duration of the term. At March 31, 2007, financial assets subject to interest aggregated \$1,777,062,000 (2006: \$1,144,965,000).

(c) Foreign currency risk:

The commission incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Jamaica dollar. The principal currencies giving rise to foreign currency risk are the United States dollar (US\$) and the Euro (€).

At March 31, 2007, net foreign currency liabilities aggregated approximately:

	<u>2007</u>	<u>2006</u>
United States dollar (US\$)	(11,520,664)	(15,876,775)
Euro (€)	<u>(14,622,530)</u>	<u>(9,336,631)</u>

Exchange rates in terms of the Jamaica dollar were as follows:

	<u>US\$</u>	<u>€</u>
At March 31, 2006:	65.50	79.50
At March 31, 2007:	67.80	90.36
At August 31, 2007:	69.83	95.03

(d) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the commission will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The commission's material liabilities and significant receivables are guaranteed by or are otherwise with the Government of Jamaica as counter-party. Consequently, no material liquidity risk is assessed at balance sheet date.

THE NATIONAL WATER COMMISSION

Notes to the Financial Statements (Continued)

March 31, 200723. Financial instruments (cont'd)

(e) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. At March 31, 2007, the commission has no significant exposure to market risk and available for sale investments are stated at fair value as disclosed in note 10.

(f) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The commission manages this risk through budgetary measures, ensuring, as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.

(g) Fair value disclosure:

The cost reflected in the financial statements for cash and cash equivalents, short-term investments, accounts receivable, accounts payable, bank overdrafts and short-term loans are assumed to approximate to their fair values. Long-term liabilities are stated at contracted settlement values. Additionally, the cost of all monetary assets and liabilities has been appropriately adjusted to reflect estimated losses on realisation or discounts on settlement.

24. Prior year adjustment

On November 27, 2006, after the completion of the financial statements for the year ended March 31, 2006, the Minister of Finance and Planning granted an income tax remission for a period of seven (7) years beginning 2005/2006. This period of remission will be subject to reassessment of the commission's financial position after five (5) years. Withholding tax charged on local investments is excluded from the remission.

As a consequence of the Minister's retrospective remission, the accounts for the comparative period have been restated as follows:

(i) Deferred taxation for the year ended March 31, 2006:

	<u>Thousands of Dollars</u>
As previously reported, (liability) in the balance sheet	(2,287,783)
Restatement	<u>2,425,468</u>
As restated, asset in the balance sheet	<u>137,685</u>

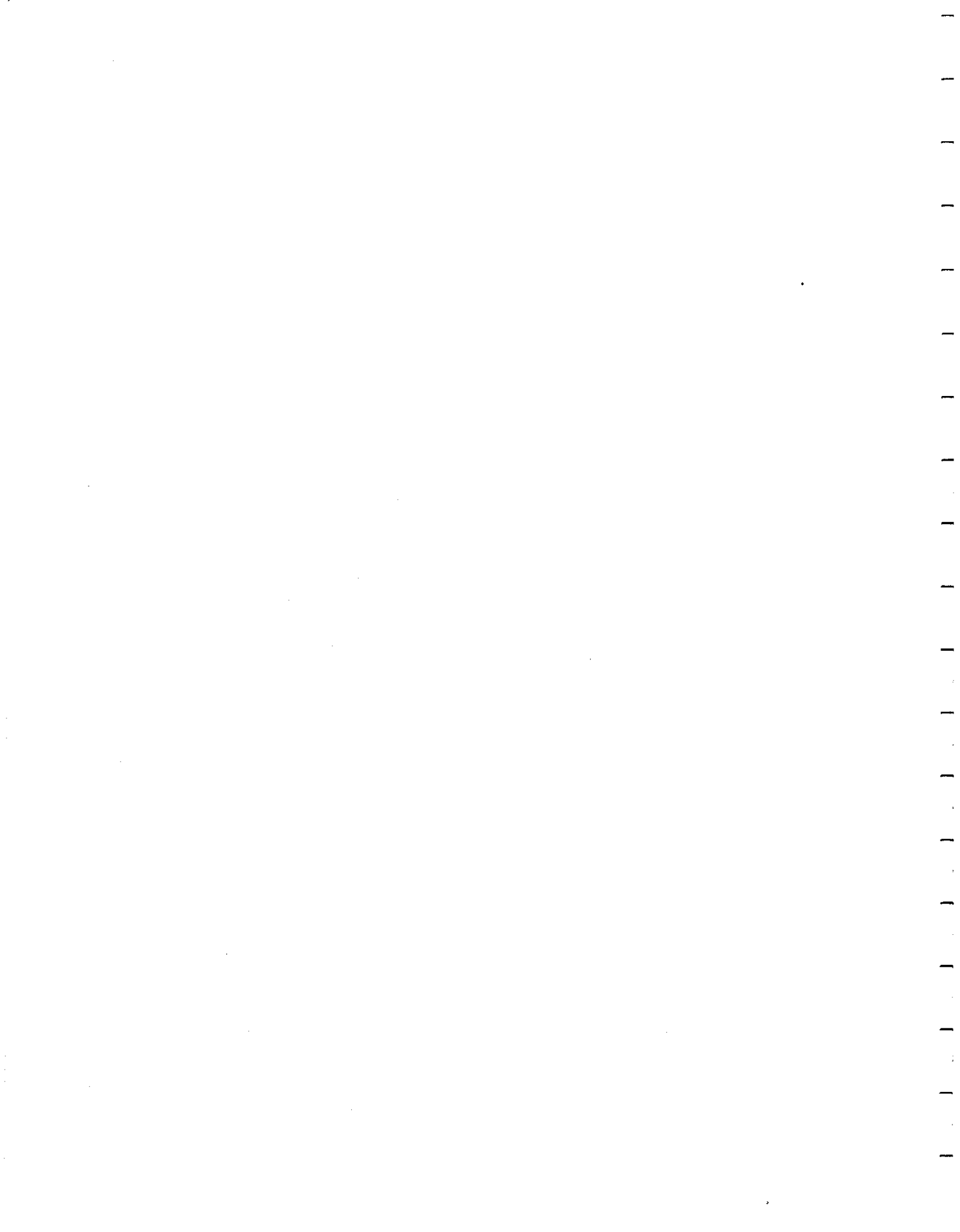
(ii) Income tax for the year ended March 31, 2006:

As previously reported	115,800
Restatement	<u>(104,629)</u>
As restated in the income statement	<u>11,171</u>

THE NATIONAL WATER COMMISSION

SUPPLEMENTARY INFORMATION TO THE
FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2007

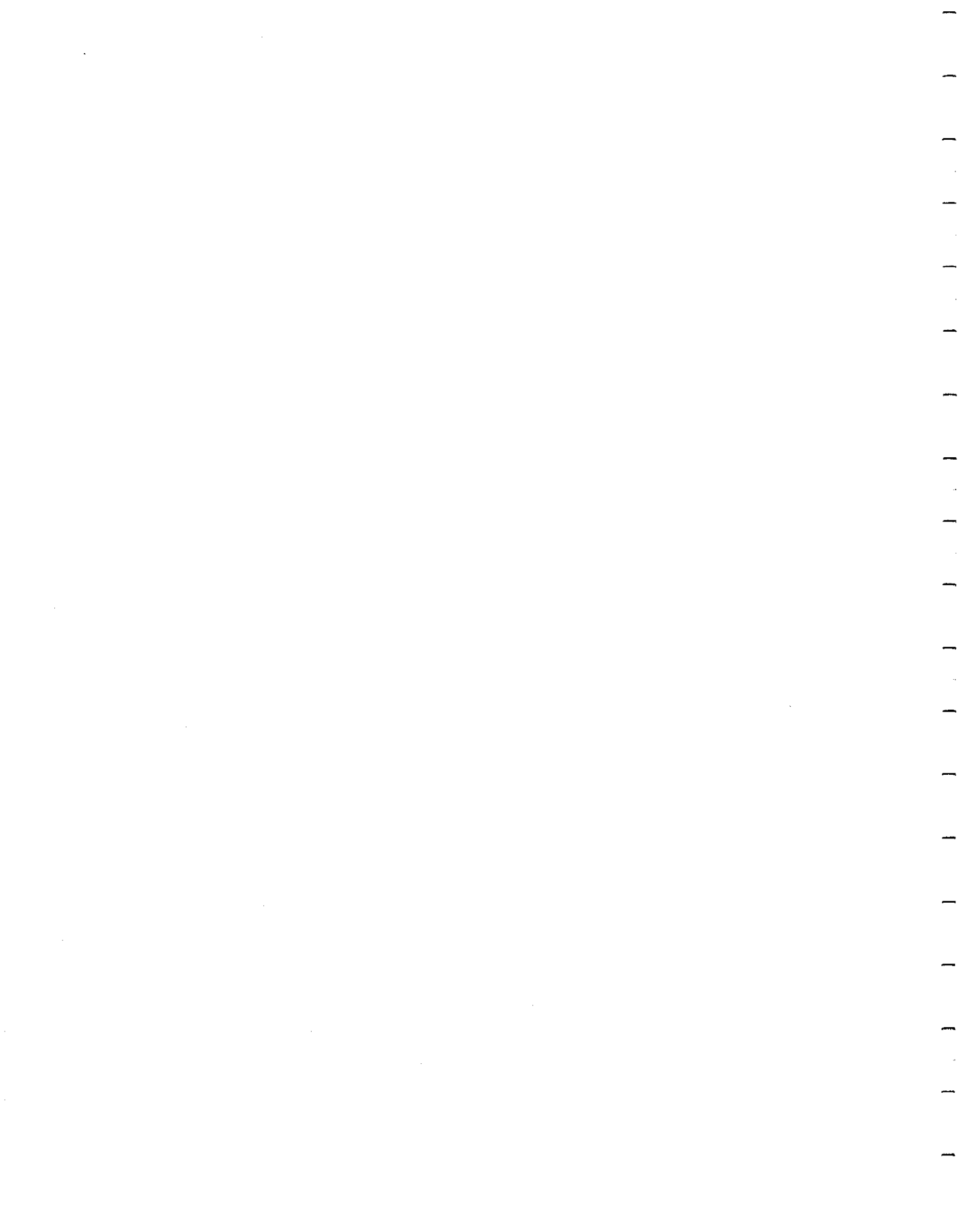


THE NATIONAL WATER COMMISSION

Supplementary Information to the Financial Statements
Year ended March 31, 2007

	<u>Thousands of Dollars</u>			<u>Thousands of Dollars</u>		
	<u>2007</u>			<u>2006</u>		
	<u>Water</u>	<u>Sewage</u>	<u>Total</u>	<u>Water</u>	<u>Sewage</u>	<u>Total</u>
OPERATING REVENUE						
Water	6,292,168	-	6,292,168	5,628,272	-	5,628,272
Sewage	-	1,880,360	1,880,360	-	1,625,129	1,625,129
Service charge	854,698	253,785	1,108,483	781,990	220,138	1,002,128*
Price adjustment mechanism	78,333	23,910	102,243	77,619	22,358	99,977*
Bulk water	25,229	-	25,229	12,697	-	12,697
Bulk water shipping	5,128	-	5,128	4,421	-	4,421
New installations	59,332	-	59,332	53,175	-	53,175
Reconnections	97,480	-	97,480	102,724	-	102,724
Cesspool & other sewerage	-	8,903	8,903	-	14,428	14,428
	<u>7,412,368</u>	<u>2,166,958</u>	<u>9,579,326</u>	<u>6,660,898</u>	<u>1,882,053</u>	<u>8,542,951</u>
OPERATING EXPENSES						
Salaries, wages and related cost	3,149,288	941,299	4,090,587	2,686,722	775,175	3,461,897*
Repairs and maintenance	1,111,025	212,749	1,323,774	942,896	191,462	1,134,358*
Administration	1,124,552	356,206	1,480,758	991,886	298,183	1,290,069*
Electricity	2,442,956	194,909	2,637,865	2,040,102	177,518	2,217,620*
Telephone	56,434	17,819	74,253	60,468	18,052	78,520*
Fuel and lubrications	95,963	25,650	121,613	82,010	23,921	105,931*
Purchases – water	60,578	6,296	66,874	60,754	6,581	67,335*
	<u>8,040,796</u>	<u>1,754,928</u>	<u>9,795,724</u>	<u>6,864,838</u>	<u>1,490,892</u>	<u>8,355,730</u>
Operating (loss)/profit	<u>(628,428)</u>	<u>412,030</u>	<u>(216,398)</u>	<u>(203,940)</u>	<u>391,161</u>	<u>187,221</u>

* Reclassified to conform to 2007 presentation.



Supplementary Information to the Financial Statements
Year ended March 31, 2007

	Thousands of Dollars			Thousands of Dollars		
	2007			2006		
	Water	Sewage	Total	Water	Sewage	Total
SALARIES AND WAGES						
Salaries and wages	1,407,664	421,484	1,829,148	1,285,147	365,559	1,650,706*
Allowances – housing	70,435	22,261	92,696	60,136	18,403	78,539*
Allowances – motor vehicle	121,714	36,349	158,063	111,992	32,244	144,236*
Allowances – uniform	18,749	5,516	24,265	26,737	7,684	34,421*
Allowances – other	190,132	56,218	246,350	185,689	52,332	238,021*
Pensions	1,051,807	314,175	1,365,982	724,531	216,234	940,765*
Gratuity paid	39,839	12,581	52,420	44,508	13,297	57,805
Insurance (group)	101,895	29,001	130,896	108,965	29,912	138,877
Travelling and transportation	35,829	10,728	46,557	35,535	10,100	45,635
Statutory contributions	<u>111,224</u>	<u>32,986</u>	<u>144,210</u>	<u>103,482</u>	<u>29,410</u>	<u>132,892</u>
	<u>3,149,288</u>	<u>941,299</u>	<u>4,090,587</u>	<u>2,686,722</u>	<u>775,175</u>	<u>3,461,897</u>
REPAIRS AND MAINTENANCE						
General repairs (pipes)	137,040	12,097	149,137	84,357	5,739	90,096*
Materials and supplies	151,196	53,639	204,835	200,473	67,341	267,814*
Motor vehicles	85,452	22,283	107,735	78,089	21,608	99,697*
Plant and equipment	398,261	61,241	459,502	276,892	37,254	314,146*
Building	86,345	29,500	115,845	76,676	28,748	105,424*
Chemicals	114,695	5,290	119,985	97,361	4,845	102,206*
Equipment rental	83,554	13,506	97,060	78,126	13,192	91,318*
Reinstatement of roads	39,437	10,672	50,109	41,486	10,395	51,881*
Office furniture and equipment	10,416	3,333	13,749	3,157	950	4,107*
Claims and contingencies	<u>4,629</u>	<u>1,188</u>	<u>5,817</u>	<u>6,279</u>	<u>1,390</u>	<u>7,669*</u>
	<u>1,111,025</u>	<u>212,749</u>	<u>1,323,774</u>	<u>942,896</u>	<u>191,462</u>	<u>1,134,358</u>
ADMINISTRATION						
Bad debts	512,527	157,714	670,241	526,071	153,904	679,975*
Rent, rates and taxes	69,272	23,611	92,883	45,372	14,378	59,750*
Security services	85,596	30,599	116,195	75,014	27,194	102,208*
Insurance charges	241,418	76,237	317,655	134,950	39,269	174,219*
Computer services	33,629	10,770	44,399	31,893	10,194	42,087*
Printing and stationery	17,169	5,368	22,537	18,116	5,395	23,511*
Consultancy fees	26,656	8,389	35,045	14,516	4,262	18,778*
Postage and cables	32,519	10,282	42,801	32,210	9,470	41,680*
Overseas travel	1,565	476	2,041	3,491	1,043	4,534*
Audit and accounting fees	5,330	1,683	7,013	5,390	1,610	7,000*
Staff welfare	45,868	14,446	60,314	34,358	10,315	44,673*
Legal expenses	6,830	2,157	8,987	7,242	2,163	9,405*
Advertising	17,203	5,433	22,636	10,136	3,027	13,163*
Miscellaneous expenses	<u>28,970</u>	<u>9,041</u>	<u>38,011</u>	<u>53,127</u>	<u>15,959</u>	<u>69,086*</u>
	<u>1,124,552</u>	<u>356,206</u>	<u>1,480,758</u>	<u>991,886</u>	<u>298,183</u>	<u>1,290,069</u>

* Reclassified to conform to 2007 presentation.

