

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.

Stores

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 as a metered charge (in arrears). No revenue is recognised for water supplied between the date of the last quarterly meter reading of the year, which is usually in December, and the year end. Fixed rate income is recognised for the year up to 25 December.

In a change from the previous accounting treatment, fixed rate water charges and service charges billed in advance are shown within Current Liabilities, 'Accruals and Deferred Income'. In prior years the amount has been netted from trade debtors. The change in treatment has resulted in the restatement of certain balance sheet and cash flow captions for the year ended 31 December 2001 but has had no effect on the profit and loss account in either 2001 or 2002.

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
Motor vehicles	3-6 years
Mobile plant and tools	3-10 years
Reverse osmosis plants	10 years

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Deferred taxation

Deferred taxation is calculated on a full provision basis in accordance with Financial Reporting Standard 19 'Deferred Taxation'.

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 previous years the Company has shown the liability arising from certain unfunded pension arrangements separately to those relating to the formal Defined Benefit Scheme and gross of the related deferred tax asset. In order to clarify the total pension liability of the Company, all pension liabilities are now shown within a single line on the balance sheet and are shown net of the related deferred tax asset in accordance with the requirements of FRS 17. The change in treatment has resulted in the restatement of certain balance sheet and profit and loss captions for the year ended 31 December 2001 but has had no effect on the profit previously report for that period.

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.

2 FIXED ASSETS

	Property and completed works	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£	£	£	£
Cost				
Brought forward	55,733,475	1,191,849	1,439,928	58,365,252
Additions	9,500	4,644,080	341,706	4,995,286
Disposals	-	-	(269,668)	(269,668)
Transfers	4,154,620	(4,154,620)	-	-
Carried forward	<u>59,897,595</u>	<u>1,681,309</u>	<u>1,511,966</u>	<u>63,090,870</u>
Depreciation				
Brought forward	(9,758,488)	-	(909,582)	(10,668,070)
Disposals	-	-	251,278	251,278
Charge for the year	(1,368,318)	-	(217,846)	(1,586,164)
Carried forward	<u>(11,126,806)</u>	<u>-</u>	<u>(876,150)</u>	<u>(12,002,956)</u>
Net book value				
Brought forward	<u>£45,974,987</u>	<u>£1,191,849</u>	<u>£530,346</u>	<u>£47,697,182</u>
Carried forward	<u>£48,770,789</u>	<u>£1,681,309</u>	<u>£635,816</u>	<u>£51,087,914</u>

Of the £1,586,164 depreciation charge for the year, £217,846 relating to motor vehicles, mobile plant and equipment has been allocated to various expense accounts included within the cost of sales total of £4,850,384 shown in the profit and loss account.

At 31 December 2002 the capital commitments contracted for amounted to £2,518,422 (2001:£410,002). A further amount of £Nil (2001:£1,039,362) had been authorised.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 DEBTORS

	2002 £	2001 £ Restated
Trade debtors	2,676,440	2,651,997
Prepayments	241,713	77,851
Loans to employees	99,678	113,078
Other debtors	4,925	1,745
	<u>£3,022,756</u>	<u>£2,844,671</u>

4 CREDITORS AND ACCRUALS

	2002 £	2001 £ Restated
Trade creditors	439,152	546,268
Other creditors	142,559	9,133
Accruals and deferred income	1,537,173	1,411,990
Proposed dividend (net)	21,832	22,437
	<u>£2,140,716</u>	<u>£1,989,828</u>

5 JERSEY INCOME TAX

	2002 £	2001 £ Restated
(a) Profit and loss account charge		
Income tax on the profits for the year	300,351	266,816
(Over) / under provision for previous years	(43,233)	31,826
Transfer to deferred tax	305,777	354,728
	<u>£562,895</u>	<u>£653,370</u>
(b) Current income tax liability	<u>£202,723</u>	<u>£232,768</u>
(c) Future income tax liability	<u>£67,755</u>	<u>£244,396</u>

Factors affecting tax charge for year

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

	2002 £	2001 £
Profit before tax	<u>£3,467,155</u>	<u>£2,459,965</u>
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2001: 20%).	693,431	491,993
Capital allowances for period in excess of depreciation	(251,913)	(220,077)
Capital expenditure, deductible for tax purposes	(48,273)	-
Profit on sale of fixed assets	(92,894)	(5,019)
Other	-	(81)
Current tax charge for year	<u>£300,351</u>	<u>£266,816</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 LOANS

	Repayment Dates	2002 £	2001 £
Facilities drawn down			
HSBC Bank plc	2008	3,650,000	3,650,000
HSBC Bank plc	2011	5,250,000	5,250,000
Royal Bank of Canada (Channel Islands) Limited	2003	950,000	950,000
		<u>£9,850,000</u>	<u>£9,850,000</u>
Loans falling due within one year		950,000	750,000
Loans falling due after more than five years		8,900,000	9,100,000
		<u>£9,850,000</u>	<u>£9,850,000</u>

The Company has a rolling overdraft facility, as well as the availability of a standby overdraft facility with the HSBC Bank plc.

Unconditional guarantees have been given by the States of Jersey for the repayment of loans up to a maximum of £16.2m, and for the payment of the interest on these loans, to be negotiated by the Company in relation to the Company's significant major capital works programme.

Prior to the year end the Company entered into negotiations with Royal Bank of Canada (Channel Islands) Limited to extend the repayment terms of the loan such that the payment of £750,000 due in December 2002 would not be repaid until December 2003.

7 DEFERRED TAXATION

	2002 £	2001 £
Capital allowances	<u>£3,615,715</u>	Restated <u>£3,309,938</u>
Brought forward	3,309,938	2,955,210
Transfer from profit and loss account	305,777	354,728
At 31 December	<u>£3,615,715</u>	<u>£3,309,938</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS

The Company operates a defined benefit pension plan providing benefits based on final pensionable salary. The liabilities of the plan are funded by contributions from the employer. The assets of the plan are held separately from those of the Company, being administered by independent investment advisers. The Trustees of the plan at the year end were Jurat PG Blampied OBE, P Batho, MG Le Brocq, RJ Pirouet, HJB Smith and HN Snowden.

Following the decision made by the Company to establish a new defined contribution section of the pension plan in 2003, the defined benefit section of the plan was closed to new entrants with effect from 1 January 2003.

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. Where applicable, the liability of the Company in respect of these arrangements is included within the pensions disclosure below.

Composition of the defined benefit plan

A full actuarial valuation of the defined benefit plan was carried out as at 31 December 2002. The major financial assumptions used by the actuary were:

	2002	2001	2000
Rate of increase in salaries	5.00%	5.00%	5.50%
Rate of increase in pensions in respect of 1988 guarantee	5.00%	5.00%	5.00%
Rate of increase in pensions accrued after 1 January 1999	3.75%	3.25%	3.75%
Discount rate	5.47%	5.81%	6.00%
Inflation assumption	4.00%	3.50%	4.00%

The assets in the defined benefit plan and the expected rate of return as at 31 December were:

	2002		2001		2000	
	Expected long term rate of return	Value £	Expected long term rate of return	Value £	Expected long term rate of return	Value £
Equities	8.18%	3,783,538	8.10%	4,774,156	8.46%	4,822,128
Corporate bonds	5.47%	1,710,112	5.81%	2,204,174	5.99%	2,470,985
Cash	4.00%	1,047,982	4.00%	140,472	4.00%	280,480
Weighted rate of return on assets	6.80%	£6,541,632	7.31%	£7,118,802	7.50%	£7,573,593

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS continued	2002 £	2001 £ Restated	2000 £ Restated
Total market value of assets	6,541,632	7,118,802	7,573,593
Present value of total pension liabilities	<u>(11,448,930)</u>	<u>(10,124,585)</u>	<u>(10,308,688)</u>
Pension deficit	<u>(4,907,298)</u>	<u>(3,005,783)</u>	<u>(2,735,095)</u>
Related deferred tax asset	981,459	601,157	547,019
Net total pension liability	<u><u>£(3,925,839)</u></u>	<u><u>£(2,404,626)</u></u>	<u><u>£(2,188,076)</u></u>
Analysis of the amount charged to Operating Profit		2002	2001
		£	£
Current service cost		<u>£318,378</u>	<u>£313,905</u>
Analysis of the amount included in Other Finance Costs		2002	2001
		£	£
Expected return on defined benefit plan assets		535,181	571,997
Interest on total pension liabilities		<u>(589,127)</u>	<u>(631,643)</u>
Net charge for the year		<u><u>£(53,946)</u></u>	<u><u>£ (59,646)</u></u>
Analysis of amount recognised in Statement of Total Recognised Gains and Losses		2002	2001
		£	£
Actual return less expected return on defined benefit plan assets		<u>(2,011,997)</u>	<u>(1,157,719)</u>
Experience (losses)/ gains arising on the total pension liabilities		<u>(385,605)</u>	614,856
Changes in assumptions underlying the present value of the total pension liabilities		<u>(663,113)</u>	168,472
Actuarial (loss) recognised		<u>(3,060,715)</u>	<u>(374,391)</u>
Current tax relief		231,841	20,740
Movement in deferred tax relating to net liability		<u>380,302</u>	<u>54,138</u>
(Loss) recognised in statement of total recognised gains and losses		<u><u>£(2,448,572)</u></u>	<u><u>£(299,513)</u></u>
Movement in deficit during the year		2002	2001
		£	£
Total pension deficit at beginning of the year		<u>(3,005,783)</u>	<u>(2,735,095)</u>
Deferred tax asset		<u>601,157</u>	<u>547,019</u>
		<u>(2,404,626)</u>	<u>(2,188,076)</u>
Movement in year:			
Current service cost		<u>(318,378)</u>	(313,905)
Contributions and pensions paid		1,531,524	477,254
Other finance (costs)		<u>(53,946)</u>	(59,646)
Actuarial (loss)		<u>(3,060,715)</u>	<u>(374,391)</u>
		<u>(4,306,141)</u>	<u>(2,458,764)</u>
Movement in deferred tax asset		<u>380,302</u>	<u>54,138</u>
Total pension deficit at end of the year		<u><u>£(3,925,839)</u></u>	<u><u>£(2,404,626)</u></u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS continued

History of experience gains and losses	2002 £	2001 £	2000 £	1999 £
Difference between the expected and actual return on plan assets:				
Amount	(2,011,997)	(1,157,719)	(1,323,078)	947,418
Percentage of plan assets	(31%)	(16%)	(17%)	12%
Experience gains and losses on total pension liabilities:				
Amount	(385,605)	614,856	-	-
Percentage of the present value of pension liabilities	(3%)	6%	0%	0%
Total amount recognised in statement of total recognised gains and losses:				
Amount	(2,448,572)	(299,513)	(1,664,223)	1,882,255
Percentage of the present value of pension liabilities	(21%)	(3%)	(17%)	21%

Funding of the defined benefit pension plan

The actual funding of the pension plan is determined by the 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 contributions of £494,596 plus an additional contribution of £1,000,000.

The contribution rate in force during 2002 was 21.8% of total salaries, 9.7% of which represented the amortisation of the plan deficit, subject to the results of future actuarial valuations. Following the results of the latest actuarial valuation as at 31 December 2002 the contribution rate for 2003, 2004 and 2005 is set at 22.7% of pensionable salaries, of which 11.2% represents the amortisation of the plan deficit.

As the defined benefit plan is closed to new members from 1 January 2003, under the current unit method, the current service cost will increase as the members of the plan approach retirement.

9 SHARE CAPITAL

	2002 £	2001 £
Authorised		
252,000 ordinary shares of £1	252,000	252,000
231,000 'A' ordinary shares of £1	231,000	231,000
20,000 cumulative preference shares of £5	100,000	100,000
20,000 cumulative second preference shares of £5	100,000	100,000
100,000 cumulative third preference shares of £5	500,000	500,000
100,645 cumulative fourth preference shares of £5	503,225	503,225
900,000 cumulative fifth preference shares of £5	4,500,000	4,500,000
	<u>£6,186,225</u>	<u>£6,186,225</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	2002	2001
	£	£
Issued and fully paid		
252,000 ordinary shares of £1	252,000	252,000
231,000 'A' ordinary shares of £1	231,000	231,000
	<u>£483,000</u>	<u>£483,000</u>
17,261 5% cumulative preference shares of £5	86,305	86,305
17,402 3.5% cumulative second preference shares of £5	87,010	87,010
23,509 3% cumulative third preference shares of £5	117,545	117,545
16,036 3.75% cumulative third preference shares of £5	80,180	80,180
11,400 5% cumulative third preference shares of £5	57,000	57,000
90,877 2% cumulative fourth preference shares of £5	454,385	454,385
900,000 7.5-10% cumulative fifth preference shares of £5	4,500,000	4,500,000
	<u>£5,382,425</u>	<u>£5,382,425</u>
Total issued share capital	<u>£5,865,425</u>	<u>£5,865,425</u>

The cumulative fifth preference shares were entitled to a dividend of 7.5% per annum gross until 31 December 2000, thereafter the dividend is paid at the rate of 10.0% per annum gross.

Votes of shareholders

Upon a poll every shareholder present at a general meeting in person or by proxy shall have one vote for every ordinary share held by him and one vote only for all the preference shares held by him, irrespective of the number and class of such preference shares, except that so long as the States of Jersey hold all the 'A' ordinary shares they shall on a poll at all general meetings of the Company be entitled to so many additional votes as shall bring the total number of votes attached to the said 'A' ordinary shares to twice the total number of votes cast in respect of all other shares.

10 RESERVES

	Retained profit	Capital reserve	Total
	£	£	£
Brought forward	24,081,077	1,905,494	25,986,571
Retained profit for year	2,486,988	-	2,486,988
Transfer of profit on sale of Blampied Farm to capital reserve	(398,947)	398,947	-
Loss relating to pension plan deficit recognised in the statement of total recognised gains and losses	(2,448,572)	-	(2,448,572)
Carried forward	<u>£23,720,546</u>	<u>£2,304,441</u>	<u>£26,024,987</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2002	2001
	£	£
Profit for the year	2,904,260	1,806,595
Dividends	<u>(417,272)</u>	<u>(414,127)</u>
Retained profit for the year	2,486,988	1,392,468
Loss arising on pension plan	<u>(2,448,572)</u>	<u>(299,513)</u>
Opening shareholders' funds	32,653,621	31,560,666
Closing shareholders' funds	<u><u>£32,692,037</u></u>	<u><u>£32,653,621</u></u>
Equity	27,309,612	27,271,196
Non-equity	<u>5,382,425</u>	<u>5,382,425</u>
	<u><u>£32,692,037</u></u>	<u><u>£32,653,621</u></u>

12 ADMINISTRATION CHARGES

	2002	2001
	£	£
Included in administration charges are the following:		
Directors' fees (note 18)	27,208	16,000
Auditors' fees	20,250	19,000

13 INTEREST PAYABLE

	2002	2001
	£	£
On loans and overdrafts from banks	<u><u>£569,016</u></u>	<u><u>£693,920</u></u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 DIVIDENDS

Non equity

		2002		2001	
Amounts are shown net of 20% tax		Paid	Payable	Paid	Payable
		£	£	£	£
5%	cumulative preference shares	1,726	1,726	1,726	1,726
3.5%	cumulative second preference shares	2,436	812	2,436	-
3%	cumulative third preference shares	2,822	235	2,822	-
3.75%	cumulative third preference shares	2,405	401	2,405	-
5%	cumulative third preference shares	2,280	190	2,280	-
2%	cumulative fourth preference shares	7,270	-	7,270	-
7.5-10%	cumulative fifth preference shares	360,000	-	360,000	-
		<u>378,939</u>	<u>3,364</u>	<u>378,939</u>	<u>1,726</u>
Total dividends on non equity shares recognised in the year		<u>£382,303</u>		<u>£380,665</u>	

Equity

	2002			2001		
	Paid	Proposed	Total	Paid	Proposed	Total
	£	£	£	£	£	£
ordinary shares						
(2002 Total - 9.05 pence per share)	6,854	11,391	18,245	6,653	10,806	17,459
'A' ordinary shares						
(2002 Total - 9.05 pence per share)	<u>6,283</u>	<u>10,441</u>	<u>16,724</u>	<u>6,098</u>	<u>9,905</u>	<u>16,003</u>
Total dividends paid and proposed	<u>£13,137</u>	<u>£21,832</u>	<u>£34,969</u>	<u>£12,751</u>	<u>£20,711</u>	<u>£33,462</u>

Analysis of amount charged in the profit and loss account

	2002	2001
	£	£
Equity dividends	34,969	33,462
Non equity dividends	382,303	380,665
	<u>£417,272</u>	<u>£414,127</u>

15 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share of £1 is based on earnings of £2,904,260 (2001 - £1,806,595), being the profit available for distribution, less preference share dividends of £382,303 (2001 - £380,665) paid and payable, and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2002	2001
	£	£
		Restated
Operating profit	3,621,868	3,205,127
Depreciation	1,586,164	1,574,407
Profit on sale of assets included in cost of sales	-	(25,097)
Service cost of pension plan	318,378	313,905
Decrease in stores	125,016	385,871
(Increase) in debtors	(191,504)	(40,138)
Increase in creditors	81,561	316,179
Net cash inflow from operating activities	<u>£5,541,483</u>	<u>£5,730,254</u>

17 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2002	Cash Flows	Other Changes	At 31 December 2002
	£	£	£	£
Bank and cash	(1,164,935)	(1,611,237)	-	(2,776,172)
Debt due within one year	(750,000)	-	(200,000)	(950,000)
Debt due after one year	(9,100,000)	-	200,000	(8,900,000)
Total	<u>£(11,014,935)</u>	<u>£(1,611,237)</u>	<u>£ -</u>	<u>£(12,626,172)</u>

18 DIRECTORS' EMOLUMENTS

	Base Salary	Fees	Benefits	Total Emoluments (excluding pension contributions)	
	£	£	£	2002 £	2001 £
Executives					
HN Snowden ¹	71,036	4,000	10,684	85,720	84,144
Non Executives					
DC Norman	-	8,000	-	8,000	8,000
L Norman	-	2,802	-	2,802	-
JB Germain	-	2,802	-	2,802	-
CJ Hinault	-	2,802	-	2,802	-
JA Bridge	-	-	-	-	-
RJ Pirouet	-	4,000	-	4,000	4,000
SJ Marie	-	2,802	-	2,802	-

¹ For the year ended 31 December 2002 the Company's contribution in respect of Mr Snowden's pension was £8,652.

Benefits consist of full expenses for the use of a motor car, private health care and prolonged disability and death in service insurance.