

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

Change in accounting policy in respect of mains renewals

Up until 31 December 2002 the accounting policy in respect of mains renewals was to charge the cost of all renewals to the profit and loss account in the year the expense was incurred. With effect from 1 January 2003 the accounting policy was changed so as to capitalise the cost of water main renewals within completed works and depreciate the cost over the life of the main installed. The cost and accumulated depreciation of any main being replaced being treated as a disposal at the time of replacement. The new policy better reflects the capital nature of mains renewals and was necessary given the increasing levels of mains renewals being undertaken by the Company.

The effect of the change in accounting policy, which are fully reflected in these financial statements, has been to increase profits in 2003 by £475,071 and 2002 by £117,190. Details of the change can be seen in the Statement of Total Recognised Gains and Losses and in note 2 to the financial statements.

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.

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 per prior year financial statements	59,897,595	1,681,309	1,511,966	63,090,870
Change in accounting policy	1,199,854	-	-	1,199,854
Revised brought forward	61,097,449	1,681,309	1,511,966	64,290,724
Additions	31,635	5,890,988	340,981	6,263,604
Disposals	(572,200)	-	(183,813)	(756,013)
Transfers	3,747,774	(3,747,774)	-	-
Carried forward	<u>64,304,658</u>	<u>3,824,523</u>	<u>1,669,134</u>	<u>69,798,315</u>
Depreciation				
Brought forward per prior year financial statements	(11,126,806)	-	(876,150)	(12,002,956)
Change in accounting policy	(60,895)	-	-	(60,895)
Revised brought forward	(11,187,701)	-	(876,150)	(12,063,851)
Charge for the year	(1,515,143)	-	(262,728)	(1,777,871)
Disposals	477,477	-	178,123	655,600
Carried forward	<u>(12,225,367)</u>	<u>-</u>	<u>(960,755)</u>	<u>(13,186,122)</u>
Net book value				
Brought forward (restated)	<u>£49,909,748</u>	<u>£1,681,309</u>	<u>£635,816</u>	<u>£52,226,873</u>
Carried forward	<u>£52,079,291</u>	<u>£3,824,523</u>	<u>£708,379</u>	<u>£56,612,193</u>

Of the £1,777,871 depreciation charge for the year, £262,728 relating to motor vehicles, mobile plant and equipment has been allocated to various expense accounts included within the Cost of Sales and Administration Expense categories in the Profit and Loss Account.

At 31 December 2003 the capital commitments contracted for amounted to £114,345 (2002:£2,518,422).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 DEBTORS

	2003	2002
	£	£
Trade debtors	2,875,974	2,676,440
Prepayments	226,567	241,713
Loans to employees	63,474	99,678
Other debtors	-	4,925
	<u>£3,166,015</u>	<u>£3,022,756</u>

4 CREDITORS AND ACCRUALS

	2003	2002
	£	£
Trade creditors	420,960	439,152
Other creditors	138,120	142,559
Accruals and deferred income	1,471,837	1,537,173
Proposed dividend (net)	22,837	21,832
	<u>£2,053,754</u>	<u>£2,140,716</u>

5 JERSEY INCOME TAX

	2003	2002
	£	£
(a) Profit and loss account charge		
Income tax on the profits for the year	60,040	300,351
Under / (Over) provision for previous years	5,000	(43,233)
Transfer to deferred tax	331,695	305,777
	<u>£396,735</u>	<u>£562,895</u>
(b) Current income tax liability	<u>£68,355</u>	<u>£202,723</u>
(c) Future income tax liability	<u>£27,076</u>	<u>£67,755</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:

	2003	2002
	£	£
Profit before tax	<u>£2,392,598</u>	Restated <u>£3,584,345</u>
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2002: 20%).	478,520	716,869
Capital allowances for period in excess of depreciation	(340,460)	(251,913)
Capital expenditure, deductible for tax purposes	(34,731)	(71,711)
Profit on sale of fixed assets	(43,289)	(92,894)
Current tax charge for year	<u>£60,040</u>	<u>£300,351</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 LOANS

	Repayment Dates	2003 £	2002 £
Facilities drawn down			
HSBC Bank plc	2005	3,650,000	3,650,000
HSBC Bank plc	2011	5,250,000	5,250,000
HSBC Bank plc	2013	6,000,000	-
Royal Bank of Canada (Channel Islands) Limited	2003	-	950,000
		<u>£14,900,000</u>	<u>£9,850,000</u>
Loans falling due within one year		-	950,000
Loans falling due within between one and two years		3,650,000	-
Loans falling due after two years but less than five years		-	3,650,000
Loans falling due after more than five years		11,250,000	5,250,000
		<u>£14,900,000</u>	<u>£9,850,000</u>

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.

7 DEFERRED TAXATION

	2003 £	2002 £
Capital allowances	<u>£3,947,410</u>	<u>£3,615,715</u>
Brought forward	3,615,715	3,309,938
Transfer from profit and loss account	331,695	305,777
At 31 December	<u>£3,947,410</u>	<u>£3,615,715</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS

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

The defined contribution scheme and defined benefit scheme are both sections of The Jersey New Waterworks Retirement Benefits Plan 1987. The Trustees of the plan throughout the year were Jurat PG Blampied OBE, P Batho, MG Le Brocq, RJ Pirouet, HJB Smith and HN Snowden.

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 2003 totalled £13,789 (2002: £Nil).

Defined benefit section and unfunded scheme

The liabilities of the defined benefit section of the plan are funded by contributions from the employer. The assets of the section are held separately from those of the Company, being administered by independent investment advisers. The defined benefit section of the plan was closed to new entrants with effect from 1 January 2003.

A full actuarial valuation of the defined benefit plan was carried out as at 31 December 2003 by a qualified actuary. The major financial assumptions used by the actuary were:

	2003	2002	2001
Rate of increase in salaries	5.00%	5.00%	5.00%
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%	3.75%	3.25%
Discount rate	5.38%	5.47%	5.81%
Inflation assumption	4.00%	4.00%	3.50%

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

	2003		2002		2001	
	Expected long term rate of return	Value £	Expected long term rate of return	Value £	Expected long term rate of return	Value £
Equities	8.14%	4,708,789	8.18%	3,783,538	8.10%	4,774,156
Corporate bonds	5.38%	2,896,675	5.47%	1,710,112	5.81%	2,204,174
Cash	3.75%	85,040	4.00%	1,047,982	4.00%	140,472
Weighted rate of return on assets	7.05%	£7,690,504	6.80%	£6,541,632	7.31%	£7,118,802

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS continued	2003	2002	2001
	£	£	£
Total market value of assets	7,690,504	6,541,632	7,118,802
Present value of total pension liabilities	<u>(12,188,596)</u>	<u>(11,448,930)</u>	<u>(10,124,585)</u>
Pension deficit	<u>(4,498,092)</u>	<u>(4,907,298)</u>	<u>(3,005,783)</u>
Related deferred tax asset	899,619	981,459	601,157
Net total pension liability	<u><u>£(3,598,473)</u></u>	<u><u>£(3,925,839)</u></u>	<u><u>£(2,404,626)</u></u>
Analysis of the amount charged to Operating Profit		2003	2002
		£	£
Current service cost		<u><u>£367,582</u></u>	<u><u>£318,378</u></u>
Analysis of the amount included in Other Finance Costs		2003	2002
		£	£
Expected return on defined benefit scheme assets		454,421	535,181
Interest on total pension liabilities		<u>(635,760)</u>	<u>(589,127)</u>
Net charge for the year		<u><u>£(181,339)</u></u>	<u><u>£(53,946)</u></u>
Analysis of amount recognised in Statement of Total Recognised Gains and Losses		2003	2002
		£	£
Actual return less expected return on defined benefit scheme assets		409,095	(2,011,997)
Experience gains/(losses) arising on the total pension liabilities		13,139	(385,605)
Changes in assumptions underlying the present value of the total pension liabilities		<u>(174,850)</u>	<u>(663,113)</u>
Actuarial gain / (loss) recognised		<u>247,384</u>	<u>(3,060,715)</u>
Current tax relief		32,364	231,841
Movement in deferred tax relating to net liability		<u>(81,840)</u>	<u>380,302</u>
Gain / (Loss) recognised in statement of total recognised gains and losses		<u><u>£197,908</u></u>	<u><u>£(2,448,572)</u></u>
Movement in deficit during the year		2003	2002
		£	£
Total pension deficit at beginning of the year		<u>(4,907,298)</u>	<u>(3,005,783)</u>
Deferred tax asset		<u>981,459</u>	<u>601,157</u>
		<u><u>(3,925,839)</u></u>	<u><u>(2,404,626)</u></u>
Movement in year:			
Current service cost		<u>(367,582)</u>	<u>(318,378)</u>
Contributions and pensions paid		<u>710,743</u>	<u>1,531,524</u>
Other finance costs		<u>(181,339)</u>	<u>(53,946)</u>
Actuarial gain / (loss)		<u>247,384</u>	<u>(3,060,715)</u>
		<u><u>(3,516,633)</u></u>	<u><u>(4,306,141)</u></u>
Movement in deferred tax asset		<u>(81,840)</u>	<u>380,302</u>
Total pension deficit at end of the year		<u><u>£(3,598,473)</u></u>	<u><u>£(3,925,839)</u></u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS continued

History of experience gains and losses	2003 £	2002 £	2001 £	2000 £	1999 £
Difference between the expected and actual return on plan assets:					
Amount	409,095	(2,011,997)	(1,157,719)	(1,323,078)	947,418
Percentage of plan assets	5.3%	(31%)	(16%)	(17%)	12%
Experience gains and losses on total pension liabilities:					
Amount	13,139	(385,605)	614,856	-	-
Percentage of the present value of pension liabilities	0.1%	(3%)	6%	0%	0%
Total amount recognised in statement of total recognised gains and losses:					
Amount	197,908	(2,448,572)	(299,513)	(1,664,223)	1,882,255
Percentage of the present value of pension liabilities	1.6%	(21%)	(3%)	(17%)	21%

Funding of the defined benefit pension plan

The actual funding of the defined benefit pension scheme 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 retirement benefit contributions into the defined benefit scheme totalling £672,514.

Following the results of the latest actuarial valuation as at 31 December 2002 the contribution rate for 2003, 2004 and 2005 is set at 11.5% of Pensionable Salaries plus £400,000 per annum, of which £400,000 represents contributions to reduce the scheme deficit.

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

9 SHARE CAPITAL

	2003 £	2002 £
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

	2003	2002
	£	£
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 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>

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 from 2002 financial statements	23,720,546	2,304,441	26,024,987
Change in accounting policy (see note 1)	1,138,959	-	1,138,959
Restated brought forward	24,859,505	2,304,441	27,163,946
Retained profit for year	1,578,837	-	1,578,837
Transfer of profit on sale of fixed assets to capital reserve	(216,447)	216,447	-
Gain relating to pension plan deficit recognised in the statement of total recognised gains and losses	197,908	-	197,908
Carried forward	<u>£26,419,803</u>	<u>£2,520,888</u>	<u>£28,940,691</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003	2002
	£	£
		Restated
Profit for the year	1,995,863	3,021,450
Dividends	(417,026)	(417,272)
Retained profit for the year	1,578,837	2,604,178
Gain/ (loss) arising on pension plan	197,908	(2,448,572)
Opening shareholders' funds	33,830,996	33,675,390
Closing shareholders' funds	<u>£35,607,741</u>	<u>£33,830,996</u>
Equity	30,225,316	28,448,571
Non-equity	5,382,425	5,382,425
	<u>£35,607,741</u>	<u>£33,830,996</u>

12 ADMINISTRATION CHARGES

	2003	2002
	£	£
Included in administration charges are the following:		
Directors' fees (note 18)	30,815	27,208
Auditors' fees - Statutory audit	21,500	20,250
- Other services (Tax advisory and compliance)	6,000	3,890

13 INTEREST PAYABLE

	2003	2002
	£	£
On loans and overdrafts from banks	<u>£694,447</u>	<u>£569,016</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 DIVIDENDS

Non-equity

	2003			2002		
	Paid	Payable	Charge for the year	Paid	Payable	Charge for the year
<i>Amounts are shown net of 20% tax</i>	£	£	£	£	£	£
5% cumulative preference shares	1,726	1,726	3,452	1,726	1,726	3,452
3.5% cumulative second preference shares	1,624	812	2,436	2,436	812	3,248
3% cumulative third preference shares	2,587	235	2,822	2,822	235	3,057
3.75% cumulative third preference shares	2,004	401	2,405	2,405	401	2,806
5% cumulative third preference shares	2,090	190	2,280	2,280	190	2,470
2% cumulative fourth preference shares	7,270	-	7,270	7,270	-	7,270
7.5-10% cumulative fifth preference shares	360,000	-	360,000	360,000	-	360,000
Total dividends on non-equity shares recognised in the year	<u>£377,301</u>	<u>£3,364</u>	<u>£380,665</u>	<u>£378,939</u>	<u>£3,364</u>	<u>£382,303</u>

Equity

	2003			2002		
	Paid	Proposed	Total	Paid	Proposed	Total
ordinary shares (2003 Total - 9.41 pence per share)	7,056	11,915	18,971	6,854	11,391	18,245
'A' ordinary shares (2003 Total - 9.41 pence per share)	6,468	10,922	17,390	6,283	10,441	16,724
Total dividends paid and proposed	<u>£13,524</u>	<u>£22,837</u>	<u>£36,361</u>	<u>£13,137</u>	<u>£21,832</u>	<u>£34,969</u>

Analysis of amount charged in the profit and loss account

	2003	2002
	£	£
Equity dividends	36,361	34,969
Non-equity dividends	380,665	382,303
	<u>£417,026</u>	<u>£417,272</u>

15 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share of £1 is based on earnings of £1,995,863 (2002 Restated - £3,021,450), being the profit available for distribution, less preference share dividends of £380,665 (2002 - £382,303) paid and payable, and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

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

	2003	2002
	£	£
Operating profit	3,048,936	3,739,058
Depreciation	1,777,871	1,602,418
Change in order to bring pension contributions onto a cash basis	(343,161)	(1,213,146)
Decrease in stores	137,576	125,016
Increase in debtors	(179,463)	(191,504)
(Decrease) / increase in creditors	(93,462)	81,561
Net cash inflow from operating activities	<u>£4,348,297</u>	<u>£4,143,403</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2003	Cash Flows	Other Changes	At 31 December 2003
	£	£	£	£
Bank and cash	(2,776,172)	2,283,893	-	(492,279)
Debt due within one year	(950,000)	950,000	-	-
Debt due after one year	(8,900,000)	(6,000,000)	-	(14,900,000)
Total	£(12,626,172)	£(2,766,107)	-	£(15,392,279)

18 DIRECTORS' EMOLUMENTS

	Base Salary		Fees	Benefits	Total Emoluments (excluding pension contributions)	
	£	£	£	£	2003 £	2002 £
Executives						
HN Snowden ¹	79,267	4,000	9,588	92,855	85,720	
HJB Smith ²	13,408	815	1,673	15,896	-	
Non-Executives						
DC Norman	-	8,000	-	8,000	8,000	
L Norman	-	4,000	-	4,000	2,802	
JB Germain	-	2,000	-	2,000	2,802	
CJ Hinault	-	4,000	-	4,000	2,802	
RJ Pirouet	-	4,000	-	4,000	4,000	
SJ Marie	-	4,000	-	4,000	2,802	

¹ For the year ended 31 December 2003 the Company's contribution in respect of Mr Snowden's pension was £8,593.

² For the period from 17 October 2003 to 31 December 2003 the Company's contribution in respect of Mr Smith's pension was £652.

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

19 CONTINGENT LIABILITY

Subsequent to the year end, the Company has received a claim from MJ Gleeson Limited totalling £780,000. In 2002, MJ Gleeson Limited were contracted to design and build the Wash Water Recovery Plant at Handois for a fixed sum. Upon completion of the contract, MJ Gleeson Limited allege that the Company caused delays and requested additional work to the value of the amount claimed. The Board believe that the claim is without foundation and will be strongly contested. It is therefore felt appropriate that no provision for the sum be made in the financial statements.