

## 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

#### 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.

## Notes to the Financial Statements continued

### 2 Fixed Assets

	Property and completed works	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£	£	£	£
<b>Cost</b>				
Brought forward	64,304,658	3,824,523	1,669,134	<b>69,798,315</b>
Additions	-	2,291,768	273,353	<b>2,565,121</b>
Disposals	(108,661)	-	(163,385)	<b>(272,046)</b>
Transfers	5,385,835	(5,385,835)	-	-
Carried forward	<b>69,581,832</b>	<b>730,456</b>	<b>1,779,102</b>	<b>72,091,390</b>
<b>Depreciation</b>				
Brought forward	(12,225,367)	-	(960,755)	<b>(13,186,122)</b>
Charge for the year	(1,736,383)	-	(279,216)	<b>(2,015,599)</b>
Disposals	102,765	-	158,239	<b>261,004</b>
Carried forward	<b>(13,858,985)</b>	-	<b>(1,081,732)</b>	<b>(14,940,717)</b>
<b>Net book value</b>				
Brought forward	£52,079,291	£3,824,523	£708,379	<b>£56,612,193</b>
<b>Carried forward</b>	<b>£55,722,847</b>	<b>£730,456</b>	<b>£697,370</b>	<b>£57,150,673</b>

Of the £2,015,599 depreciation charge for the year, £279,216 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 2004 the capital commitments contracted for amounted to £507,563 (2003:£114,345).

### 3 Debtors

	2004 £	2003 £
Trade debtors	<b>3,014,107</b>	2,875,974
Prepayments	<b>363,315</b>	226,567
Loans to employees	-	63,474
Other debtors	<b>245,757</b>	-
	<b>£3,623,179</b>	£3,166,015

### 4 Creditors and accruals

	2004 £	2003 £
Trade creditors	<b>359,041</b>	420,960
Other creditors	<b>144,582</b>	138,120
Accruals and deferred income	<b>1,556,236</b>	1,471,837
Proposed dividend (net)	<b>985,703</b>	22,837
	<b>£3,045,562</b>	£2,053,754

## Notes to the Financial Statements *continued*

### 5 Jersey Income Tax

	2004 £	2003 £
<b>Current tax</b>		
Income tax on the profits for the year	<b>150,438</b>	60,040
(Over) / under provision for previous years	<b>(57,338)</b>	5,000
Total current tax	<b>93,100</b>	65,040
<b>Deferred tax</b>		
Charge for the year	<b>372,364</b>	331,695
Under provision for previous years	<b>218,703</b>	-
Total deferred tax	<b>591,067</b>	331,695
Total tax charge for the year	<b>£684,167</b>	£396,735

#### 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:

	2004 £	2003 £
Profit before tax	<b>£2,837,649</b>	£2,392,598
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2003: 20%).	<b>567,530</b>	478,520
Capital allowances for period in excess of depreciation	<b>(211,297)</b>	(340,460)
Capital expenditure, deductible for tax purposes	<b>(101,701)</b>	(34,731)
Profit on sale of fixed assets	<b>(104,094)</b>	(43,289)
Current tax charge for year	<b>£150,438</b>	£60,040

## Notes to the Financial Statements *continued*

### 6 Loans

	Repayment Dates	2004 £	2003 £
<b>Facilities drawn down</b>			
HSBC Bank plc	2005	<b>3,650,000</b>	3,650,000
HSBC Bank plc	2011	<b>5,250,000</b>	5,250,000
HSBC Bank plc	2013	<b>6,000,000</b>	6,000,000
		<b><u>£14,900,000</u></b>	<u>£14,900,000</u>
Loans falling due within one year		<b>3,650,000</b>	-
Loans falling due within between one and two years		-	3,650,000
Loans falling due after two years but less than five years		-	-
Loans falling due after five years or more		<b>11,250,000</b>	11,250,000
		<b><u>£14,900,000</u></b>	<u>£14,900,000</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.

Subsequent to the year end, the terms of the £3,650,000 loan due for repayment in 2005 were extended for 12 months. The loan is now due for repayment in 2006.

### 7 Deferred taxation

	2004 £	2003 £
Capital allowances	<b><u>£4,538,477</u></b>	<u>£3,947,410</u>
Brought forward	<b>3,947,410</b>	3,615,715
Transfer from profit and loss account	<b>591,067</b>	331,695
At 31 December	<b><u>£4,538,477</u></b>	<u>£3,947,410</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 Peter Blampied OBE, Paul Batho, Michael Le Brocq, Richard Pirouet, Helier Smith and Howard 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 2004 totalled £35,250 (2003: £13,789).

#### 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 2004 by a qualified actuary. The major financial assumptions used by the actuary were:

	2004	2003	2002
Rate of increase in salaries	<b>4.86%</b>	5.00%	5.00%
Rate of increase in pensions in respect of 1988 guarantee	<b>5.00%</b>	5.00%	5.00%
Rate of increase in pensions accrued after 1 January 1999	<b>4.11%</b>	3.75%	3.75%
Discount rate	<b>5.23%</b>	5.38%	5.47%
Inflation assumption	<b>4.86%</b>	4.00%	4.00%

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

	2004		2003		2002	
	Expected long term rate of return	Value £	Expected long term rate of return	Value £	Expected long term rate of return	Value £
Equities	<b>8.12%</b>	<b>5,198,565</b>	8.14%	4,708,789	8.18%	3,783,538
Corporate bonds	<b>5.23%</b>	<b>3,445,050</b>	5.38%	2,896,675	5.47%	1,710,112
Cash	<b>4.75%</b>	<b>553,545</b>	3.75%	85,040	4.00%	1,047,982
Weighted rate of return on assets	<b>6.83%</b>	<b>£9,197,160</b>	7.05%	£7,690,504	6.80%	£6,541,632

## Notes to the Financial Statements *continued*

### Pensions *continued*

	2004	2003	2002
	£	£	£
Total market value of assets	<b>9,197,160</b>	7,690,504	6,541,632
Present value of total pension liabilities	<b>(13,096,169)</b>	(12,188,596)	(11,448,930)
Pension deficit	<b>(3,899,009)</b>	(4,498,092)	(4,907,298)
Related deferred tax asset	<b>779,802</b>	899,619	981,459
Net total pension liability	<b>£(3,119,207)</b>	£(3,598,473)	£(3,925,839)

### Analysis of the amount charged to Operating Profit

	2004	2003
	£	£
Current service cost	<b>£394,034</b>	£367,582

### Analysis of the amount included in Other Finance Costs

	2004	2003
	£	£
Expected return on defined benefit scheme assets	<b>569,359</b>	454,421
Interest on total pension liabilities	<b>(665,755)</b>	(635,760)
Net charge for the year	<b>£(96,396)</b>	£(181,339)

### Analysis of amount recognised in Statement of Total Recognised Gains and Losses

	2004	2003
	£	£
Actual return less expected return on defined benefit scheme assets	<b>161,655</b>	409,095
Experience gains arising on the total pension liabilities	<b>193,989</b>	13,139
Changes in assumptions underlying the present value of the total pension liabilities	<b>(494,691)</b>	(174,850)
Actuarial (loss) / gain recognised	<b>(139,047)</b>	247,384
Current tax relief	<b>147,627</b>	32,364
Movement in deferred tax relating to net liability	<b>(119,817)</b>	(81,840)
(Loss) / gain recognised in statement of total recognised gains and losses	<b>£(111,237)</b>	£197,908

### Movement in deficit during the year

	2004	2003
	£	£
Total pension deficit at beginning of the year	<b>(4,498,092)</b>	(4,907,298)
Deferred tax asset	<b>899,619</b>	981,459
	<b>(3,598,473)</b>	(3,925,839)
Movement in year:		
Current service cost	<b>(394,034)</b>	(367,582)
Contributions and pensions paid	<b>1,228,560</b>	710,743
Other finance costs	<b>(96,396)</b>	(181,339)
Actuarial (loss) / gain	<b>(139,047)</b>	247,384
	<b>(2,999,390)</b>	(3,516,633)
Movement in deferred tax asset	<b>(119,817)</b>	(81,840)
Total pension deficit at end of the year	<b>£(3,119,207)</b>	£(3,598,473)

## Notes to the Financial Statements continued

### Pensions continued

History of experience gains and losses	2004 £	2003 £	2002 £	2001 £	2000 £
<b>Difference between the expected and actual return on plan assets:</b>					
Amount	<b>161,655</b>	409,095	(2,011,997)	(1,157,719)	(1,323,078)
Percentage of plan assets	<b>1.8%</b>	5.3%	31%	16%	17%
<b>Experience gains and losses on total pension liabilities:</b>					
Amount	<b>193,989</b>	13,139	(385,605)	614,856	-
Percentage of the present value of pension liabilities	<b>1.5%</b>	0.1%	3%	6%	0%
<b>Total amount recognised in statement of total recognised gains and losses:</b>					
Amount	<b>(111,237)</b>	197,908	(2,448,572)	(299,513)	(1,664,223)
Percentage of the present value of pension liabilities	<b>0.8%</b>	1.6%	21%	3%	17%

### 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 £669,643 (2003: £672,514) plus a special contribution of £520,000 (2003: £Nil).

Following the results of the latest actuarial valuation as at 31 December 2003 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

	2004 £	2003 £
<b>Authorised</b>		
252,000 ordinary shares of £1	<b>252,000</b>	252,000
231,000 'A' ordinary shares of £1	<b>231,000</b>	231,000
20,000 cumulative preference shares of £5	<b>100,000</b>	100,000
20,000 cumulative second preference shares of £5	<b>100,000</b>	100,000
100,000 cumulative third preference shares of £5	<b>500,000</b>	500,000
100,645 cumulative fourth preference shares of £5	<b>503,225</b>	503,225
900,000 cumulative fifth preference shares of £5	<b>4,500,000</b>	4,500,000
	<b><u>£6,186,225</u></b>	<u>£6,186,225</u>

## Notes to the Financial Statements continued

	2004	2003
	£	£
<b>Issued and fully paid</b>		
252,000 ordinary shares of £1	<b>252,000</b>	252,000
231,000 'A' ordinary shares of £1	<b>231,000</b>	231,000
	<b>£483,000</b>	£483,000
17,261 5% cumulative preference shares of £5	<b>86,305</b>	86,305
17,402 3.5% cumulative second preference shares of £5	<b>87,010</b>	87,010
23,509 3% cumulative third preference shares of £5	<b>117,545</b>	117,545
16,036 3.75% cumulative third preference shares of £5	<b>80,180</b>	80,180
11,400 5% cumulative third preference shares of £5	<b>57,000</b>	57,000
90,877 2% cumulative fourth preference shares of £5	<b>454,385</b>	454,385
900,000 10% cumulative fifth preference shares of £5	<b>4,500,000</b>	4,500,000
	<b>£5,382,425</b>	£5,382,425
<b>Total issued share capital</b>	<b>£5,865,425</b>	£5,865,425

### 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	26,419,803	2,520,888	<b>28,940,691</b>
Retained profit for year	772,817	-	<b>772,817</b>
Transfer of profit on sale of fixed assets to capital reserve	(520,469)	520,469	-
Loss relating to pension plan deficit recognised in the statement of total recognised gains and losses	(111,237)	-	<b>(111,237)</b>
<b>Carried forward</b>	<b>£26,560,914</b>	<b>£3,041,357</b>	<b>£29,602,271</b>

## Notes to the Financial Statements *continued*

### 11 Reconciliation of movement in shareholders' funds

	2004	2003
	£	£
Profit for the year	<b>2,153,482</b>	1,995,863
Dividends	<b>(1,380,665)</b>	(417,026)
Retained profit for the year	<b>772,817</b>	1,578,837
(Loss) / gain arising on pension plan	<b>(111,237)</b>	197,908
Opening shareholders' funds	<b>35,607,741</b>	33,830,996
Closing shareholders' funds	<b>£36,269,321</b>	£35,607,741
Equity	<b>30,886,896</b>	30,225,316
Non-equity	<b>5,382,425</b>	5,382,425
	<b>£36,269,321</b>	£35,607,741

### 12 Administration charges

	2004	2003
	£	£
Included in administration charges are the following:		
Directors' fees (note 18)	<b>32,000</b>	30,815
Auditors' fees - Statutory audit	<b>22,500</b>	21,500
- Other services (Tax advisory and compliance)	<b>4,000</b>	6,000

### 13 Interest payable

	2004	2003
	£	£
On loans and overdrafts from banks	<b>£828,947</b>	£694,447

## Notes to the Financial Statements continued

### 14 Dividends

Amounts are shown net of 20% tax

	2004			2003		
	Paid	Payable	Charge for the year	Paid	Payable	Charge for the year
	£	£	£	£	£	£
<b>Non-equity</b>						
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	1,624	812	2,436
3% cumulative third preference shares	2,587	235	2,822	2,587	235	2,822
3.75% cumulative third preference shares	2,004	401	2,405	2,004	401	2,405
5% cumulative third preference shares	2,090	190	2,280	2,090	190	2,280
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>£377,301</u>	<u>£3,364</u>	<u>£380,665</u>

Equity	2004			2003		
	Paid	Proposed	Total	Paid	Proposed	Total
Ordinary shares (2004 Total - 258.8 pence per share)	7,459	514,280	521,739	7,056	11,915	18,971
'A' ordinary shares (2004 Total - 258.8 pence per share)	6,838	471,423	478,261	6,468	10,922	17,390
Total dividends paid and proposed	<u>£14,297</u>	<u>£985,703</u>	<u>£1,000,000</u>	<u>£13,524</u>	<u>£22,837</u>	<u>£36,361</u>

Analysis of amount charged in the profit and loss account	2004	2003
	£	£
Equity dividends	1,000,000	36,361
Non-equity dividends	380,665	380,665
	<u>£1,380,665</u>	<u>£417,026</u>

### 15 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £2,153,482 (2003 - £1,995,863), being the profit available for distribution, less preference share dividends of £380,665 (2003 - £380,665) 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

	2004	2003
	£	£
Operating profit	3,228,465	3,048,936
Depreciation	2,015,599	1,777,871
Change in order to bring pension contributions onto a cash basis	(834,526)	(343,161)
(Increase) / decrease in stores	(41,597)	137,576
(Increase) in debtors	(488,592)	(179,463)
(Decrease) in creditors	(59,368)	(93,462)
Net cash inflow from operating activities	<u>£3,819,981</u>	<u>£4,348,297</u>

## Notes to the Financial Statements *continued*

### 17 Analysis of changes in net debt

	At 1 January 2004	Cash Flows	Other Changes	At 31 December 2004
	£	£	£	£
Bank and cash	(492,279)	542,184	-	<b>49,905</b>
Debt due within one year	-	-	(3,650,000)	<b>(3,650,000)</b>
Debt due after one year	(14,900,000)	-	3,650,000	<b>(11,250,000)</b>
<b>Total</b>	<b>£(15,392,279)</b>	<b>£542,184</b>	<b>-</b>	<b>£(14,850,095)</b>

### 18 Directors' emoluments

	Base Salary / Fee	Bonus	Benefits	Total Emoluments <i>(excluding pension contributions)</i>	
	£	£	£	2004 £	2003 £
<b>Executives</b>					
Howard Snowden <sup>1</sup>	82,583	4,000	9,707	<b>96,290</b>	92,855
Helier Smith <sup>2</sup>	70,500	4,000	8,221	<b>82,721</b>	15,896
<b>Non-Executives</b>					
David Norman	8,000	-	-	<b>8,000</b>	8,000
Leonard Norman	4,000	-	-	<b>4,000</b>	4,000
John Germain	-	-	-	<b>-</b>	2,000
Carlyle Hinault	4,000	-	-	<b>4,000</b>	4,000
Richard Pirouet	4,000	-	-	<b>4,000</b>	4,000
Stephen Marie	4,000	-	-	<b>4,000</b>	4,000

<sup>1</sup> For the year ended 31 December 2004 the Company's contribution in respect of Howard Snowden's pension was £8,970.

<sup>2</sup> For the year ended 31 December 2004 the Company's contribution in respect of Helier Smith's pension was £3,300.

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

In January 2004, the Company received a claim from MJ Gleeson Limited totalling £780,000. In 2003, 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.