

Business Review

Financial Performance

• Turnover

Turnover for 2009 stood at £14.7 million, an increase of 2.4% on 2008.

Revenue from water sales was £13.8 million and increased by 2.3% on the previous year. Metered Water sales increased by 6% to £6.9 million, partly as a result of the 2.5% tariff increase in 2009 and in line with the transition of 1,272 customers from fixed unmeasured charges to the Company's variable metered tariff during the year. Metered water sales accounted for 50% of water sales in 2009. This proportion is expected to increase substantially over the next five years with the rollout of Island wide metering.

Metered water income varies with consumption and is therefore susceptible to the factors that influence the demand for water (e.g. rainfall, temperature, seasonality). These factors, coupled with the programme of universal metering and encouraging customers to waste less water all increase the likely variability of income in the future, relative to the predominantly fixed and predictable nature of unmeasured water charges.

Unmeasured water charges reduced by 2.5% to £6.3 million, despite a tariff increase of 2.5% during the year. This reduction is in line with expectation and consistent with the introduction of water metering on change of account holder. Unmeasured charges are expected to drop away in line with the programme of universal metering over the next five years. It is estimated that unmeasured charges will eventually account for just 10% of water charges, being charges for water on those properties where it is not possible to fit a meter.

• Operating expenditure

Operating expenditure increased by 2.5% in the year, from £9.9 million in 2008 to £10.2 million in 2009. The increase is after taking account of a number of factors, namely:

– Reorganisation costs

At the end of 2009, the Company undertook a reorganisation programme that resulted in the transfer of the mains laying and service laying functions to an external contractor. The programme involved the loss of 27 staff either through early retirement or redundancy and cost a total of £633,000. As a result of the reduction in staff numbers (many of whom were part of the defined benefit section of the Jersey Water Pension Plan) a curtailment gain of £782,000 was recognised on the pension liability in the year. The net gain arising in the financial statements for the year was therefore £149,000.

– Impairment provision

In 2002, the Company constructed a standby water quality improvement plant to enhance the quality of raw water collected from the Le Mourier catchment area through the use of reverse osmosis and ultra-filtration. Whilst the plant remains operational, changes in the Company's water capture, transfer and treatment processes since 2002 have reduced the likelihood of the use of the standby plant in the future. The Company now has the raw water pumping and transfer capacity, through its network of raw water transfer mains, to select water for treatment from the highest quality sources and to transfer water between reservoirs in order to blend out lower water quality to a much greater extent than could be achieved by the use of the water quality improvement plant alone. As a result of the consequent impairment review, a charge for impairment of £422,000 was recognised, writing off the remaining net book value of the plant.

After adjusting for the effect of the reorganisation and impairment, operating costs overall remained in line with the previous year and in line with budget. A reduction in depreciation on completed works of £635,000 arising partly as a result of assets becoming fully depreciated and partly as a result of a review and adjustment of the useful economic life of other assets was countered by increased staff costs, higher energy costs and stock provisions during the year.

• Operating profit

Operating profit for 2009 was £4.6 million, a 2.3% increase on 2008.

• Profit on disposal of fixed assets

During the year the Company sold areas of land, one residential property and various pieces of plant and equipment generating net proceeds of £708,000 and a profit on disposal of £638,000.

• Interest costs

The low base rate in 2009 had a beneficial effect on interest payable by the Company. Interest payable fell from £835,000 in 2008 to £646,000 in 2009. Conversely, the lower interest rates available on deposits meant that interest receivable fell from £178,000 in 2008 to £37,000 in 2009.

• Income tax

Income tax charges for 2009 were £786,000 compared to £4,000 in 2008. The variance is mainly due to the effects of the transitional arrangements in 2008 of moving the basis of assessment of trading income to Jersey tax from a prior year basis to a current year basis and the increase in deferred tax charge to £255,000, compared to a credit of £234,000 in 2008.

Business Review - continued

• Equity dividends

Dividends paid in 2009 totalled £1,444,000, an increase of 15% over dividends of £1,256,000 in 2008. A final dividend for 2009 of £2.14 is proposed bringing the dividend for 2009 to £1,541,000, an increase over the dividends for 2008 of 10%. In addition, a special dividend of £2.28 per ordinary and 'A' ordinary shares is proposed totalling £1,101,000.

	2009	2008
	£'000	£'000
Dividends paid		
Final dividend for the previous year	937	792
Interim dividend for the current year	507	464
	<u>£1,444</u>	<u>£1,256</u>
Dividends proposed		
Final dividend for the current year	1,034	937
Special dividend for the current year	1,101	-
	<u>£2,135</u>	<u>£937</u>

Financial position and liquidity

• Cash flow

There was a net cash outflow before financing and the use of liquid resources of £1,457,000 (2008: inflow of £1,989,000). The difference was mainly a result of the one off payment in 2009 to the Jersey Water Pension Plan of £1,065,000, reorganisation expenditure and the combined effects of increased operating cash flows, income tax payments and capital expenditure payments.

Net debt at the end of the year was £17,491,000 compared to £16,034,000 in 2008. The increase of £1,457,000 is consistent with the cash outflow before financing and the use of liquid resources for the year.

• Loans and borrowing

Total borrowing at the end of 2009 was unchanged at £20,282,000.

	2009	2008
	£'000	£'000
Bank loans - falling due within one year	3,650	-
- falling due between one and two years	5,250	8,900
- falling due after two years but less than five years	6,000	6,000
	<u>£14,900</u>	<u>£14,900</u>
Preference share capital	5,382	5,382
Total borrowing	<u>£20,282</u>	<u>£20,282</u>

Subsequent to the year end, the Board renewed the loan maturing in 2010 for a further five years. The loan now becomes due for payment in 2015.

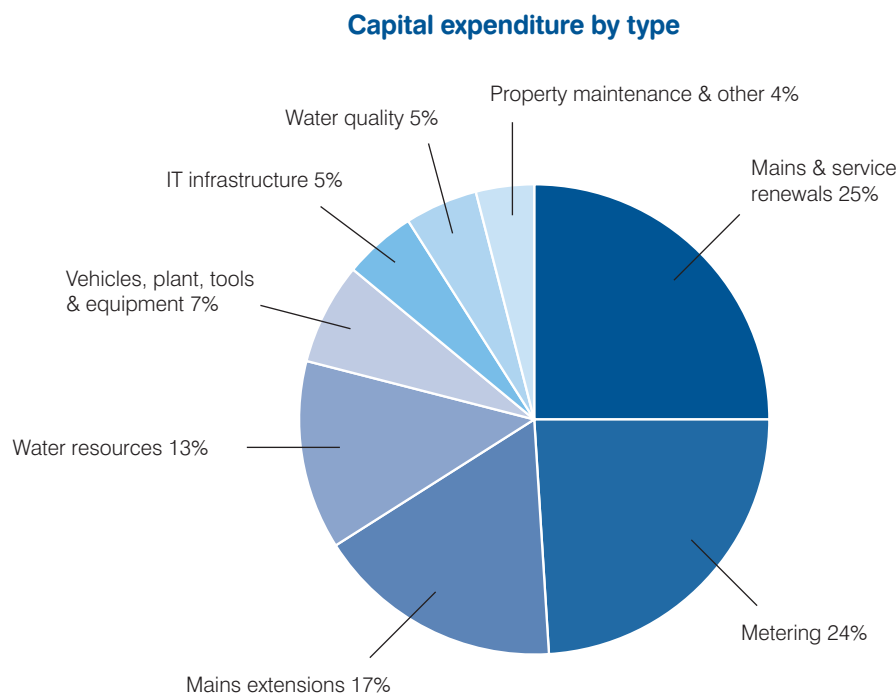
Business Review - continued

- **Defined benefit pension scheme**

The results of the FRS17 valuation of the Jersey Water Pension Plan indicate that the scheme deficit has reduced from £1,056,000 to £854,000. The main factors behind the reduction being the curtailment gain arising on the reorganisation coupled with the better than expected returns on scheme assets and effects of employer contributions. All countered by an actuarial loss arising as a result of the effects of changing discount rates and the adoption of updated longevity and other assumptions for the 2009 valuation.

- **Capital expenditure**

Capital expenditure for 2009 totalled £3,309,000. An analysis of expenditure by type is provided in the table below.



Connections, metering and charges

During 2009, an additional 412 connections were made to the water network, increasing the total number of connections to approximately 36,900.

With effect from 1 January 2009, the Company applied a policy of installing a water meter on all connections where there was a change of account holder. As a result, 1,056 existing unmeasured connections had meters installed. An additional 216 existing connections were metered at the request of the customer bringing the total number of metered connections to 13,188 by the end of the year (36% of the total connections).

Since the year end the Company has announced plans to meter all treated water mains connections, commencing in the spring of 2010. The project will involve the installation of approximately 17,500 meters over the next five years at a total cost of around £6,000,000.

It is estimated that average household demand can be reduced by between 10% and 20% through metering and the installation of water meters will help to identify water leakage on private pipe work which is estimated to account for as much as 25% of all leakage. Both factors helping to defer the cost of additional water resources identified within the Company's Water Resources Management Plan.

In 2009, the Company introduced a new assessed volume tariff applicable where it is not possible to install a water meter. This tariff, which bases the water charge for a property on the occupancy level and expected water usage, will mainly apply in properties with a shared supply pipe providing water to a number of dwelling units.

In 2010, the Company announced that tariffs would remain unchanged at 2009 levels for the year commencing 1 April 2010. Tariffs increases have been maintained at or below the RPI for eight consecutive years.

Business Review - continued

Water Supply and Demand

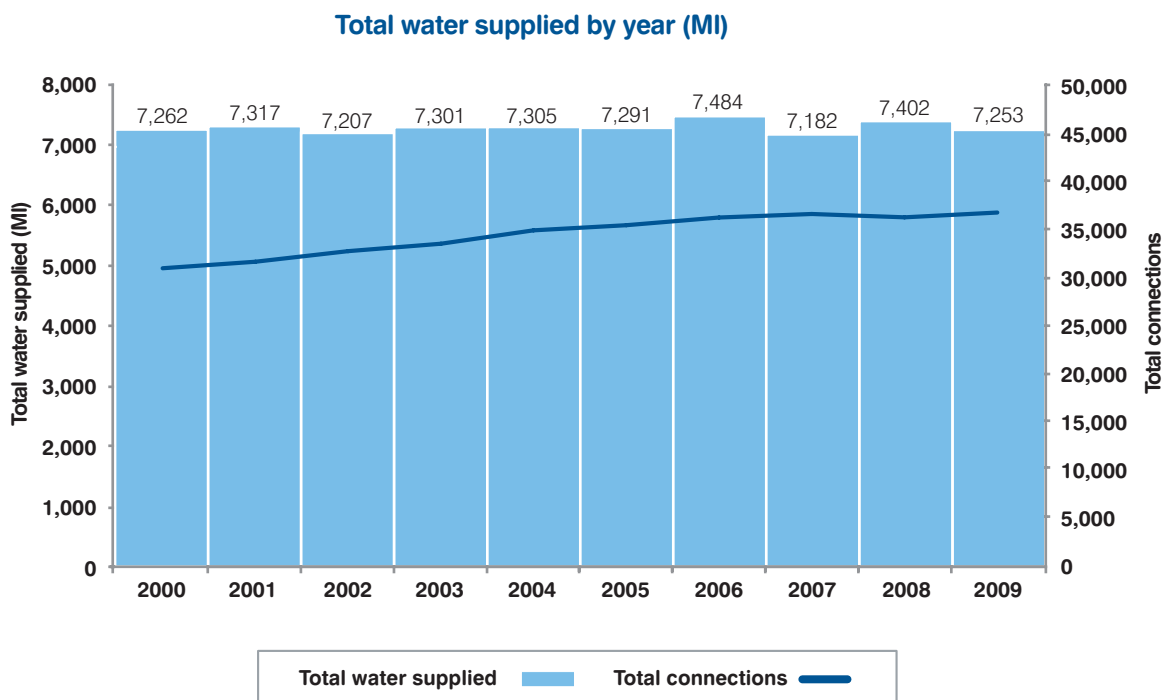
The demand for water in 2009 was 2% lower than in 2008, even though the year was relatively dry. The total annual demand was 7,253 million litres, compared to 7,402 in 2008. The total demand was at a similar level to that recorded in 1999. The stabilisation of water demand over the past ten years can be attributed to a number of demand measures implemented by the Company, including: pressure reduction, increased leakage surveillance and in more recent years metering and is despite an increase of 22% in the number of connections.

In general, 2009 was a relatively dry year. Rainfall levels were well below the long term average, with the exception of January, June and November. However, with rainfall 17% above average in January 2009, the Company started the year with full reservoirs and was able to maintain relatively high reservoir water levels until June.

Warm temperatures and below average rainfall in the late summer and early autumn months generated some concerns for water resources. The total rainfall experienced in August, September and October was less than 50% of average levels. With reservoir water levels falling below 50% capacity by mid October and the risk of a drier than normal winter period, the precautionary decision was made to prepare the Desalination Plant for operation. By the end of October the long-lasting high-pressure weather situation changed dramatically and the rain arrived.

The rainfall experienced in November was more than double the long-term average and reservoir water levels began to recover quickly. The sea water intake and primary treatment process at the Desalination Plant were shut down in mid-November and the plant was put back into preservation. By the end of 2009, reservoir levels were 94% full and on track to fill before the spring which they did in March 2010.

During 2009, the Company completed the preparation of its Water Resource Management Plan (WRMP) in conjunction with leading independent water and environmental experts, Montgomery Watson Harza Limited, and in consultation with the States' Planning and Environment Water Resources section. The plan, which was published in early 2010, predicts if nothing is done over the next 25 years, demand will increase by 15% whilst at the same time water available for use will decrease by 11%. The resulting shortfall will be just over a quarter (26%) of the Island's predicted daily demand, equating to 6.5 million litres per day in 25 years time. The Plan includes both measures to increase the supply of water available for use from existing and additional water resources, as well as measures aimed at managing the demand for water by reducing waste. It will involve a number of initiatives being rolled out over the next five years. The Company will concentrate initially on measures to reduce demand for water through the roll out of Island wide metering, measures to further control and reduce leakage and the promotion of water efficiency.



Business Review - continued

Future projects to increase water resources include plans to abstract more water from the sand aquifer in St Ouen's Bay, where the Company already abstracts up to 3% of its total water resources. It is estimated that the current abstraction rate of 1 million litres per day represents just 20% of the total ground water flows to the sea and it is the intention, subject to obtaining Planning permission, to increase the abstraction rate to 2 million litres per day in order to capture more of this wasted resource.

The WRMP also includes longer-term proposals to increase the capacity of Val de la Mare Reservoir from 900 to 2,100 million litres by raising the height of the reservoir dam, providing an additional 60 days water storage. At present, the timescale is uncertain and will depend on many factors, including population increases, climate change and the effect of the measures undertaken by the Company to reduce demand. The WRMP is due for review every five years at which point the need for this additional resource will be reassessed. It is planned to undertake some preliminary design work over the next 5 years in order to determine construction design, timescale and costs.

The Water Resources (Jersey) Law 2007 was implemented on the 1st January 2010. This law requires the Company to have abstraction licences in place for all of its water resource sites. The total annual licence fee for the Company is just under £100,000.

Water Quality

The quality of water supplied by the Company in 2009 was very high with 99.84% of samples tested meeting or exceeding water quality standards. Whilst slightly down on the 2008 rate of 99.97%, the variance was entirely due to nitrate levels exceeding 50mg/l early in the year as a result of the heavy rainfall in January 2009.

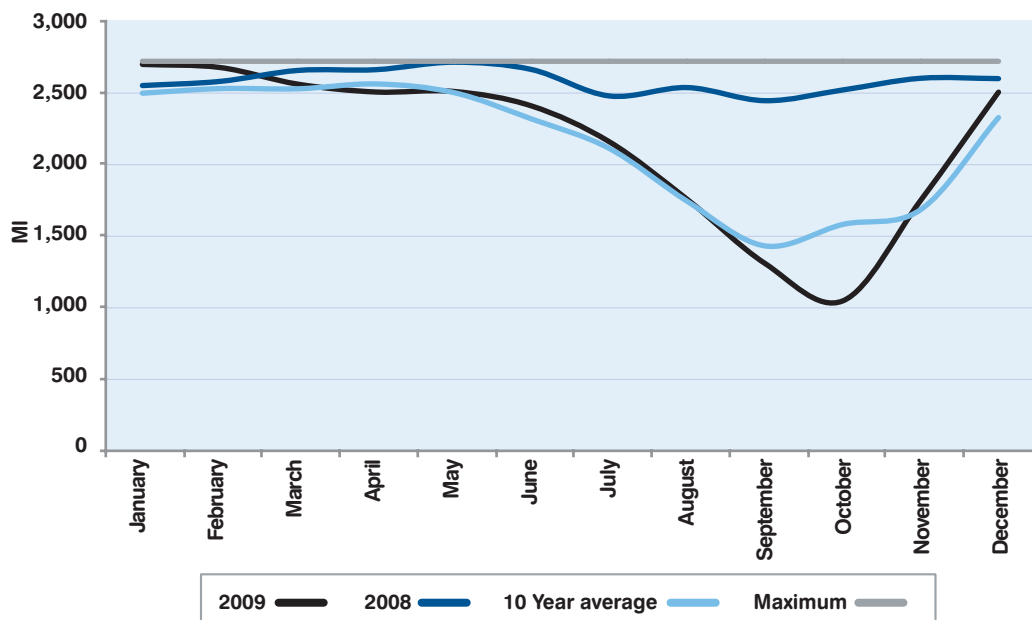
There was 100% bacteriological compliance of water leaving the treatment works and there were no herbicides or pesticides recorded in the treated water supplied.

The maximum recorded concentration of nitrates was 59.8mg/l, well within the limit of 70mg/l in place as part of the five year dispensation from the Water (Jersey) Law 1972 approved by the Minister for Planning & Environment in 2008. The dispensation for nitrates allows 30% of samples to exceed the statutory 50 mg/l limit but not to exceed 70 mg/l.

The Company is almost wholly reliant on surface water for its water resources and the supply of water is therefore susceptible to fluctuating levels of nitrates depending on the season, the volume and timing of rainfall and the timing and rate of application of agricultural fertilisers. The Company therefore has no control over the level of nitrates in water resources but seeks to minimise concentrations by selecting water from low nitrate sources wherever possible. In the longer term, the Company supports the need to reduce diffuse nitrate pollution by the designation of Water Catchment Management Areas (WCMA) under the Water Pollution (Jersey) Law 2000.

Further details on water quality are produced in the Company's 2009 Water Quality Report.

Water in store by month



Business Review - continued

Mains Network

During 2009, 5km of water mains were laid with 1km of this total laid to supply new housing developments.

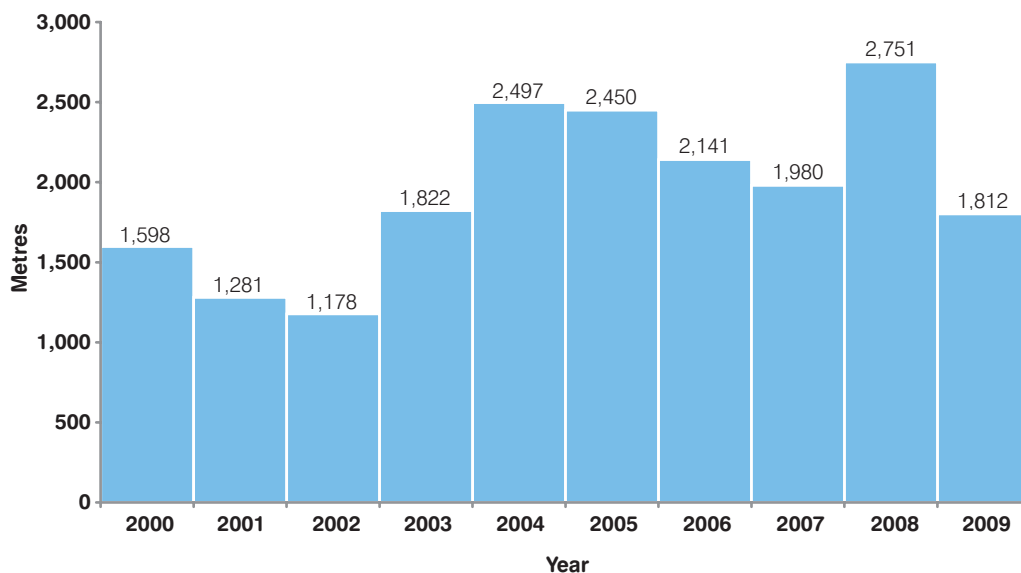
The second phase of the works designed to strengthen the supply network in the east of the Island was completed in 2009. This involved laying 0.9km of both trunk and service mains through Trinity and St Martin linking the Les Platons Service Reservoir to the north-east area of the mains network. The final phase of this work is planned to be undertaken in early 2010, with completion and commissioning planned for May 2010. The project, once completed, will allow improved management of water flows and, after the installation of additional pressure reducing valves, the abandonment of the booster pumping station at Gorey.

The Company also renewed 1.8 km of old water mains including the renewal of service connections which will assist future universal metering.

With the ever increasing cost, difficulty and inconvenience of renewing mains in roads congested with other services the Company has been investigating the possibility of using the latest mains rehabilitation and relining technology to restore existing mains rather than replacing them. The process has a number of advantages in that it is less costly, takes less time to complete and reduces inconvenience for customers and the general public. Pipe relining will be trialled in 2010 with a view to undertaking further relining projects in the future.

A specialist ground penetrating radar survey was undertaken in parts of St Helier at the end of 2009 to help determine the location and depth of trunk water mains and connections at strategic points of the network. The mains in these areas are very old and the accuracy of records is uncertain. The survey work is very cost-effective, compared to conventional trial holes and much less disruptive to the general public.

Mains renewals by year



Business Review - continued

Treatment and Processing

The project to replace the original pumping plant and provide standby power generation at the Queen's Valley Reservoir Pumping Station was completed at the beginning of 2009. The new pumps are driven by variable speed drive units allowing an increased rate of water flows and improved flexibility of operation.

The filter control system (hardware and software) at Handois Water Treatment Works was replaced during the year. The original system was installed in 1996 and was becoming increasingly difficult to support as software and control technology advanced. The opportunity was also taken to incorporate the control system for the clarifier de-sludging system. The new control system is identical to the system installed at Augrès Water Treatment Works, bringing the advantage of staff familiarisation and common spares being held for both treatment works. The installation was undertaken in planned stages, to enable continuous and uninterrupted operation of the treatment works process.

The construction of a tertiary treatment reed bed was completed downstream of the Wash Water Recovery Plant at Handois Water Treatment Works. The purpose of the reed bed is to provide additional treatment of the final waste water from the plant, should it encounter process failure. The system is in use as part of the normal process and the biological action of the reeds provides a polishing effect on the high quality waste water.

The Company staff and management

During the latter part of 2009 the Company implemented a major restructuring of the Distribution and Service Laying departments and transferred all main laying and service laying work to an external contractor. As a result, five long-serving employees who were close to retiring age were offered and accepted early retirement terms. A further 22 employees were made redundant following a period of consultation. Nearly all of the staff affected by the reorganisation had already secured full time employment by the time they left the Company.

In conjunction with the redundancy programme, the reorganisation also involved a reduction in the size of the management team, the reallocation of some departmental responsibilities and changes to working practices.

