

Business Review

Financial Performance

• Turnover

Turnover for 2010 was £14,652,000, compared to £14,728,000 in 2009.

Water related income totalled £13,854,000, an increase of £88,000 on the 2009 figure of £13,766,000. This increase was achieved without any tariff increase in 2010.

– Metered Water income

Turnover from metered water sales totalled £7,465,000 compared to £6,874,000 in 2009. The increase of £591,000 being due to the addition of 337 new connections in the year and the conversion of 2,690 supplies from unmetered to metered. Metered water sales now account for 54% of all water related income (2009: 50%) and it is anticipated that this will increase rapidly over the next five years with the rollout of the meter installation programme.

– Unmetered Water income

Income from unmetered water sales for 2010 was £5,772,000 compared to £6,262,000 in 2009. The reduction of £490,000 being due to the policy of installing water meters on change of occupier and the rollout of the universal metering programme. Within the next four years it is expected that unmeasured water charges will account for less than 10% of turnover.

– Non water related income

Rechargeable works income arises from the installation of new water connections. In 2010, rechargeable works income totalled £475,000 (2009: £640,000). The reduction of £165,000 is entirely driven by the reduced number of new homes under construction in the year.

• Operating expenditure

Operating expenditure for the year was £9,594,000 compared to £10,151,000 the previous year. The 5% reduction in costs amounting to £557,000 was due, in the main, to the following factors:

– 2009 reorganisation

In 2009, the Company undertook an internal reorganisation that resulted in the outsourcing of the Company's main laying and service laying functions and the reduction in the workforce by approximately 25%. The on-going efficiencies generated by the reorganisation amount to approximately £335,000 in 2010, broadly in line with expectation. This saving has resulted in the net positive variance over 2009 of £186,000.

– 2009 asset impairment provision

In 2009, the Company wrote down the carrying value of its standby water quality improvement plant in the Le Mourier catchment area resulting in a charge to the profit and loss of £422,000. There was no such charge in 2010.

– Water resource licence fees

Under the Water Resources (Jersey) Law 2007, the States of Jersey have the power to levy water abstraction licence fees on the Company. The fee was first chargeable for the year ended 31 December 2010 and totalled £99,000 (2009: £Nil).

After taking the above factors into account, operating expenditure was broadly in line with that of the previous year with the balancing variance coming mainly from the savings in insurance costs of £60,000, countered by costs associated with the planned recruitment of additional staff in the engineering, metering and finance departments.

• Operating profit

Operating profit for 2010 was £5,058,000 (2009: £4,577,000), an increase of 10% on 2009.

• Profit on disposal of fixed assets

During the year the Company sold one area of land and various pieces of plant and equipment generating net proceeds of £169,000 and a profit on disposal of £93,000. This is in contrast to 2009 when the sale of a number of pieces of land generated profits of £638,000.

• Interest costs and income

The low base rate throughout 2010 meant that interest charges remained low. The low interest rates in the year coupled with lower average cash balances also meant that interest earned on cash balances reduced by £27,000 to £10,000.

• Income tax

The income tax charge for 2010 was £830,000, an increase of 6% on the 2009 charge of £786,000.

The variance is due to a reduction in the current income tax charge for the Company of £29,000 countered by an increase in the deferred tax charge of £73,000.

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• Equity dividends

The Directors are proposing a final dividend for 2010 of £2.24 per share bringing the total equity dividend for 2010 to £3.40 per share (2009: £3.19 excluding the special dividend); an increase of 6.6%.

	2010	2009
	£'000	£'000
Dividends paid		
Final dividend for the previous year	1,034	937
Special dividend for the previous year	1,101	-
Interim dividend for the current year	560	507
	<u>£2,695</u>	<u>£1,444</u>
Dividends proposed		
Final dividend for the current year	1,082	1,034
Special dividend	-	1,101
	<u>£1,082</u>	<u>£2,135</u>

• Total recognised gains for the year

Total recognised gains during 2010 amounted to £4,719,000 (2009: £2,615,000). The increase being mainly due to the recognition of the unrealised profit of £1,314,000 (2009: £Nil) on the revaluation of freehold property reclassified as investment property in 2010 and on the gain recognised on the defined benefit pension scheme of £84,000 (2009: Loss of £471,000). In addition, in 2009 there was a reversal of a deferred tax timing difference resulting in a charge of £213,000, there was no such charge in 2010.

• Cash flow

There was a net cash outflow before financing and the use of liquid resources of £1,139,000 (2009: £1,457,000). The difference of £318,000 is due to an increase in net operating cash inflows of £1,614,000, arising mainly from the effects of the reorganisation in 2009 countered by the additional cash outflow in 2010 of £1,251,000 on equity dividends (including the special dividend of £1,101,000). The balance of the variance was due to differences in the net cash flows arising from financing costs, net capital investment and taxes paid in the year.

Net debt at the end of 2010 stood at £18,630,000, an increase of £1,139,000 on the 2009 balance of £17,491,000, consistent with the net cash outflow for the year.

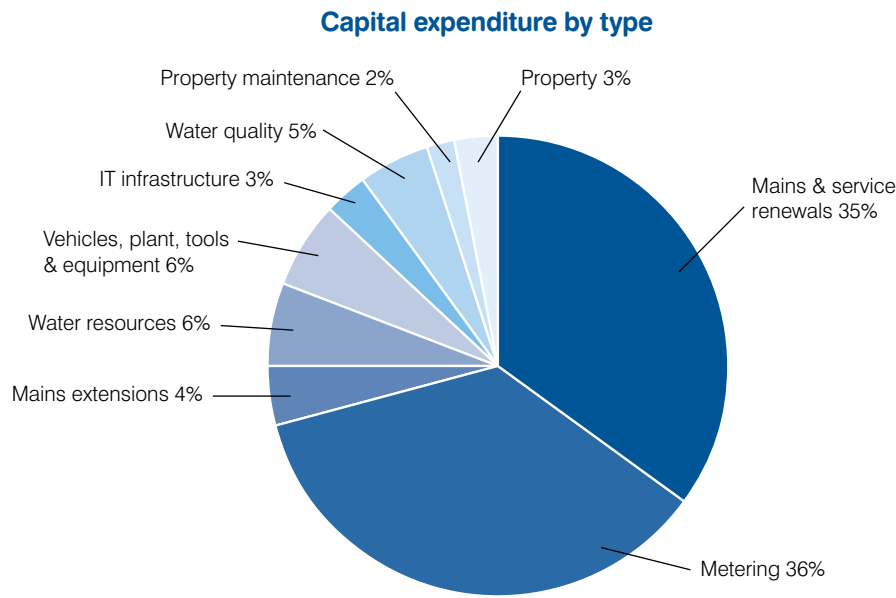


Business Review - continued

Financial Performance

• Capital expenditure

Capital expenditure for 2010 totalled £3,460,000 (2009: £3,309,000). An analysis of expenditure by type is provided in the table below.



• Investment properties

During the year, the Board reviewed the domestic property owned by the Company and determined that two properties, with a net book value of £21,000, would cease to be used within the business and would be reclassified as investment properties. The reclassification of these properties and subsequent revaluation (following the Statement of Standard Accounting Practice 19) generated a revaluation gain of £1,314,000 (2009: £Nil) recognised in the Statement of Total Recognised Gains & Losses.

• Loans and borrowing

Total borrowing at the end of 2010 was unchanged at £20,282,000.

	2010 £'000	2009 £'000
Bank loans - falling due within one year	5,250	3,650
- falling due between one and two years	-	5,250
- falling due after two years but less than five years	9,650	6,000
	<u>£14,900</u>	<u>£14,900</u>
Preference share capital	<u>5,382</u>	5,382
Total borrowing	<u>£20,282</u>	<u>£20,282</u>

Subsequent to the year end, the Company renewed the loan maturing in 2011 for a further 10 years.

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• Defined benefit pension scheme

In 2010, the Company paid an additional £1,000,000 (2009: £Nil) contribution into the Defined Benefit Pension Scheme in order to help reduce the scheme deficit. This was in addition to regular contributions of £671,000 (2009: £926,000).

As of 31 December 2010, there was a net surplus on the scheme of £388,000, compared with a net deficit of £854,000 in 2009. The improvement in the scheme's position in 2010 is attributed to the combined effects of the employer contributions referred to above and actuarial gains in the year of £106,000 (2009: losses of £855,000) both countered by the on-going revenue costs of maintaining the scheme totalling £241,000 (2009: net credit of £164,000) and a deferred tax charge of £311,000 (2009: £51,000).

Connections, Metering and Charges

During 2010, the Company installed water meters on 2,690 existing connections and started charging them on the basis of volume consumed. By the end of 2010 the total number of metered connections stood at 16,248 representing 45% (36% in 2009) of the total.

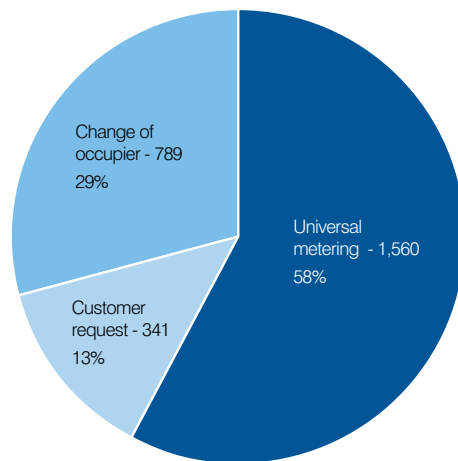
Following the publication of the Company's Water Resource Management Plan, in May the Company started its five year programme of metering all mains water supplies in the Island and, in 2010, fitted 1,560 meters in the first 8 months of this programme. By the end of 2011, it is expected that over 50% of water connections will be metered, which is a major milestone for the project.



Val de la Mare Reservoir

The results of the metering programme are already being seen. As well as reducing customer demand for water, one of the main aims behind the metering programme is to identify and reduce leakage on customer supply pipes, a major constituent of overall leakage. In one area that was universally metered in 2010, water consumption has reduced by approximately 25% as a result of reduced leakage and changes in customer demand. Whilst reductions at these levels are not expected across the Island, they do confirm that the metering policy does play a key role in reducing leakage and managing demand.

2010 meter installations



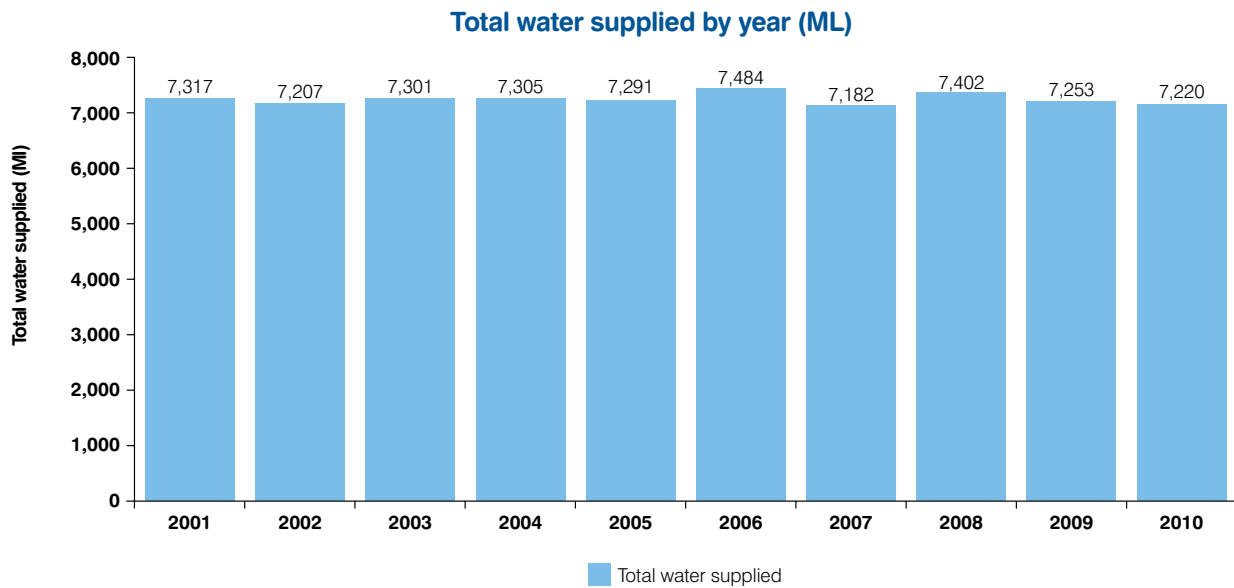
During the year, 337 new water connections were installed; 319 domestic and 18 commercial.

There were no increases in water charges for either metered or unmetered customers in 2010. The Company has recently announced that there shall be no increase in tariffs for metered customers in 2011 and that unmetered tariffs shall increase by 1.5% with effect from 1 April 2011.

Water Supply and Demand

The demand for water in 2010 was 7,220 million litres, which is 0.5% lower than that recorded in 2009 and despite the effects of an additional 337 water connections in the year. The reduction in demand is in part due to the relatively high rainfall for 2010 and partly due to the results of demand management measures implemented by the Company. In the past ten years there has been an increase of 17% in the number of connections to the water network but annual demand for water has remained consistent over the period.

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Rainfall during 2010 proved to be a series of extremes; February, August and November saw levels significantly in excess of the average whilst March, April, May and July were much drier than normal. With reservoirs starting the year 94% full and with plentiful rainfall spread throughout the year reservoir levels remained healthy and there was no need to consider preparation of the desalination plant for operation.

In January 2010, the Company published its Water Resource Management Plan (WRMP) which estimates water availability and demand during the next 25 years. The WRMP sets out the measures that the Company plans to undertake in respect of water resources and demand management to ensure maintenance of a secure water supply during this period. The WRMP will be reviewed and updated every 5 years, when the opportunity will be taken to review changes in rainfall predictions (due to climate change) and water demand, taking into account the effects of measures implemented such as universal metering.

In 2010, the Company concluded its review of the availability of additional water resources suitable for extraction from the ground water in the St Ouen's Bay aquifer. The review identified that additional volumes of water could be available in the northern part of the aquifer. However, the cost of obtaining this water was relatively high as the project would require extending the raw water pipeline system to reach the proposed borehole sites and then drilling a number of new boreholes. Whilst there is the potential for this scheme to go ahead in the future, the Company will concentrate its efforts on more cost effective solutions in the short term, securing water savings through further demand management measures including mains renewals, pressure reduction and metering.

The WRMP also includes longer-term proposals to increase the capacity of Val de la Mare Reservoir. No firm timescale has been made on this large project and it will be dependent on the effects of measures being implemented in the next 5 years. In order to prolong the life of the dam, prepare for any possible extension works and comply with modern seismic performance requirements, work will be undertaken in 2011 to line the upstream face of the dam with a plastic water-proof membrane.

The 50 year old dam at Val de la Mare Reservoir is a gravity mass concrete dam, parts of which have historically suffered from the effects of 'alkali aggregate reaction' (AAR). This is a phenomenon which has become evident in many concrete structures around the world, where aggregate high in silica reacts with the cement. The condition of the dam is safe and much work on monitoring the effects of AAR has been undertaken during the past 30 years to ensure this position is maintained. The new membrane will help to remove moisture from the structure of the dam, reducing the effect of AAR and prolonging the life of the dam. Advances in dam maintenance and protection technologies have meant that these types of plastic membrane are now commonplace in dams all over the world.

Business Review - continued

Water Quality

The quality of water supplied by the Company in 2010 was of a very high standard with an overall compliance rate of 99.86% with water quality requirements of the Water (Jersey) Law 1972, slightly up on 2009 (99.84%).

The bacteriological compliance of water leaving the treatment works was 100% (2009: 100%) and there were no herbicides or pesticides detected in the treated water supplied.

During 2010, the average concentration of nitrates in the water supplied by the Company was 42.1mg/l, well below the statutory limit of 50mg/l. However, on 23 occasions in 2010 (2009: 23 occasions) the concentrations in supply exceeded 50mg/l, with the highest reaching 56.7mg/l (2009: 59.8mg/l). The results were well within the limits set in 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. There are no known risks to health with bacteriologically safe water for nitrates below 100 mg/l.

The concentration of nitrates in the surface waters are determined by the season, rainfall patterns and the timing and rate of application of agricultural fertilisers. The water resources available to the Company are almost wholly derived from these surface waters. Whilst the Company takes active steps to reduce the concentration of nitrates in treated water by extensive blending and careful selection of sources, the underlying level of nitrates is outside of its control.

Until such time as there are material reductions in the concentrations of nitrates in the raw water resources, the Company will be reliant on the dispensations from the limits set out in the law. The Company believes that the only viable long term solution to the problem is through the implementation, by the States of Jersey, of water catchment management areas which will help to reduce the levels of diffuse nitrate pollution in catchment areas and improve the quality of the water available for abstraction.

Further details on water quality are produced in the Company's 2010 Water Quality Report.

Mains Network

The work associated with the maintenance, repair, renewal and installation of water mains was entirely undertaken by an external contractor for the first time in 2010. The working method has proved to be successful, with increased efficiency resulting in cost savings over previous in-house working methods.

During 2010, 1.7 km of new water mains were laid, with just over 1km of this total being laid to supply water to new housing developments.

In 2010, the Company renewed or relined 2.7km of old cast iron and galvanised iron water mains and pipes (2009: 1.8km). The majority of these mains are located within the St Helier area, which is the oldest part of the water supply network.

When renewing or relining treated water mains the Company also takes the opportunity to renew all service pipes and stop valves, which incorporate carriers for water meters. Doing so helps to eliminate lead service pipes from the network, improves water quality, reduces service pipe leakage and will facilitate the subsequent installations of meters as part of the universal metering process.

In 2010, as part of the mains rehabilitation process, the Company undertook a trial of new mains relining technology. The process which involves spraying a structural plastic lining along the length of the main was thought to have the potential to speed up the rehabilitation process and reduce costs. In total, the Company spray lined just over 1km of main during 2010. Experience from the project indicates that the technology is best suited to long runs of main with few connections. Where mains were shorter in length and had many service connections (as they are throughout St Helier) the benefits of the process over the wholesale replacement of the main were offset by the additional work caused by the number of connections.



Business Review - continued

Treatment and Processing

Work on the first phase of automatic control and optimisation of the treatment process plant at Handois and Augrès water treatment works was completed in 2010. This provides the means for smoother and optimised operation of the treatment processes and reduces the manual input previously required to set and adjust water production outputs. The second phase of the work is programmed to be undertaken in 2011 and will concentrate on optimisation and automatic control of water levels within the treated water service reservoirs.

A new sodium carbonate handling and batch processing system was installed at Handois water treatment works. The system is identical in design to the unit installed at Augrès water treatment works in 2009. This allows easier handling of this bulk dry powder material, improved mixing and batching for its use. Sodium carbonate is used to correct the water pH post treatment.



Community and Environment

During 2010, the Company provided the venue for the Grass Roots music festival at the base of the Val de La Mare Reservoir for the second time. At the festival the Company sold its branded reusable water bottles raising funds for the charity Water-aid whilst raising awareness of the need for water conservation and the environmentally beneficial nature of consuming tap water rather than bottled water.

Both Val de La Mare Reservoir and Queen's Valley Reservoir remain popular venues for the population of the island. Jersey Water maintains them to a high standard, protecting the diverse ecology present at both reservoirs and promoting their use for complementary activities. The Company licences the reservoirs for use by the Jersey Fresh Water Angling Association, stocking them with brown trout.

In 2009, the Company announced the establishment of the David Norman Bursary Award, aimed at part funding students from Jersey interested in studying a degree level course in a subject relevant to the supply of water. In 2010, the Company awarded its second bursary. Bursary students are given paid employment with the Company during holidays in order that they may gain work experience and also to enable them to develop an understanding of the workings of a water company and water conservation.

The Company is also an active supporter of the Jersey Employers Network on Disability (JEND) and supports various employment initiatives in Jersey designed to help people gain experience and secure employment, including Workwise, Jersey Employment Trust and Project Trident. In recognition of our support in the community the Company gained a Platinum Development Award from Skills Jersey in 2010.