

Business Review

Financial Performance

• Turnover

Turnover for 2008 was £14.4 million, an increase of 4% on the prior figure of £13.8 million.

Revenue from water sales increased by 4.3% to £13.5 million, from £12.9 million in 2007. Sales of water to customers paying on an unmeasured basis increased by 1% to £6.4 million, this being despite a tariff increase of 3.5% in April 2008. The slow rate of growth in the value of unmeasured charges is in line with expectation and consistent with the transition to billing customers on a metered basis. With the introduction of compulsory metering on change of account holder it is expected that the value of unmeasured water sales will drop away more rapidly in future in favour of metered water sales.

Metered water sales for 2008 totalled £6.5 million, an increase of 8.6% over 2007. Metered water tariff increases in 2007 were just 2.25% with the balance being due to the growing number of metered water customers.

Rechargeable works income remained in line with the previous year at £0.6 million, consistent with the lower number of water connections made in 2007 and 2008 and the general level of building activity in the Island.

• Operating costs

Operating expenditure increased by 6.3% from £9.3 million in 2007 to £9.9 million in 2008. This increase was lower than budgeted and as a result of a number of specific items including expenditure on the Company's Water Resource Plan in 2008 of £102,000, additional depreciation on completed works of £128,000 arising from the Company's capital expenditure in 2007 and 2008 and the running of the desalination plant for three weeks at an additional cost of approximately £51,000 in order to test the new control system. Electricity charges increased in 2008 by £41,000 as a result of the 10% increase in the electricity tariff in 2008. Further significant increases in electricity costs are expected in 2009 and for the future following the announcement of tariff increases for 2009 of 25%. In addition, the Company provided £51,000 against slow moving pipe stock in accordance with its stock provisioning policy and incurred an additional £60,000 on site maintenance, decommissioning redundant sites and overhauling one of the pumps at Val de La Mare Pumping Station.

• Profit on disposal of fixed assets

During the year, the Company sold two areas of land and sundry plant and vehicles generating proceeds of £529,000. In addition, these sales coupled with the disposal of a number of pieces of plant and equipment following decommissioning in 2008 generated an overall profit on sale of fixed assets of £493,000.

• Interest costs

During 2008, the fall in interest rates has had a positive effect on interest payable by the Company. Interest payable reduced from £872,000 in 2007 to £835,000 in 2008. The higher levels of cash held by the Company during 2008 resulted in an increase in interest income for the year of £133,000.

• Income tax

Income tax charges for 2008 are at £4,000 compared to £273,000 in 2007. The positive variance is due mainly to a deferred tax credit of £234,000 in 2008 on accelerated capital allowances compared to a charge of £50,000 in 2007. The income tax charge for 2008 was £238,000, slightly higher than the charge of £223,000 in 2007.

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Business Review (continued)

- Equity dividends**

Dividends paid in 2008 totalled £1,256,000, an increase of 12% over dividends of £1,124,000 in 2007. A final dividend for 2008 of £1.94 is proposed bringing the total dividend for 2008 to £1,401,000, an increase over the total dividends for 2007 of 15%.

	2008	2007
	£'000	£'000
Dividends paid		
Final dividend for the previous year	792	699
Interim dividend for the current year	464	425
	<u>£1,256</u>	<u>£1,124</u>
Dividends proposed		
Final dividend for the current year	<u>£937</u>	<u>£792</u>

- Defined benefit pension scheme**

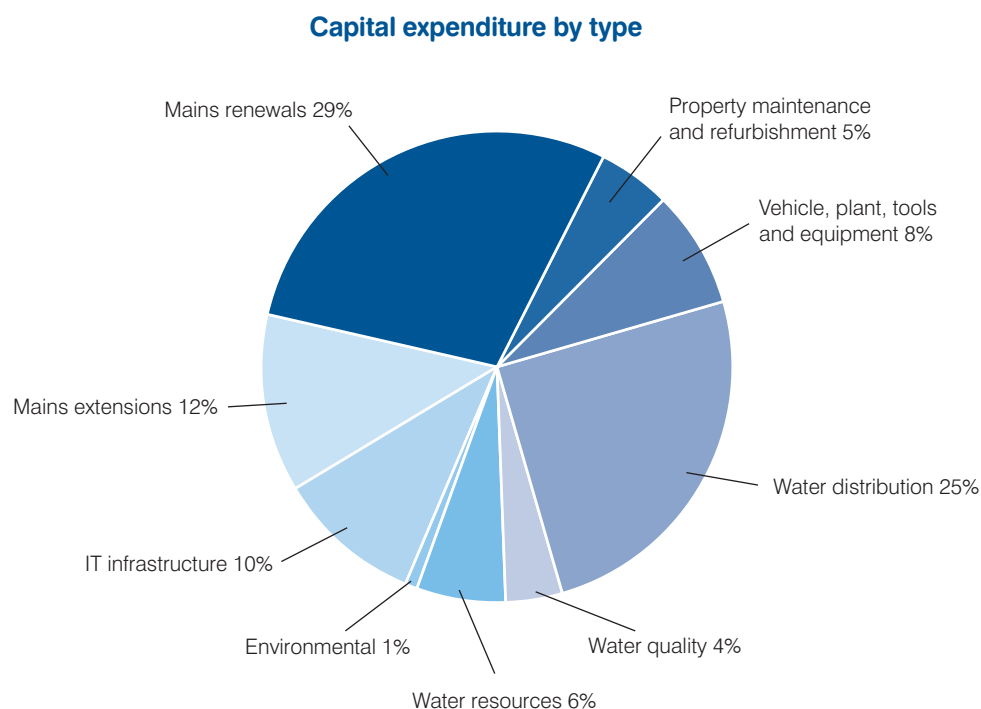
A full FRS 17 valuation of the defined benefit sections of the scheme was undertaken as at 31 December 2008. The valuation identified a net deficit of £1,056,000 (2007: surplus of £180,000) arising primarily as a result of the reduction in asset values following the turmoil in the markets experienced in 2008.

- Cash flow**

Net debt at the end of the year was £16,034,000 compared to £18,023,000 in 2007. Net cash flows before financing and use of liquid resources were £1,989,000 (2007: £1,986,000).

- Capital expenditure**

Capital expenditure for 2008 totalled £2,980,000, in line with budget. An analysis of expenditure by type is provided in the table below.



Business Review (continued)

Connections, metering and charges

In 2008, 508 new service connections were made to the distribution network, the majority of which were due to new housing development sites. In some cases, bulk meters were installed to supply multiple-dwelling apartment buildings allowing a total of 637 new dwelling units to be connected.

In conjunction with water main renewal schemes, 441 existing connections were renewed during the year and made ready to accept water meters in preparation for future metering. In addition, a total of 263 existing connections were fitted with a meter at the request of customers wishing to pay for water by meter.

The Company continues to promote water metering as the fairest way of charging and from experience in England and Wales, metering has proven to reduce consumption by an average of 10% and help to combat leakage on customer supply pipes. With effect from 1 January 2009, the Company has implemented a policy of installing meters on change of account holder and charging for water based on the volume consumed. It is expected that during 2009 a total of approximately 1,000 properties will be fitted with a meter under this scheme. At the end of 2008, there were approximately 11,200 metered water connections, 31% of the total customer base.

With the implementation of the policy of metering on change of account holder from 1 January 2009, there will be a steady increase in this percentage in future years.

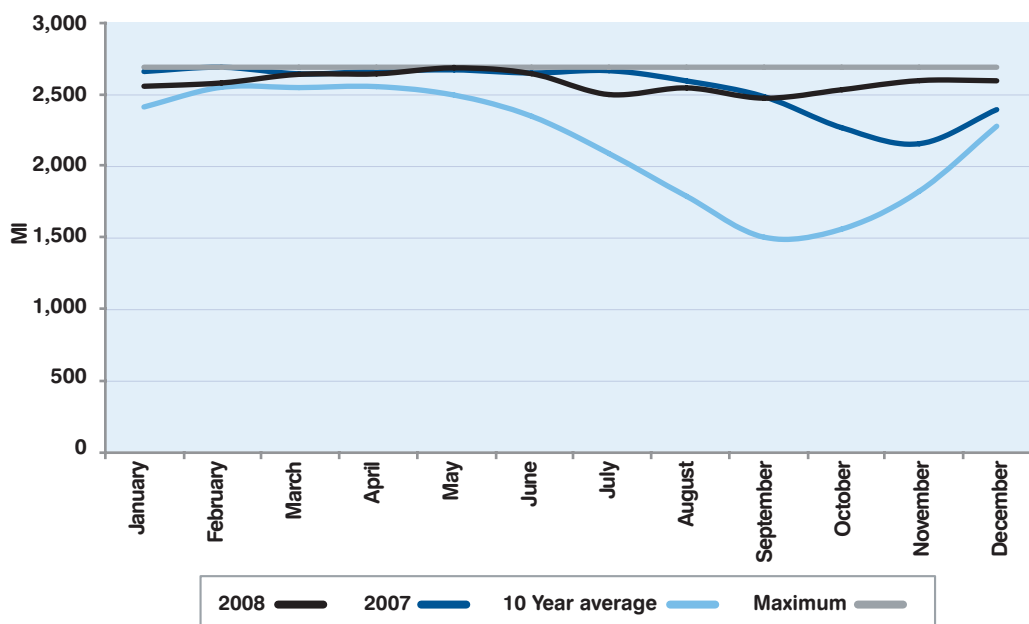
In December 2008, the Company announced tariff increases of 2.5% for both metered and unmetered water charges taking effect from 1 April 2009, the seventh consecutive year in which tariff increases have been either at or below RPI.

From 1 April 2009, the Company has discontinued charging a standard price for making connections to the water network. New regulations affecting the ability of the Company and contractors to work in roads and new requirements for road reinstatement are such that the costs incurred by the Company when installing new connections can fluctuate significantly depending on the conditions imposed by the road authorities. Accordingly, all new connections after 1 April 2009 will have individual and site specific priced quotations.

Water Supply and Demand

2008 was another relatively wet year with total rainfall 16% above the 10 year average. Our reservoirs were full at both the beginning and at the end of the year, with the lowest level being recorded in July at 93%. Levels in the reservoirs have not fallen below 80% for two years, which is a record and demonstrates how wet the past two years have been.

Water in store



Business Review (continued)

In 2007, the Company commissioned a Water Resource Plan to provide estimates on the availability of and demand on water resources for the next 25 years and indicate the necessary works that the Company will need to undertake over that period in order to safeguard the continued supply of water. The initial phase is now complete and the final report including options for additional water resources and demand management is due for completion during 2009. The Water Resource Plan is being developed using the guidelines set out by the England and Wales Environment Agency and will be updated every 5 years, in accordance with those guidelines. A summary of the findings will be published later in 2009.

Demand for water during 2008 was 3.1% above that in 2007, a figure skewed by an unusually high number of burst water mains and services in the first quarter of the year caused by the relatively cold weather. After allowing for bursts the demand increase is in line with the 1% to 1.2% norm.

In April 2008, our reservoirs at Millbrook, Dannemarche and Handois were given a time related inspection, in accordance with the Reservoirs (Jersey) Law 1996. The inspection was undertaken by an independent Inspecting Engineer from the UK and he reported the reservoir structures to be in satisfactory condition.

Water Quality

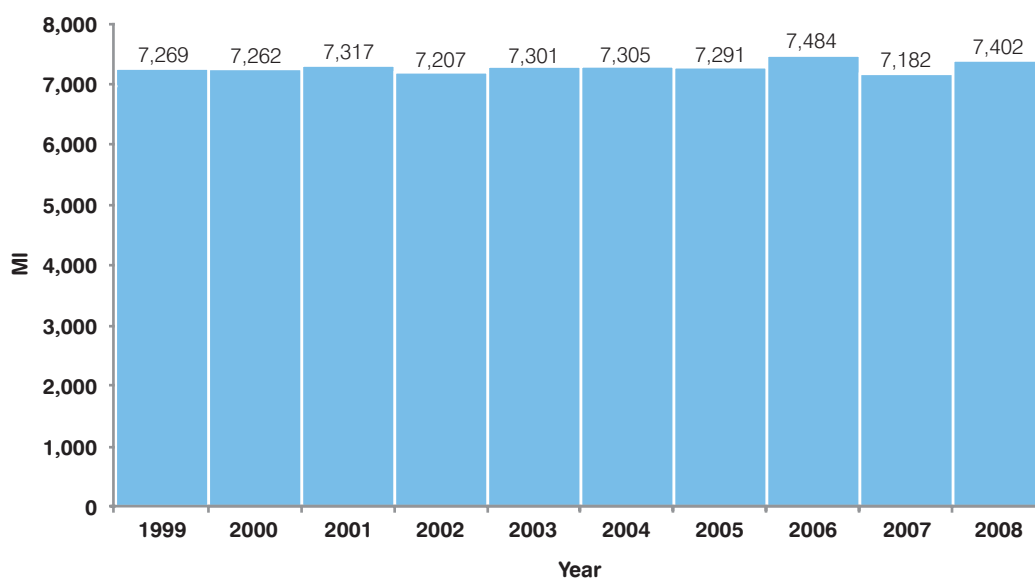
The quality of water supplied to our customers in 2008 was once again of a very high standard. The compliance level for treated water analysed was 99.97%, slightly better than the average figure for water companies in England and Wales for 2007.

As a result of well below average rainfall in February, a critical period affecting the leaching of nitrates into water resources, there were no nitrate failures reported during the year.

In November 2008, the Minister for Planning & Environment approved the renewal of existing dispensations under the Water (Jersey) Law 1972, for nitrates, iron and manganese; parameters which are outside the control of the Company. Jersey Water is entirely reliant on surface waters for water resources and is unable to blend water from different sources and with different characteristics, unlike most water companies in the UK. The nitrate dispensations allow 33% of samples taken in a year to be above the 50mg/l level but not exceeding 70mg/l.

The full report on water quality in 2008 is given in our Water Quality Report.

Total water supplied by year



Business Review (continued)

Mains Network

In 2008, 7.5km of new water mains were laid of which 4.9km was funded by the Company and the balance of 2.6km being funded by third parties to supply new housing developments.

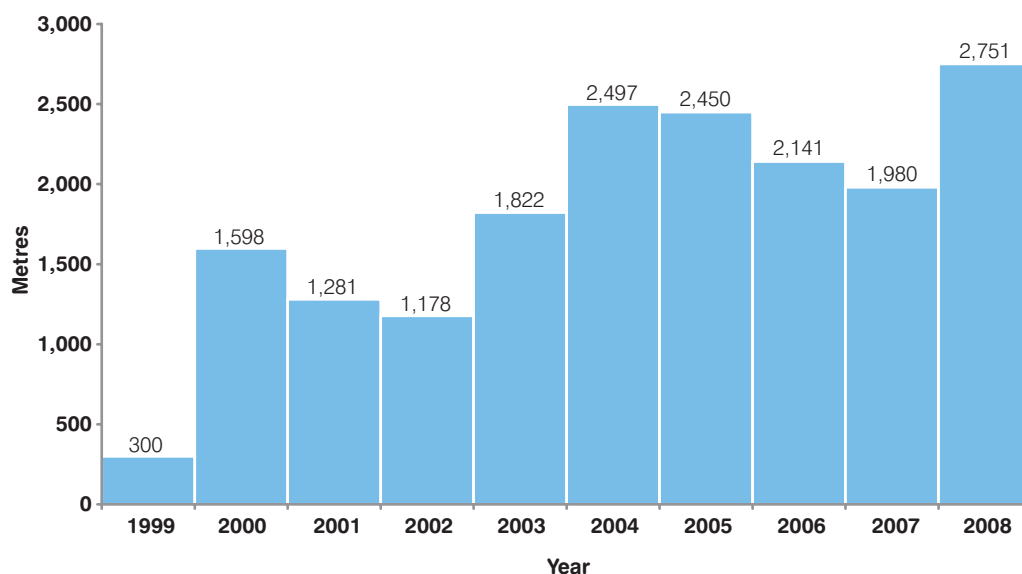
As part of the first phase of the works to reinforce the water distribution infrastructure in the north-east of the Island, 1.1 km of new 300mm diameter trunk mains were laid along the planned route from Trinity to St Martin and Maufant. This new trunk main will supply water by gravity from Les Platons Service Reservoir into the high level north-east areas of the distribution network. The primary purpose of this work is to strengthen the infrastructure network in the east for future demand, but it also allows the opportunity to create a number of new District Metered Areas (DMA) which will greatly assist with future leakage detection. The provision of this new infrastructure is being undertaken in two phases, with the final phase, to link to the existing trunk main at Maufant in 2010. The commissioning of the final phase, will provide further efficiencies, allowing the existing Booster Pumping Station at Gorey to be taken out of service, resulting in operational and energy savings to be made.

The Company renewed 2.8 km of old water mains during the year, an increase on 2007. The mains chosen for replacement are prioritised by customer service issues, such as discolouration of water and burst history.

The age of the water main alone is not a deciding factor in its planned replacement. This work requires extensive planning with the road authorities, parishes and local businesses, to minimise the disruption caused. Therefore the work tends to be expensive and slow, particularly when working in areas where underground services are dense and excavation can only be carried out safely by hand. We remain conscious of the disruption which this essential work can cause the public and we work very hard to minimise this.

During 2008, improvements were made to the service reservoirs at Westmount, St Helier. The inlet and outlet pipe work to both service reservoirs, was replaced and re-configured to ensure water moves efficiently through both the service reservoirs. New sampling points were also installed to improve the sampling of the water.

Mains renewals by year



Business Review (continued)

Treatment and Processing

The replacement control system at the Desalination Plant was installed and commissioned during the year. This work involved the installation of new hardware and software to control the operation of the plant, which apart from starting and stopping is now an automated process. The software used is identical to that used by our existing Supervisory, Control and Data Acquisition (SCADA) system and has allowed easy integration of the plant control system on to the SCADA network, allowing remote monitoring of the site from other points of the network. The plant was operated to full output for a short time to test the control system and ensure its satisfactory operation. Improvements were also undertaken at the sea water intake shaft to improve access into this restricted area of the Plant.

During the year, work commenced on the design and procurement of replacement pumping plant and associated control equipment for Queen's Valley Reservoir Pumping Station. Two new high lift pumps are to be installed, together with new electrical control panels by contractors in the early part of 2009. The works also include the installation of a standby power supply generator, in case of mains electricity supply failure. This new infrastructure will increase the pumping capacity rate of raw water from Queen's Valley Reservoir to the treatment works and is due to be completed in time for the summer demand period.

The Company staff and management

The Company recognises the valuable contribution made by Jersey Water staff and invests heavily in the training and education of its workforce. During 2008, the programme of funding training for National Vocational Qualifications (NVQ) in Leadership and Management continued in addition to the funding of other more specialised qualification training for other staff.



The Chairman with the recipients of long service awards in 2008.

Back row (left to right): Stephen McShane, Peter Audrain

Middle row: Paul Batho, Peter Hamel

Front row: David Le Monnier, Alan Modral, David Norman, Malcolm Hamon