

Chairman's Statement

Review of the year's financial performance

I am pleased to report that your Company generated a profit before tax of £2.4 million for the year ended 31 December 2005, in line with the results for 2004, despite the freezing of charges for metered water in 2005. We have achieved our main objectives for the year of encouraging customers to convert to paying for water by meter, upgrading our meter stock to allow electronic meter reading, maintaining our capital expenditure and implementing our new policy of increased return to shareholders. Earnings per share have increased from £3.67 to £4.38.

Turnover for the year at £12.7 million was up 2.2% compared to 2004. Our income from supplying water rose by 2.5% following last year's 4.0% tariff increase for unmeasured customers and 0.0% for customers on meters (measured customers), with income from measured charges rising by £116,000 as more customers moved to meters. The level of rechargeable works is 6.5% down on the previous year, driven by the timing of the construction of new developments around the Island.

Total expenditure before interest rose by £322,532 (3.5%) to £9.5 million. A saving of £33,000 on electricity used in pumping treated water was achieved thanks to the new Les Platons gravity fed distribution system mentioned later in this report. However, this saving was almost entirely offset by the costs of pumping higher than normal quantities of raw water as we replenished reservoirs during the drier months of the year. The 21.4% increase (£400,353) in the cost of Distribution and Analysis of Water included an extra £300,000 of spend converting meters to allow for electronic meter reading, in line with your Company's policy of extending the use of meters. The desalination plant was only run for normal maintenance purposes again in 2005 with lower costs due to staff reductions and lower materials usage. Administration charges for 2005 compared favourably with the prior year which included some one-off costs such as the creation of the Company's web-site. Employee numbers reduced from 114 to 110 and this increased productivity contributed a saving on staff costs of £41,000 compared to 2004.

Your Board continued with its policy of disposing of surplus property assets and a total profit of £504,263 was achieved in the year, the principal elements of which were the sale of the residential properties Lisburn House and Lakeside Cottage.

Profit at the operating level was down 1.6% at £3.176 million and after the profit on sale of fixed assets and interest and other finance costs we achieved a pre-tax profit of £2.4 million in line with 2004.

The new Financial Reporting Standard (FRS25) "Financial Instruments: Disclosure and Presentation" requires preference share capital to be treated as debt rather than equity and this not only has an effect on the balance sheet, but also moves preference share dividends (as non-equity dividends) above the pre-tax profit line. FRS25 has been incorporated in the 2005 accounts with 2004 re-stated accordingly.

Capital expenditure at £3.7 million was up £1.0 million on 2004 as we caught up the £0.9 million of underspend against the 2004 budget caused by timing differences that year. We continue to budget for an anticipated average capital spend of £2.5 million per annum over the next 5 years to improve and extend the water supply system.

We had a net outflow of cash in the year of £326,337 which slightly increased net debt at the year-end to £20.6 million (as adjusted by the inclusion of Preference shares under FRS25) which was in line with our expectations.

During 2005 additional contributions of £500,000 were made to the Company's defined benefit pension scheme which had the net effect, after taking into account pensions paid, the effect of reducing bond yields and new mortality tables on the actuarial assumptions, of reducing the FRS17 deficit by £39,000.



Millbrook Reservoir

Chairman's Statement (continued)

In line with the Dividend policy announced in my Chairman's Statement last year your Board is recommending a Final Dividend of 172 pence per Ordinary and A Ordinary share (gross) which together with the Interim Dividend of 100 pence makes a total equity Dividend of 272 pence compared to 258.8 pence per share for 2004, an increase of 5.1%.

Shareholders may be aware that Financial Reporting Standard 21 (FRS21) "Events after the Balance Sheet Date" has required your Company not to accrue the Final Dividend and also to restate the 2004 accounts to reflect the new rules. It may be helpful to Shareholders to know that if FRS21 was not in force the equity dividends shown on the profit and loss account would have been £1,000,000 for 2004 and £1,051,000 for 2005.

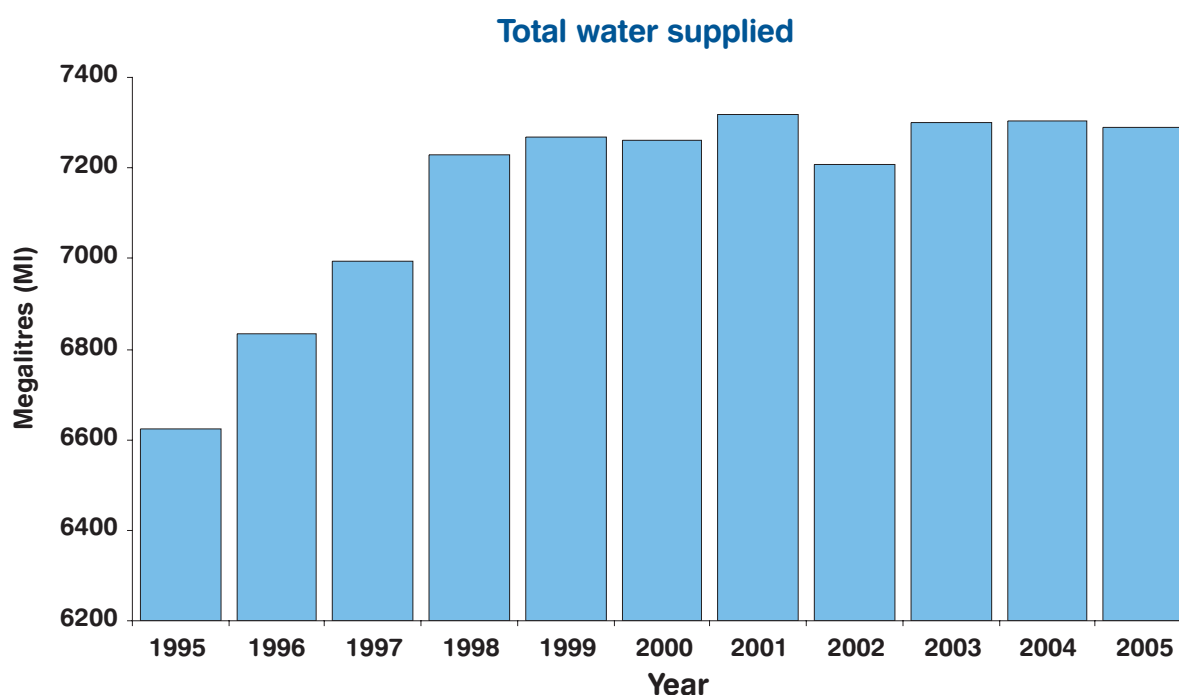
Our policy to continue to seek revenue increases at marginally below RPI remains unchanged and for 2006 we have increased charges to all customers by 1.95%.

Water Resources

The very wet end to 2004 provided strong stream flows in the otherwise dry first quarter of the year and helped to keep reservoirs topped up until the end of April, despite our being forced to empty Grands Vaux reservoir due to the cyanazine pollution mentioned later under Water Quality. Total rainfall for 2005 was 12% below the annual long-term average with only April, May and July having above average rainfall levels. This relatively dry year was coupled with warmer than average summer temperatures that extended into October.

The significant investment which your Company has made in recent years reinforcing raw water transfer mains and increasing pumping plant capacity is bearing fruit and we are now better able to take advantage of high stream flows resulting from short and intense rainfall events, to transfer to storage water that would have previously been lost to the sea. This is particularly useful during otherwise drier periods of the year.

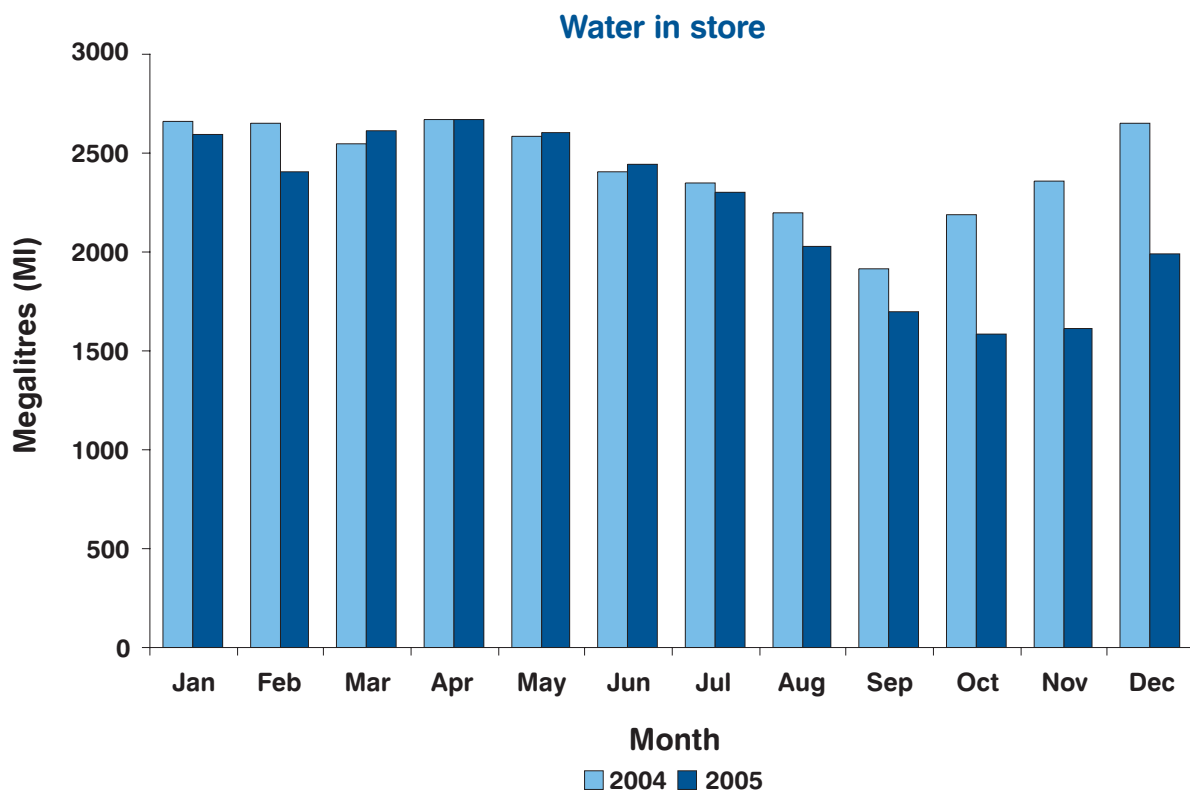
For the third year in a row demand for water in 2005 remained virtually unchanged at just 0.2% lower than the previous year, despite the addition of 629 new connections. We believe that your Company's efforts in the area of demand management have significantly contributed to the flattening of demand.



Chairman's Statement (continued)

Reservoir water levels reached the year's low of 59% full in mid-October, after which increasing rainfall in the autumn brought levels back up to 75% full by the end of the year, a position only marginally worse than the 10 year average. Storage levels have continued to rise since the year-end and reservoirs were full again by March.

Work commenced during the year on a computer-based water resource model for all of our water resources and the work is expected to be completed in April 2006. The new software will allow scenarios to be run using varying factors such as rainfall levels, population growth and summer temperatures to predict water resource availability and more importantly to provide a guide for the timescale when additional resources may be required.



“For the third year in a row demand for water in 2005 remained virtually unchanged.”

The Company has for many years advocated the need for legislation to protect Jersey's water resources, which may become scarcer with changing weather patterns, so we were disappointed that the debate by the States of the long-awaited new Water Resources (Jersey) Law, due at the end of 2005, was postponed until 2006 following the Scrutiny Panel recommendation that further investigations should be undertaken to ascertain whether or not deep ground water resources, derived from outside the Island's catchment area, exist. The Planning and Environment Department has now set up an advisory group to investigate the deep water issue; we are represented there by our Managing Director and we have offered some financial help to facilitate bringing the investigation to a conclusion.

Chairman's Statement (continued)

The Company's Reservoirs and Infrastructure

We continued to upgrade the raw water transfer network in 2005 with the replacement raw water transfer main in St Peter's Valley from Tesson Pumping Station to La Hague Reservoir. A 2.4 km long 300 mm diameter pipe was laid between the two sites, replacing a 65 year old 6" (150mm) diameter water main which was in poor condition and prone to bursts. Further work is planned in 2006 with the raw water main from Little Tesson Pumping Station being replaced with a larger diameter pipe and new automatically controlled transfer pumps.

The Company won a national Gold "Green Apple" award in recognition of the environmental benefits of the Les Platons scheme.

Under "Water Resources" above I mentioned our work on demand management. Below are three key areas where we have continued work started prior to 2005:-

- Les Platons high level distribution system which stores treated water in service reservoirs at Les Platons and distributes it using gravity (rather than pumps). I reported the commissioning of this system to Shareholders last year, but in 2005 we continued to extend it, this time to the east of the Island, allowing another booster station to be taken out of service. Fine-tuning and the use of pressure reducing valves have reduced leakage throughout the network and the small differences in pressure at customers' taps add up to significant savings in water consumed.
- In 2005 the Company won a national Gold "Green Apple" award in recognition of the environmental benefits of the Les Platons scheme, which achieved net energy savings of 30%. The award was presented to the Managing Director, Howard Snowden, at the Houses of Parliament.

- Telemetry systems - The prompt identification and rectification of leakage is a key control in reducing the consumption of water. Your Company has been working hard over the past three years to implement a comprehensive network of electro-magnetic flow meters and pressure regulating valves all linked back to our control room. The "SCADA" (Supervisory Control and Data Acquisition) system monitors the flow of water within discrete zones of the distribution system and raises the alarm if abnormal flows are detected. This allows leak detection staff to target the specific zone and investigate the cause of the problem very quickly. The rollout of additional telemetry equipment and creation of additional distribution zones is ongoing but the work to date has shown us that leakage levels suffered by the network are lower than those generally experienced in the United Kingdom.
- Metering - We view metering as the fairest way to charge for water and actively encourage the use of meters and ultimately would like to see all customers being metered. Some 25% of customers now pay by meter, an increase of nearly 80% in two years. Work started in 2004 to replace old water meters with electronic units, which allow semi-automated meter reading; this work continued in 2005 and remains ongoing. The total man-hours spent meter reading is now less than it was two years ago, when the total metered customer base was 14%.



Chairman's Statement (continued)

- Use water wisely campaign - The Company has continued with its campaign to raise the awareness of water scarcity issues in Jersey and has recently unveiled the new education section of its website aimed at informing young people about where water comes from and the need to use it wisely.

“The Company laid a total of 9.8 km of new treated water mains with 629 new connections.”

Alongside our efforts to manage the demand for water, we also have an ongoing programme to extend the distribution network to meet the additional demand for water from new and prospective customers. During 2005, the Company laid a total of 9.8 km of new treated water mains with 629 new connections being made to our supply system, we also renewed 2.4 km of old water mains.

Jersey Water is a large land owner and with many areas open to the general public maintains its land and property to a high standard and we were delighted that our property maintenance team won a prize from the Jersey National Trust as part of their scenic lanes awards for the work that they did in planting the hedgerow alongside the wash water recovery plant in La Rue a Ville es Gazeaux, St Lawrence.

Our reservoirs have been operated, maintained and inspected in accordance with the requirements of the Reservoirs (Jersey) Law 1996, with the inspections carried out by a consulting Inspecting Engineer.

Water Quality

I am pleased to report that 99.84% of treated water supplied by Jersey Water in 2005 complied with the water quality regulations set out in the Water (Jersey) Law 1972. In addition, only 8% of samples tested for nitrates exceeded the regulatory limit of 50mg/l with the highest being 54 mg/l (under dispensations granted until 2008, the Company is allowed up to 33% of samples exceeding the limit with a maximum of 70mg/l).

Despite this improvement I would remind Shareholders that the Company has no control over the water catchment areas and the diffuse pollution of water resources which is why a dispensation for nitrates is likely to remain essential. Whilst nitrate levels can be reduced at critical times by dilution with nitrate-free water produced by the desalination plant, this is very expensive and the Company continues to advocate action by the States under the Water Pollution (Jersey) Law 2000 to reduce nitrates in the Islands' water resources.



Grands Vaux Reservoir

Chairman's Statement (continued)

We welcome the introduction of buffer strips in some catchment areas (under the recent Countryside Renewal scheme), introduced with the aim of improving both the quality of water resources and the environment generally. However, levels of Nitrates in streams remain regularly in excess of the limit (50mg/l) and are rainfall dependant, so there is still clearly the need for action by the States of Jersey to safeguard water resources from diffuse pollution.



Filter controls at Handois Treatment Works

The vulnerability of water resources to pollution was demonstrated on two occasions during the year with the contamination of the Vallée des Vaux stream by Cyanazine in January and the contamination of the stream in St Peter's Valley by diesel fuel oil in late November. The Cyanazine incident required the Grands Vaux Reservoir to be completely emptied and re-filled, with the Vallée des Vaux feeder stream being out of use until July. The St Peter's Valley incident took an important source of water out of action at a key time of year for water resources. Had either of these events occurred during the summer or during a dry spell the results could have been far more serious.

Full details of the quality of water supplied in 2005 are shown in our Water Quality Report.

Board of Directors

Richard Pirouet and Howard Snowden both retire by rotation in accordance with Article 74b and are seeking re-election. I am delighted that they are willing to continue on the Board and I will be proposing their re-election.

“Our staff have had another very busy year; I am proud of their enthusiasm, diligence and professionalism.”

The Company staff

Our staff have had another very busy year; I am proud of their enthusiasm, diligence and professionalism which plays an important part in ensuring that the Island has a secure and consistently high quality water supply and I am pleased to have this opportunity to thank them on behalf of the Board as well as shareholders for their efforts.

David Norman
Chairman

7 April 2006