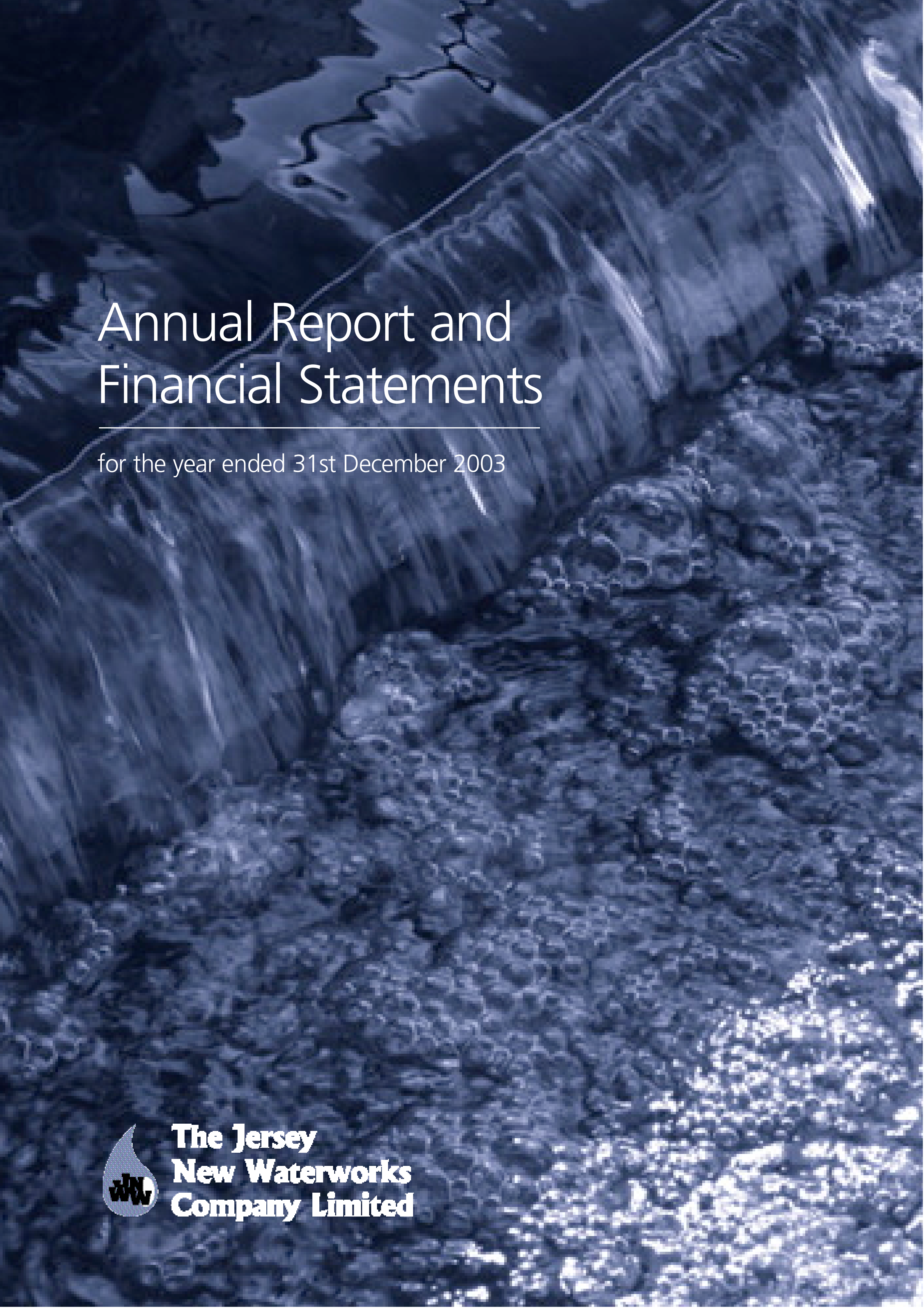


Annual Report and Financial Statements

for the year ended 31st December 2003

The Jersey New Waterworks Company Limited

CONTENTS

DIRECTORS, OFFICERS AND ADVISERS

Directors

David Charles Norman, *FCA, Chairman*

Senator Leonard Norman, *Deputy Chairman*

Howard Neville Snowden,
EurIng, BSc(Eng), MSc, CEng, FCIWEM, FICE, FIMechE, MIEE Managing Director and Engineer

Helier James Bennett Smith, *BA, ACA, Finance Director*

Carlyle John Le Herissier Hinault

Stephen John Marie, *MICW, MBIFM, ACIOB*

Richard John Pirouet, *FCA*

Secretary

Helier James Bennett Smith, *BA, ACA*

Auditors

Ernst & Young LLP
Unity Chambers
28 Halkett Street
St Helier
Jersey
JE1 1EY

Legal Advisers

Le Gallais & Luce
6 Hill Street
St Helier
Jersey
JE2 4UA

Registered Office

Mulcaster House
Westmount Road
St Helier
Jersey
JE1 1DG

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the one hundred and twenty-second annual general meeting of the shareholders of The Jersey New Waterworks Company Limited will be held at the Company's offices at Mulcaster House, Westmount Road, St. Helier, Jersey, on 18 June 2004, at 9.00 am.

- To receive the Financial Statements for the year ended 31 December 2003.
- To declare a final gross dividend of 5.91 pence per share on the ordinary and 'A' ordinary share capital.
- To re-elect Senator L Norman and Mr SJ Marie, the Directors retiring by rotation and to re-elect Mr HJB Smith as Director following his appointment by the Board to fill a casual vacancy.
- To approve the Directors' fees for 2004 of £8,000 for the Chairman and £4,000 for other Directors (2003: £8,000 and £4,000 respectively).
- To re-appoint Ernst & Young LLP as auditors at a fee to be agreed by the Directors.

By Order of the Board

HJB Smith
Secretary

Registered Office:

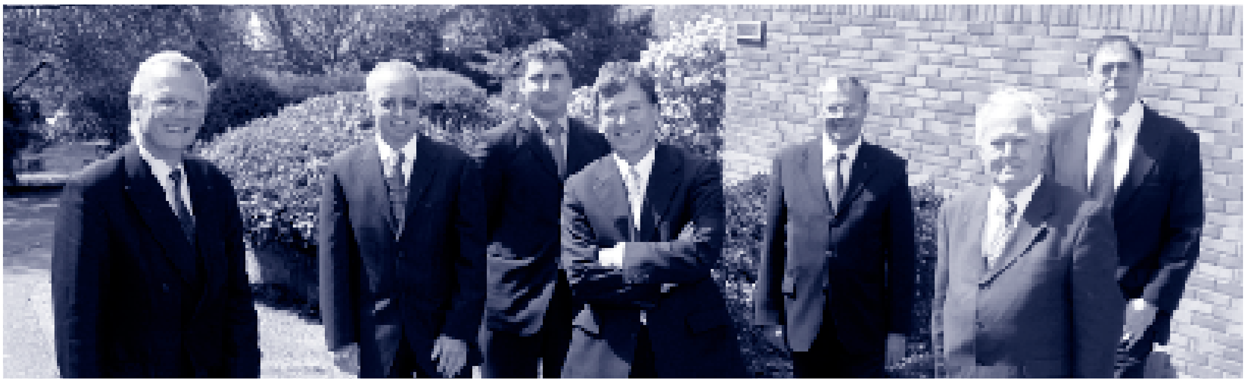
Mulcaster House
Westmount Road
St Helier
Jersey
JE1 1DG

4 May 2004

To facilitate the preparation of dividend warrants the share transfer books of the Company will be closed from 5 June 2004 to 18 June 2004, both days inclusive, and, subject to the dividend being confirmed, dividend warrants will be posted on 18 June 2004 to all ordinary and 'A' ordinary shareholders registered on 5 June 2004.

A member of the Company entitled to attend and vote may appoint another person (whether a member or not) as his proxy to attend and, on a poll, vote in his stead. A form of proxy is included with this annual report for use of members who are unable to attend the meeting. All shareholders are requested to complete and return the form of proxy, whether or not they intend to be present at the meeting in person. Proxies must be deposited at the registered office of the Company not less than 48 hours before the time of the meeting.

BOARD OF DIRECTORS



From left to right: Senator Leonard Norman, Stephen Marie, Helier Smith, David Norman, Richard Pirouet, Carlyle Hinault, Howard Snowden.

David Norman *FCA*
David Norman, a Chartered Accountant, joined the Board in 1994 and became Chairman in 1996. He is the Managing Director of Norman Limited, a non-executive Director of CI Traders Limited and holds directorships in a number of other companies in Jersey, Guernsey and France.

Senator Leonard Norman
Senator Len Norman was appointed to the Board as a non-executive States of Jersey nominated Director in 1987 and became Deputy Chairman in 1998. Subsequent to the removal of the requirement for States of Jersey nominated Directors, Senator Norman was re-appointed as a Director in 2002. He has been a States member since 1983 and is currently President of the Harbours and Airport Committee and a member of the Economic Development Committee.

Howard Neville Snowden, *EurIng, BSc(Eng), MSc, CEng, FCIWEM, FICE, FIMechE, MIEE*
Howard Snowden joined the Company in 1992 as Senior Engineer and became Managing Director in May 2000. Mr Snowden has worked in the water industry since 1970 for a number of Companies including Yorkshire Water Authority (the forerunner to Yorkshire Water Plc). He is a fellow of the Chartered Institution of Water & Environmental Management, the Institution of Civil Engineers and the Institution of Mechanical Engineers, a member of the Institution of Electrical Engineers and the British Dam Society and is a Panel Supervising Engineer under the Reservoir Act 1975.

Helier Smith *BA, ACA*
Helier Smith joined the Company in May 2002 as Financial Controller and became Company Secretary in July of that year. He was appointed to the Board as Finance Director in October 2003. Mr Smith, who qualified as a Chartered Accountant in 1994, was previously employed by KPMG where in the UK and Jersey he gained experience in the manufacturing, distribution and finance sectors.

Carlyle Hinault
Carlyle Hinault joined the Board as a non-executive States of Jersey nominated Director in March 2000 and was re-elected to the Board in 2002 following the removal of the requirement for States of Jersey nominated Directors. Mr Hinault, a retired grower, was Connétable of the Parish of St John for six years until December 2000 and prior to that served as Deputy of St John for 12 years; he is currently a Procureur du Bien Public for the Parish of St John.

Richard Pirouet *FCA*
Richard Pirouet, a Chartered Accountant, joined the Board as a non-executive Director in 1988 following his retirement, in the same year, as Senior Partner of Ernst & Young in Jersey. Mr Pirouet is currently Deputy Chairman of the Jersey Financial Services Commission and has been a Commissioner since its inception in July 1998. He also has a portfolio of non-executive directorships.

Stephen Marie *MICW, MBIFM, ACIOB*
Stephen Marie became a non-executive Director of the Company in 2002. Mr Marie is Managing Director of CIT Estates, the property division of CI Traders Limited and a member of that Group's Retail Trading Board. Mr Marie is a member of the Institute of Facilities Management, an associate of the Chartered Institute of Building and a member of the Institute of Clerk of Works.

CHAIRMAN'S STATEMENT

Review of the year's financial performance

Total income for 2003 rose 3.9% to £12.0 million, lagging our 4.5% tariff increase largely due to the water restrictions in the summer which particularly affected measured water sales.

Expenditure before interest rose by £1.1 million to £8.9 million, above the rate of revenue increase, as it included approximately £300,000 of non-recurring reorganisation costs, some £245,000 of extra costs of running the Desalination Plant for an extended period and £145,000 of new spend as we started renewing our meters to enable electronic reading following the change to compulsory metering for all new customers as from 1st July 2003.

Whilst the sale of Le Mourier Cottages and other fixed assets netted a worthwhile profit of £216,447 towards the end of the year, this was £248,026 less than the previous year's gain, which included the sale of Blampied Farm.

Finance costs rose to £0.9 million from £0.6 million for the year ended 31 December 2002, reflecting the increased borrowings during the year and a £127,000 increase in other finance costs relating to pensions.

The above factors resulted in the Company achieving a profit before tax of £2.4 million for 2003, after the previous year's exceptional result of £3.6 million.

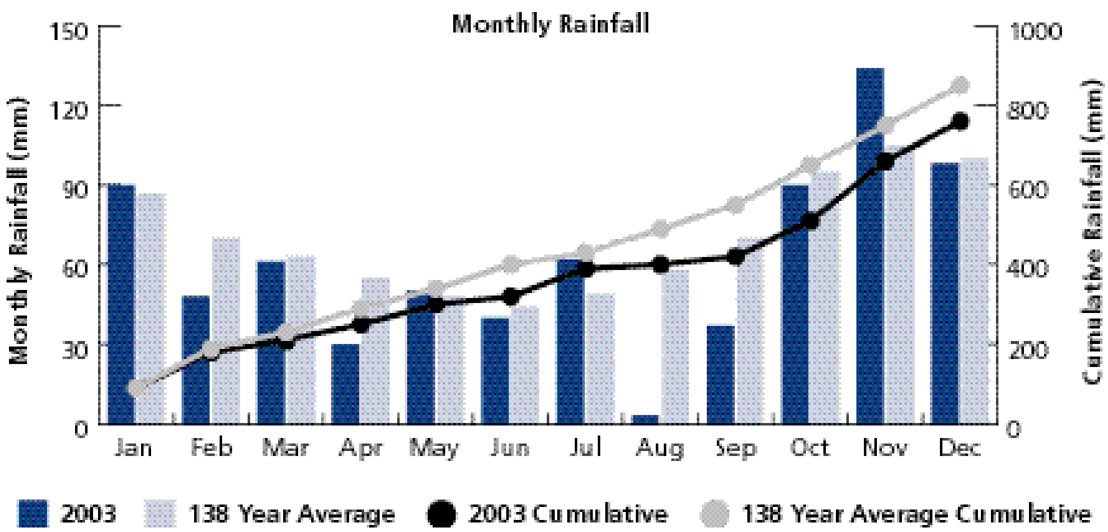
Capital expenditure rose £1.3 million compared to 2002 and totalled £6.26 million, including the accelerated completion of the important raw water transfer main between La Hague and Val de la Mare Reservoir. This increase in spending contributed to our net cash outflow for the year of £2.77 million before financing. Net debt at the year end stood at £15.4 million.

During the year the Company paid contributions of £672,514 to its defined benefit scheme, which helped reduce the net pension liability from £3.9 million to £3.6 million.

The Directors are recommending a final dividend of 5.91 pence per Ordinary and 'A' Ordinary Share, which together with the interim dividend of 3.5 pence per share, makes the total dividend of 9.41 pence per share for the year, an increase of 4% over 2002. Our future dividend policy is under review.

Water resources

Although we started with full reservoirs at the beginning of the year, 2003 proved to be a difficult year for water resources.



CHAIRMAN'S STATEMENT CONTINUED

Rainfall in the first quarter was close to long-term average levels, however, for the remainder of the year rainfall patterns were very different and records showed that we experienced three technical periods of drought (a period of 14 days with less than 0.25 mm of rain) during the very hot summer.

By June, flows from streams supplying our reservoirs began to reduce and reservoir water levels were declining earlier than normal. With the Meteorological Office predicting a dry Autumn it was decided to commence a public awareness campaign aimed at reducing the large volumes of water being used for non-essential purposes, mainly garden watering (estimated at 25% of the total daily demand). This voluntary campaign had little effect on demand levels.

On the 27th June the Desalination Plant was brought into use at full capacity to augment natural resources and to reduce the rate of decline of the reservoir water levels.

On the 23rd July 2003, with demand remaining high despite appeals to customers, your board felt compelled to use its powers under the Water (Jersey) Law 1972 and announced that the use of our water for non-essential purposes was to be prohibited. This legal prohibition reduced daily demand by around 25% within 24 hours.

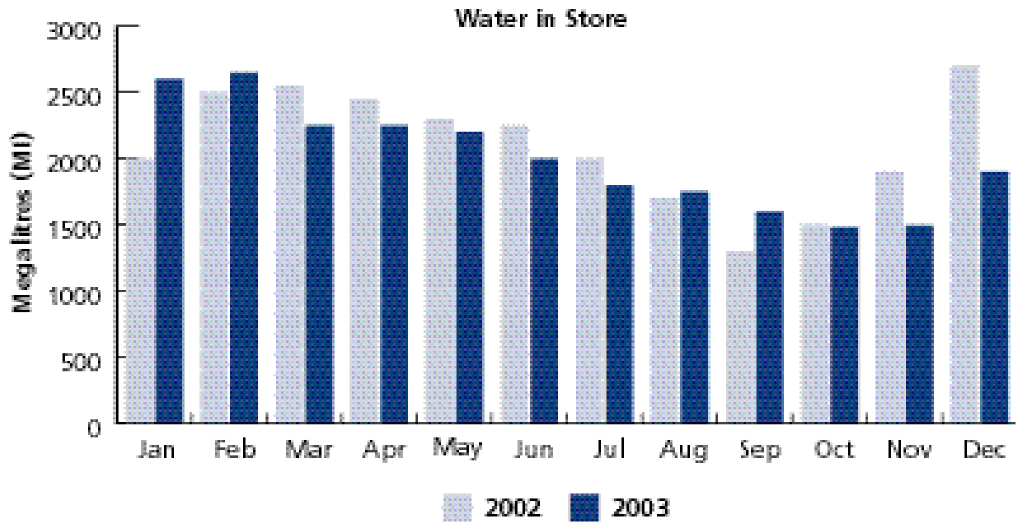
Jersey experienced record temperatures in August with only 4 mm of rainfall, followed by more hot dry weather in September. The restrictions were maintained until the 10th October and, together with the use of the Desalination Plant, helped to ensure uninterrupted supplies for all but non-essential uses during what was a long and record-breaking summer.

Having decided that with the approach of Autumn, the water supply position was secure, the Desalination Plant was taken out of service on the 13th October; the plant had operated at full capacity for some 13 weeks.

The co-operation and support of our customers during the period of restriction was much appreciated.

Rainfall patterns in the winter period have been unusual with short intense periods of rain, which is not helpful for water resources because of run-off (where water runs off the land into drainage systems rather than collecting in the reservoirs). Total rainfall for 2003 was 756.9 mm, 11% below the long-term average. At the end of the year the water levels in our reservoirs had increased to 74% full, some 20% lower than in previous years. However by the end of January 2004 reservoirs were once again full with stream waters being sent to waste.

CHAIRMAN'S STATEMENT CONTINUED



Turning to other matters I can report that the Company has been in consultation with the Environment & Public Services Committee (E&PS) on the proposed Water Resources (Jersey) Law; we have advocated the need for this law for many years and consider it should be useful in gaining knowledge of the extent of private water supplies in the Island.

Water quality

I am pleased to be able to report that 99.70% of treated water supplied by the Company in 2003 complied with the UK water quality regulations.

I mentioned in my previous Annual Report that levels of nitrate in water resources had increased by the end of 2002 due to intense periods of rainfall, so we were not surprised that 16% of nitrate samples exceeded 50 mgl in the earlier half of 2003. The highest level recorded was 55 mgl, well within the parameters set by the Environment & Public Services Committee (E&PS) which allows up to a maximum of 33% of samples for nitrate to be above 50 mgl but not greater than 70 mgl.

This year we will be publishing a separate Water Quality Report which gives water quality analysis results for 2003 in both tabular and graphical format and confirms that the water supplied by the Company continues to be of a very high standard.

During 2003 the Company was in consultation with the E&PS regarding the proposed amendment to the Water (Jersey) Law 1972 which came into effect on 1st January 2004. The amendment, which defines the quality parameters for wholesomeness, is based on The Water Supply (Water Quality) Regulations for England & Wales. Given the fact that the Company has no control over the catchment areas and the diffuse nitrate pollution, we have applied for and in February 2004 were granted a long-term dispensation from complying with the requirements relating to nitrate levels. The dispensations allow the Company to operate, for the next five years, to the parameters set by E&PS and in force prior to the amendment to the law.

During 2003 a water quality monitoring system was installed at Handois Reservoir to allow automatic and continuous monitoring of basic quality parameters. The equipment is identical to that installed in recent years at Grands Vaux and Val de la Mare Reservoirs and provides useful on-line data for operational staff to select the most suitable water to take for treatment.

The study by the Centre for Research of Environment & Health (CREH) into lawful uses of water and the setting of Water Quality Objectives for the Island's water resources was completed at the end of the year. Further work now needs to be undertaken by the E&PS to identify and designate Water Catchment Management Areas (WCMA) under the Water Pollution (Jersey) Law 2000, to prevent the continuing diffuse nitrate pollution of the Island's water resources.

CHAIRMAN'S STATEMENT CONTINUED

The Company's reservoirs and infrastructure

The Company's reservoirs were operated and maintained in line with recognised good engineering practice and in accordance with the Reservoir (Jersey) Law 1996. In April, Millbrook, Dannemarche and Handois Reservoirs were given a time related statutory inspection by the appointed Inspecting Engineer under the law. The inspection showed no abnormalities.

The old pumping plant at La Hague Reservoir (St Peter's Valley) was replaced with higher capacity equipment, together with associated electrical control gear, and a new, 2.4km long, 450 mm diameter raw water transfer main between La Hague and Val de la Mare Reservoir was completed. The new pumps, automatic control equipment and new transfer main allow increased rates of water transfer to Val de la Mare Reservoir from the St Peter's Valley catchment area.

Handois Wash Water Recovery Plant

The carbon dosing plant was replaced at Augrès WTW giving improvements to the control and dosing of Powdered Activated Carbon (which is used to assist the treatment process in the summer months when water temperatures begin to increase).

The major capital work undertaken during the year was the construction of the Wash Water Recovery Plant at Handois WTW. The plant, which entered service in January 2004, will significantly improve the quality of wash-water leaving the treatment works and entering the downstream reservoirs at Dannemarche and Millbrook.

Further work relating to the Les Platons Service Reservoir and trunk main was undertaken during the year, including the installation of a number of pressure-reducing valves within the lower western parts of the distribution system. The planned commissioning of the scheme in the late summer was postponed due to the large quantities of water required for flushing and disinfecting at a time when we needed to conserve water. The scheme is now due to be commissioned before the summer of 2004.

The first phase of the Operational Supervisory & Data Acquisition (SCADA) system was completed during the year allowing a number of raw water pumping stations to be controlled and monitored remotely.

Just over 7.9 km of mains extensions were completed during 2003, 821 new dwelling units connected to our supply system and 1.8 km of old water mains were replaced. From 2004 the Company plans to increase the rate of renewal of old mains, with a target of around 3 km each year which will require a transfer of some resources from work on extensions to the existing system. The cost of renewing old mains is normally significantly higher than extending mains into new areas, with the majority of our older mains located in areas which are difficult to work in, due to high traffic flows and congestion with other underground services. In addition, it is sometimes necessary to arrange temporary connections in order to maintain water supplies to our customers.

Inevitably our work in extending or renewing water mains will result in disruption to road-users, however, I can assure Shareholders that the Company makes every effort to minimise the inconvenience caused by this essential work.

The high level of capital expenditure over recent years has allowed the Company to modernise and significantly enhance the Island's water supply system and improve water quality. We now have a modern, efficient, reliable system which the Board believes is capable of delivering the Island's water needs assuming that water consumption and supply remain relatively in balance.

CHAIRMAN'S STATEMENT CONTINUED

Capital Expenditure Plans

In last year's Chairman's statement I reported a potential capital spend for the period to 2012 of £48.9 million, of which £5 million was spent in 2002 and £6.3 million in 2003. The total included significant contingencies for the possible extensions to the existing Desalination Plant and the Val de la Mare Reservoir, totalling approximately £14.0 million as then stated, and an additional contingency for the possible design and construction of two ultra filtration plants.

I have already mentioned how, despite the record temperatures and a prolonged period of hot dry weather last year, we were able to maintain uninterrupted supplies for all but non-essential uses. This experience, coupled with our existing demand predictions, lead the Board to conclude that the contingencies for the additional water resources were not needed for at least the foreseeable future. A further review of the capital expenditure forecasts and the performance of the existing network has led the Board to remove the contingency for the two ultra filtration treatment plants.

Handois Reservoir

As a result, the Board currently anticipate that the level of capital spend for the period 2004 - 2013 will be approximately £22.0 million of which approximately £3.4 million will be spent in 2004. Of the planned spend in the current year, approximately £2.2 million will be on renewing and improving the water supply network and water quality.

Our proposed capital expenditure plan, coupled with revenue increases at or marginally below RPI to cover increased costs and allow a return on capital investment, would allow the Company to continue improving and extending the existing water system and water quality and provide the Board with the flexibility to review the Company's capital structure. The underlying strength of the cash flow generation in the business could permit a meaningful return of value to shareholders as a reward for the significant investment they have made in the business to date. Implementing such a return will be influenced by the strategic review of the Company by the States referred to below.

Approach from the Jersey Electricity Company Limited and States' strategic review

On 13 January 2004, The Jersey Electricity Company Limited ('JEC') announced that it was considering making an offer for the Company. Following the provision of preliminary information to JEC and discussions with the Finance and Economics Committee of the States of Jersey (the 'States'), the Company's majority shareholder, on 15 April 2004 the States announced they had decided not to support JEC's proposal. The States also announced that it proposed undertaking a review of the future of the Company's business to clarify and consolidate the objectives of the States in respect of water services and the regulation of those services. In their announcement the States stated that the review will also identify the most cost effective and efficient means of providing the water service by examining, amongst other elements, engineering, ownership and organisational issues and any synergies in providing sewerage and water services through one organisation. The States announced that the review will commence shortly with the final results being available later in the year.

Following this announcement, JEC announced that it did not intend making an offer for the Company at this present time.

The Board intends to assist the States in its review and eagerly awaits the final report, which it hopes will provide a suitable balance between the interests of all the Company's stakeholders.

CHAIRMAN'S STATEMENT CONTINUED

Board of Directors

Connétable John Germain, who joined the Board in March 1997 resigned in September to concentrate on his duties as Connétable of St Martin and Chairman of the Comité des Connétables; it was a pleasure to have worked with him and on behalf of shareholders I thank him for his loyal service to the Company over the past seven years.

In October our Company Secretary, Mr Helier Smith, was appointed to the Board as Finance Director and Company Secretary.

Staff and management

This has been another busy and eventful period for our staff who rose to the extra challenges created by the water restrictions in the summer and the uncertainty caused by the approach from JEC. I take this opportunity, on behalf of my colleagues on the Board and the shareholders, to thank all our staff and management for their hard work and commitment.

DC Norman
Chairman

4 May 2004

STATEMENT OF COMPANY POLICY

The Directors have a fiduciary responsibility, like Directors of all companies, to their shareholders. The Directors also recognise a duty of care for those who work for the Company. However, the Directors accept an over-riding responsibility in their duty to supply water for the whole Island community.

The Company's policy is therefore to secure an adequate supply of good quality water available throughout the Island whilst recognising the need to limit increases in the cost of water and at the same time, providing a reasonable return for its equity shareholders.

ENGINEER'S CERTIFICATE

It is my opinion that the whole of the Company's engineering and operational works during the past year have operated in a satisfactory manner and have been maintained in a good state of order and repair.

HN Snowden
Engineer

4 May 2004

CORPORATE GOVERNANCE

Introduction

In July 2003, the Board resolved to voluntarily adopt the requirements of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code') and during the year the Company has applied the main Principles of the Code as described below.

Throughout the period from July 2003 to 31 December 2003 the Company has been in compliance with the Code provisions set out in Section 1 of the Code except for the following matters:

- Whilst comprehensive systems of internal control were in place throughout the period, the Company has not undertaken a formal review of the effectiveness of the Company's system of internal control nor has it documented its process of identifying, evaluating and managing the significant risks faced by the business. The Company will undertake a formal, documented risk assessment exercise in 2004 and formally evaluate the effectiveness of the systems of internal control in meeting those risks. Both assessments will be repeated annually thereafter.
- The Board has not appointed a senior independent Director as required under the Combined Code.

In July 2003 the Combined Code was revised resulting in a number of changes to the Corporate Governance disclosure requirements. These changes are applicable for accounting periods commencing on or after 1 November 2003 and will therefore be included within the financial statements for the year ending 31 December 2004.

Directors and the Board

The Board comprises seven Directors, two of which are executive and five of which are non-executive independent Directors. The Board meets regularly ten times per year and for ad hoc meetings as and when required. The role of the Board is to set the overall operating strategy, approve detailed operating plans and budgets, monitor performance against plans and oversee the activities of the Executive Directors. The Board has delegated the day to day operation of the activities of the Company to the Executive Directors. Biographical notes of all Directors are included on page 4.

Except where a Director is appointed to fill a casual vacancy, all Directors are appointed by the Shareholders at the Annual General meeting. One third of the Directors (to the nearest whole number of Directors) retire by rotation (based upon length of service) and seek re-election each year. Directors appointed to fill a casual vacancy must seek formal appointment by the Shareholders at the Annual General meeting.

The Board is supplied with regular timely management information through which it can monitor the performance, activities and financial position of the Company and on which decisions can be based.

Audit Committee

The Audit Committee was established by the Board on 20 September 2003 and is made up of R Pirouet (Chairman), C Hinault and S Marie. The auditors, Ernst & Young LLP, and the Executive Directors, H Snowden and H Smith also attend the meetings by invitation.

The terms of reference of the audit committee require it to meet at least twice per annum. Additional meetings may be called where deemed necessary. The Committee is charged by the Board with the following main responsibilities:

- to oversee the external audit process and manage the relationship with the external auditors making recommendations as to their appointment and remuneration.
- to monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance.
- to review the operation and effectiveness of the Company's internal financial and other controls and make recommendations for improvement where necessary.

CORPORATE GOVERNANCE CONTINUED

Remuneration Committee

The Remuneration Committee was established by the Board on 20 September 2003 and is made up of DC Norman (Chairman), L Norman and R Pirouet. The Executive Directors, H Snowden and H Smith may also attend the meeting by invitation. No Director plays any role in the determination of his own remuneration.

The terms of reference of the Remuneration Committee allow it to meet as and when necessary to:

- Review the remuneration of salaried staff.
- Review and determine the level of remuneration for Executive Directors.

Nomination Committee

The Nominations Committee was established by the Board on 20 September 2003 and comprises the full Board of the Company. The Committee is chaired by DC Norman and is responsible for selecting and appointing the Company's executive and non-executive directors as and when required.

Internal controls

The Board is responsible for ensuring that there are effective systems of internal control in place to reduce the risk of misstatement or loss and to ensure that business objectives are met. These systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Controls adopted by the Board to ensure that the systems of internal control are operating include the following:

- The preparation and approval each year of a detailed business plan which sets out, on a project by project basis, expenditure planned for the next ten years.
- The consideration and approval each year of detailed revenue and capital budgets for each cost centre.
- Regular review of detailed operational and financial management information and comparison of performance against budget and prior periods. Explanations are sought for variances and remedial action is taken as necessary.
- The review of reports received from the audit committee concerning the findings of the external auditors on the financial statements of the Company and the systems of internal control.
- Consideration by the Board of significant financing and investment decisions.

Whilst comprehensive checks and controls were in place throughout the year, no formal review of the effectiveness of the systems of internal control was undertaken as required by the Code. In addition, the process for identifying, evaluating and managing the significant risks faced by the Company has not been documented as required under the Turnbull guidance. It is planned that a documented risk assessment exercise will be undertaken in 2004 and updated annually thereafter. Additionally, the effectiveness of the systems of internal control in meeting those risks will be formally evaluated on an annual basis.

CORPORATE GOVERNANCE CONTINUED

Going Concern

The Directors have made sufficient enquiries to satisfy themselves that they have reasonable expectation that the Company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Company and of the profit or loss for the period. In preparing these financial statements the Directors have selected what they consider to be suitable accounting policies and have applied them consistently. They have made judgements and estimates which they believe are reasonable and prudent, and have followed applicable accounting standards. They have prepared the financial statements on a going concern basis.

The Directors are responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DIRECTORS' REPORT

The Directors of the Company present the financial statements for the year ended 31 December 2003.

Activities of the Company

The Company was incorporated in 1882. The principal activities of the Company are the collection, treatment and supply of water for commercial and domestic use throughout the Island.

Results

The results for the year are set out on page 19.

Dividends

In 2003 the Company paid dividends on preference shares totalling £380,665 (net) (2002: £380,665).

During the year, an interim dividend of 3.5 pence per share (gross) (2002: 3.4 pence) was paid on the Ordinary and 'A' Ordinary shares totalling £13,524 (net) (2002:£13,137). The Directors recommend a final dividend of 5.91 pence (gross) (2002: 5.65 pence) totalling £22,837 (net) (2002: £21,832).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved and throughout the year ended 31 December 2003 were as detailed on page 2 except for Connétable John Germain who resigned with effect from 19 September 2003 and Mr Helier Smith, who was appointed on 17 October 2003 to fill the casual vacancy arising from the resignation of Connétable John Germain.

In accordance with the provisions of Article 74(b), Senator Leonard Norman and Mr Stephen Marie will retire at the annual general meeting and, being eligible, offer themselves for re-election.

Directors' interests

Particulars of the holdings of Directors, including family interests, in the share capital of the Company as at 31 December 2003 are:

	CJ Hinault	SJ Marie	DC Norman	HN Snowden	HJB Smith
Ordinary shares					
Beneficial	100	100	190	200	145
Non-beneficial	-	-	7,740	-	-
Preference shares					
Beneficial	-	-	-	-	210

Of the many business interests of Mr DC Norman, he is a Director of Norman Limited, CI Traders Limited and Iron Stores Jersey Limited. These are all companies with which the Company trades on a regular arms length basis.

Mr Stephen Marie is the Managing Director of CIT Estates, a division of CI Traders Limited, a Group with which the Company transacts on an arms length basis.

Insurance of Directors and officers of the Company

The Company maintains an insurance policy on behalf of all its Directors and Company officers against liability arising from neglect, breach of duty and breach of trust in relation to the Company.

DIRECTORS' REPORT CONTINUED

Substantial holders of shares

Set out below is a table showing details of shareholders beneficially owning 3% or more of the Ordinary Share capital of the Company:

	Beneficial holding of Ordinary shares as at 31 December 2003	% of Ordinary shares held
The States of Jersey	126,000	50.0
Jurat PG Blampied	16,740	6.6
Allied Mutual Insurance Services Limited	13,975	5.5
BR Querée	10,061	4.0
Nordar Limited	7,740	3.1
RM Clarke	7,700	3.1

In addition to the holding above, the States of Jersey also own 100% of the issued 'A' ordinary shares and 100% of the issued 7.5% -10% cumulative fifth preference shares.

The Company enters into normal commercial transactions with the States of Jersey and entities controlled by the States, in that it pays income tax, telephone, electricity and various other charges. Conversely, the Company levies charges at its usual rates for the supply of water and the connection of services to States owned properties.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

HJB Smith
Company Secretary

4 May 2004

INDEPENDENT AUDITORS' REPORT
to the members of The Jersey New Waterworks Company Limited

We have audited the Company's financial statements for the year ended 31 December 2003 which comprise the Balance Sheet, Profit and Loss Account, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes 1 to 19. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Article 110 of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described on page 14 the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements, which have been prepared in accordance with United Kingdom accounting standards, give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, the Statement of Company Policy, the Directors Report and Statistics. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies (Jersey) Law 1991.

Ernst & Young LLP
Jersey, Channel Islands

7 May 2004

Notes
1 The maintenance and integrity of The Jersey New Waterworks Company Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2 Legislation in both Jersey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

BALANCE SHEET

31 DECEMBER 2003

	Note	2003 £	2003 £	2002 £ Restated	2002 £
Fixed assets	2		56,612,193		52,226,873
Current assets					
Stores		1,086,344		1,223,920	
Debtors	3	3,166,015		3,022,756	
Bank and cash		451		451	
		4,252,810		4,247,127	
Creditors - Amounts falling due within one year					
Bank overdraft		(492,730)		(2,776,623)	
Creditors and accruals	4	(2,053,754)		(2,140,716)	
Contract retentions		(42,420)		(63,633)	
Income tax	5	(68,355)		(202,723)	
Loans	6	-		(950,000)	
		(2,657,259)		(6,133,695)	
Net current assets / (liabilities)			1,595,551		(1,886,568)
Total assets less current liabilities			58,207,744		50,340,305
Creditors - Amounts falling due after more than one year					
Contract retentions		(127,044)		-	
Future income tax	5	(27,076)		(67,755)	
Loans	6	(14,900,000)		(8,900,000)	
			(15,054,120)		(8,967,755)
Provisions for liabilities and charges					
Deferred taxation	7		(3,947,410)		(3,615,715)
Net assets excluding pension liability			39,206,214		37,756,835
Pension liability	8		(3,598,473)		(3,925,839)
Net assets			£35,607,741		£33,830,996
Capital and reserves					
Called up share capital	9		5,865,425		5,865,425
Capital redemption reserve			124,025		124,025
			5,989,450		5,989,450
Share premium account			677,600		677,600
Reserves	10		28,940,691		27,163,946
Shareholders' funds	11		£35,607,741		£33,830,996

The financial statements on pages 18 to 32 were approved by the Board of Directors on 4 May 2004 and were signed on its behalf by:

DC Norman
Chairman

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003		2002	
		£	£	£	£
				Restated	
Turnover					
Water supply charges		11,118,956		10,799,096	
Rechargeable works income		586,230		528,544	
Other income		292,867		221,284	
			11,998,053		11,548,924
Cost of sales					
Pumping expenses		(622,116)		(699,415)	
Maintenance of reservoirs and works		(1,902,205)		(1,877,705)	
Distribution and analysis of water		(1,774,918)		(1,325,227)	
Desalination station expenses		(779,204)		(534,424)	
Miscellaneous		(291,986)		(280,169)	
		(5,370,429)		(4,716,940)	
Administration					
Administration charges	12	(1,650,328)		(1,329,504)	
Insurances		(413,217)		(378,850)	
		(2,063,545)		(1,708,354)	
Depreciation					
Completed works		(1,515,143)		(1,384,572)	
Expenditure			(8,949,117)		(7,809,866)
Operating profit			3,048,936		3,739,058
Profit on disposal of fixed assets			216,447		464,473
Interest					
- payable	13	(694,447)		(569,016)	
- receivable		3,001		3,776	
Other finance costs	8	(181,339)		(53,946)	
			(872,785)		(619,186)
Profit before taxation			2,392,598		3,584,345
Jersey income tax	5		(396,735)		(562,895)
Profit available for distribution			1,995,863		3,021,450
Dividends	14		(417,026)		(417,272)
Retained profit for the year			£1,578,837		£2,604,178
Earnings per ordinary share of £1	15		£3.34		£5.46

There is no material difference between the reported profit for 2003 and 2002 and the profit prepared under the historical cost basis.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 £	2002 £ Restated
Profit for the year		1,995,863	3,021,450
Gain / (loss) arising on pension liabilities	8	197,908	(2,448,572)
Total recognised gains and losses for the year		**£2,193,771**	£572,878
Prior year adjustment (as explained in note 1)		1,138,959	
Total gains and losses recognised since last annual report		**£3,332,730**	

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003		2002	
		£	£	£	£
					Restated
Net cash inflow from operating activities	16		4,348,297		4,143,403
Returns on investments and servicing of finance					
Interest received		3,001		3,798	
Interest paid		(660,021)		(488,097)	
Non-equity dividends paid		(380,665)		(380,665)	
Net cash outflow on returns on investments and servicing of finance			(1,037,685)		(864,964)
Taxation					
Jersey income tax paid			(207,723)		(231,963)
Capital expenditure					
Purchase of fixed assets		(6,183,028)		(5,131,177)	
Disposal of fixed assets		313,184		493,912	
Net cash outflow from capital expenditure			(5,869,844)		(4,637,265)
Equity dividends paid			(35,356)		(33,848)
Management of liquid resources					
Loans repaid by employees		36,204		13,400	
Net cash inflow from management of liquid resources			36,204		13,400
Net cash outflow before financing			(2,766,107)		(1,611,237)
Financing					
New loans		6,000,000			
Loans repaid		(950,000)		-	
Net cash inflow from financing			5,050,000		-
Increase / (Decrease) in cash			£2,283,893		£(1,611,237)

Reconciliation of net cash flow to movement in net debt

	Note	2003	2002
		£	£
Increase / (Decrease) in cash		2,283,893	(1,611,237)
Cash inflow from increase in debt		(6,000,000)	-
Cash outflow on repayment of debt		950,000	-
Movement in net debt	17	(2,766,107)	(1,611,237)
Net debt brought forward	17	(12,626,172)	(11,014,935)
Net debt carried forward	17	£(15,392,279)	£(12,626,172)

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

Change in accounting policy in respect of mains renewals

Up until 31 December 2002 the accounting policy in respect of mains renewals was to charge the cost of all renewals to the profit and loss account in the year the expense was incurred. With effect from 1 January 2003 the accounting policy was changed so as to capitalise the cost of water main renewals within completed works and depreciate the cost over the life of the main installed. The cost and accumulated depreciation of any main being replaced being treated as a disposal at the time of replacement. The new policy better reflects the capital nature of mains renewals and was necessary given the increasing levels of mains renewals being undertaken by the Company.

The effect of the change in accounting policy, which are fully reflected in these financial statements, has been to increase profits in 2003 by £475,071 and 2002 by £117,190. Details of the change can be seen in the Statement of Total Recognised Gains and Losses and in note 2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

2 FIXED ASSETS

	Property and completed works	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£	£	£	£
Cost				
Brought forward per prior year financial statements	59,897,595	1,681,309	1,511,966	**63,090,870**
Change in accounting policy	1,199,854	-	-	**1,199,854**
Revised brought forward	61,097,449	1,681,309	1,511,966	**64,290,724**
Additions	31,635	5,890,988	340,981	**6,263,604**
Disposals	(572,200)	-	(183,813)	**(756,013)**
Transfers	3,747,774	(3,747,774)	-	**-**
Carried forward	**64,304,658**	**3,824,523**	**1,669,134**	**69,798,315**
Depreciation				
Brought forward per prior year financial statements	(11,126,806)	-	(876,150)	**(12,002,956)**
Change in accounting policy	(60,895)	-	-	**(60,895)**
Revised brought forward	(11,187,701)	-	(876,150)	**(12,063,851)**
Charge for the year	(1,515,143)	-	(262,728)	**(1,777,871)**
Disposals	477,477	-	178,123	**655,600**
Carried forward	**(12,225,367)**	**-**	**(960,755)**	**(13,186,122)**
Net book value				
Brought forward (restated)	£49,909,748	£1,681,309	£635,816	**£52,226,873**
Carried forward	**£52,079,291**	**£3,824,523**	**£708,379**	**£56,612,193**

Of the £1,777,871 depreciation charge for the year, £262,728 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 2003 the capital commitments contracted for amounted to £114,345 (2002:£2,518,422).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3 DEBTORS

	2003	2002
	£	£
Trade debtors	2,875,974	2,676,440
Prepayments	226,567	241,713
Loans to employees	63,474	99,678
Other debtors	-	4,925
	£3,166,015	£3,022,756

4 CREDITORS AND ACCRUALS

	2003	2002
	£	£
Trade creditors	420,960	439,152
Other creditors	138,120	142,559
Accruals and deferred income	1,471,837	1,537,173
Proposed dividend (net)	22,837	21,832
	£2,053,754	£2,140,716

5 JERSEY INCOME TAX

	2003	2002
	£	£
(a) Profit and loss account charge		
Income tax on the profits for the year	60,040	300,351
Under / (Over) provision for previous years	5,000	(43,233)
Transfer to deferred tax	331,695	305,777
	£396,735	£562,895
(b) Current income tax liability	£68,355	£202,723
(c) Future income tax liability	£27,076	£67,755

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:

	2003	2002
	£	£
		Restated
Profit before tax	£2,392,598	£3,584,345
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2002: 20%).	478,520	716,869
Capital allowances for period in excess of depreciation	(340,460)	(251,913)
Capital expenditure, deductible for tax purposes	(34,731)	(71,711)
Profit on sale of fixed assets	(43,289)	(92,894)
Current tax charge for year	£60,040	£300,351

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6 LOANS

	Repayment Dates	2003	2002
		£	£
Facilities drawn down			
HSBC Bank plc	2005	3,650,000	3,650,000
HSBC Bank plc	2011	5,250,000	5,250,000
HSBC Bank plc	2013	6,000,000	-
Royal Bank of Canada (Channel Islands) Limited	2003	-	950,000
		£14,900,000	£9,850,000
Loans falling due within one year		-	950,000
Loans falling due within between one and two years		3,650,000	-
Loans falling due after two years but less than five years		-	3,650,000
Loans falling due after more than five years		11,250,000	5,250,000
		£14,900,000	£9,850,000

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.

7 DEFERRED TAXATION

	2003	2002
	£	£
Capital allowances	£3,947,410	£3,615,715
Brought forward	3,615,715	3,309,938
Transfer from profit and loss account	331,695	305,777
At 31 December	£3,947,410	£3,615,715

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 PG Blampied OBE, P Batho, MG Le Brocq, RJ Pirouet, HJB Smith and HN 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 2003 totalled £13,789 (2002: £Nil).

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 2003 by a qualified actuary. The major financial assumptions used by the actuary were:

	2003	2002	2001
Rate of increase in salaries	**5.00%**	5.00%	5.00%
Rate of increase in pensions in respect of 1988 guarantee	**5.00%**	5.00%	5.00%
Rate of increase in pensions accrued after 1 January 1999	**3.75%**	3.75%	3.25%
Discount rate	**5.38%**	5.47%	5.81%
Inflation assumption	**4.00%**	4.00%	3.50%

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

	2003		2002		2001	
	Expected long term rate of return	**Value £**	Expected long term rate of return	Value £	Expected long term rate of return	Value £
Equities	**8.14%**	**4,708,789**	8.18%	3,783,538	8.10%	4,774,156
Corporate bonds	**5.38%**	**2,896,675**	5.47%	1,710,112	5.81%	2,204,174
Cash	**3.75%**	**85,040**	4.00%	1,047,982	4.00%	140,472
Weighted rate of return on assets	**7.05%**	**£7,690,504**	6.80%	£6,541,632	7.31%	£7,118,802

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS continued

	2003	2002	2001
	£	£	£
Total market value of assets	7,690,504	6,541,632	7,118,802
Present value of total pension liabilities	(12,188,596)	(11,448,930)	(10,124,585)
Pension deficit	(4,498,092)	(4,907,298)	(3,005,783)
Related deferred tax asset	899,619	981,459	601,157
Net total pension liability	£(3,598,473)	£(3,925,839)	£(2,404,626)

Analysis of the amount charged to Operating Profit

	2003	2002
	£	£
Current service cost	£367,582	£318,378

Analysis of the amount included in Other Finance Costs

	2003	2002
	£	£
Expected return on defined benefit scheme assets	454,421	535,181
Interest on total pension liabilities	(635,760)	(589,127)
Net charge for the year	£(181,339)	£(53,946)

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

	2003	2002
	£	£
Actual return less expected return on defined benefit scheme assets	409,095	(2,011,997)
Experience gains/(losses) arising on the total pension liabilities	13,139	(385,605)
Changes in assumptions underlying the present value of the total pension liabilities	(174,850)	(663,113)
Actuarial gain / (loss) recognised	247,384	(3,060,715)
Current tax relief	32,364	231,841
Movement in deferred tax relating to net liability	(81,840)	380,302
Gain / (Loss) recognised in statement of total recognised gains and losses	£197,908	£(2,448,572)

Movement in deficit during the year

	2003	2002
	£	£
Total pension deficit at beginning of the year	(4,907,298)	(3,005,783)
Deferred tax asset	981,459	601,157
	(3,925,839)	(2,404,626)
Movement in year:		
Current service cost	(367,582)	(318,378)
Contributions and pensions paid	710,743	1,531,524
Other finance costs	(181,339)	(53,946)
Actuarial gain / (loss)	247,384	(3,060,715)
	(3,516,633)	(4,306,141)
Movement in deferred tax asset	(81,840)	380,302
Total pension deficit at end of the year	£(3,598,473)	£(3,925,839)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8 PENSIONS continued

History of experience gains and losses	2003 £	2002 £	2001 £	2000 £	1999 £
Difference between the expected and actual return on plan assets:					
Amount	**409,095**	(2,011,997)	(1,157,719)	(1,323,078)	947,418
Percentage of plan assets	**5.3%**	(31%)	(16%)	(17%)	12%
Experience gains and losses on total pension liabilities:					
Amount	**13,139**	(385,605)	614,856	-	-
Percentage of the present value of pension liabilities	**0.1%**	(3%)	6%	0%	0%
Total amount recognised in statement of total recognised gains and losses:					
Amount	**197,908**	(2,448,572)	(299,513)	(1,664,223)	1,882,255
Percentage of the present value of pension liabilities	**1.6%**	(21%)	(3%)	(17%)	21%

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 £672,514.

Following the results of the latest actuarial valuation as at 31 December 2002 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

		2003 £	2002 £
Authorised			
252,000	ordinary shares of £1	**252,000**	252,000
231,000	'A' ordinary shares of £1	**231,000**	231,000
20,000	cumulative preference shares of £5	**100,000**	100,000
20,000	cumulative second preference shares of £5	**100,000**	100,000
100,000	cumulative third preference shares of £5	**500,000**	500,000
100,645	cumulative fourth preference shares of £5	**503,225**	503,225
900,000	cumulative fifth preference shares of £5	**4,500,000**	4,500,000
		£6,186,225	£6,186,225

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

		2003	2002
Issued and fully paid		£	£
252,000	ordinary shares of £1	252,000	252,000
231,000	'A' ordinary shares of £1	231,000	231,000
		£483,000	£483,000
17,261	5% cumulative preference shares of £5	86,305	86,305
17,402	3.5% cumulative second preference shares of £5	87,010	87,010
23,509	3% cumulative third preference shares of £5	117,545	117,545
16,036	3.75% cumulative third preference shares of £5	80,180	80,180
11,400	5% cumulative third preference shares of £5	57,000	57,000
90,877	2% cumulative fourth preference shares of £5	454,385	454,385
900,000	10% cumulative fifth preference shares of £5	4,500,000	4,500,000
		£5,382,425	£5,382,425
Total issued share capital		£5,865,425	£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 from 2002 financial statements	23,720,546	2,304,441	26,024,987
Change in accounting policy (see note 1)	1,138,959	-	1,138,959
Restated brought forward	24,859,505	2,304,441	27,163,946
Retained profit for year	1,578,837	-	1,578,837
Transfer of profit on sale of fixed assets to capital reserve	(216,447)	216,447	-
Gain relating to pension plan deficit recognised in the statement of total recognised gains and losses	197,908	-	197,908
Carried forward	£26,419,803	£2,520,888	£28,940,691

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003	2002
	£	£
		Restated
Profit for the year	**1,995,863**	3,021,450
Dividends	**(417,026)**	(417,272)
Retained profit for the year	**1,578,837**	2,604,178
Gain/ (loss) arising on pension plan	**197,908**	(2,448,572)
Opening shareholders' funds	**33,830,996**	33,675,390
Closing shareholders' funds	**£35,607,741**	£33,830,996
Equity	**30,225,316**	28,448,571
Non-equity	**5,382,425**	5,382,425
	£35,607,741	£33,830,996

12 ADMINISTRATION CHARGES

	2003	2002
	£	£
Included in administration charges are the following:		
Directors' fees (note 18)	**30,815**	27,208
Auditors' fees - Statutory audit	**21,500**	20,250
- Other services (Tax advisory and compliance)	**6,000**	3,890

13 INTEREST PAYABLE

	2003	2002
	£	£
On loans and overdrafts from banks	**£694,447**	£569,016

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 DIVIDENDS

Non-equity

	2003			2002		
	Paid	**Payable**	**Charge for the**	Paid	Payable	Charge for the
Amounts are shown net of 20% tax	**£**	**£**	**year**	£	£	year
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**	2,436	812	3,248
3% cumulative third preference shares	**2,587**	**235**	**2,822**	2,822	235	3,057
3.75% cumulative third preference shares	**2,004**	**401**	**2,405**	2,405	401	2,806
5% cumulative third preference shares	**2,090**	**190**	**2,280**	2,280	190	2,470
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	**£377,301**	**£3,364**	**£380,665**	£378,939	£3,364	£382,303

Equity

	2003			2002		
	Paid	**Proposed**	**Total**	Paid	Proposed	Total
ordinary shares (2003 Total - 9.41 pence per share)	**7,056**	**11,915**	**18,971**	6,854	11,391	18,245
'A' ordinary shares (2003 Total - 9.41 pence per share)	**6,468**	**10,922**	**17,390**	6,283	10,441	16,724
Total dividends paid and proposed	**£13,524**	**£22,837**	**£36,361**	£13,137	£21,832	£34,969

Analysis of amount charged in the profit and loss account

	2003	2002
	£	£
Equity dividends	**36,361**	34,969
Non-equity dividends	**380,665**	382,303
	£417,026	£417,272

15 EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share of £1 is based on earnings of £1,995,863 (2002 Restated - £3,021,450), being the profit available for distribution, less preference share dividends of £380,665 (2002 - £382,303) 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

	2003	2002
	£	£
		Restated
Operating profit	**3,048,936**	3,739,058
Depreciation	**1,777,871**	1,602,418
Change in order to bring pension contributions onto a cash basis	**(343,161)**	(1,213,146)
Decrease in stores	**137,576**	125,016
Increase in debtors	**(179,463)**	(191,504)
(Decrease) / increase in creditors	**(93,462)**	81,561
Net cash inflow from operating activities	**£4,348,297**	£4,143,403

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2003	Cash Flows	Other Changes	At 31 December 2003
	£	£	£	£
Bank and cash	(2,776,172)	2,283,893	-	(492,279)
Debt due within one year	(950,000)	950,000	-	-
Debt due after one year	(8,900,000)	(6,000,000)	-	(14,900,000)
Total	**£(12,626,172)**	**£(2,766,107)**	**-**	**£(15,392,279)**

18 DIRECTORS' EMOLUMENTS

	Base Salary	Fees	Benefits	Total Emoluments (excluding pension contributions)	
				2003	2002
	£	£	£	£	£
Executives					
HN Snowden[1]	79,267	4,000	9,588	92,855	85,720
HJB Smith[2]	13,408	815	1,673	15,896	-
Non-Executives					
DC Norman	-	8,000	-	8,000	8,000
L Norman	-	4,000	-	4,000	2,802
JB Germain	-	2,000	-	2,000	2,802
CJ Hinault	-	4,000	-	4,000	2,802
RJ Pirouet	-	4,000	-	4,000	4,000
SJ Marie	-	4,000	-	4,000	2,802

[1] *For the year ended 31 December 2003 the Company's contribution in respect of Mr Snowden's pension was £8,593.*
[2] *For the period from 17 October 2003 to 31 December 2003 the Company's contribution in respect of Mr Smith's pension was £652.*

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

Subsequent to the year end, the Company has received a claim from MJ Gleeson Limited totalling £780,000. In 2002, 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.

ANNUAL STATISTICS

Year	Units	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Additional dwelling units connected	Number	581	493	549	459	570	812	591	692	1,162	821
Total dwelling units on supply	Number	28,393	28,886	29,435	29,894	30,464	31,276	31,867	32,559	33,721	34,542
Service mains laid	metres	7,694	6,152	11,065	8,553	8,993	9,623	3,569	7,439	10,892	7,920
Total length of service mains	Km	359.26	365.41	376.48	385.03	394.02	403.64	407.21	414.64	425.53	433.45
Trunk mains laid	metres	283	1,105	1,526	2,164	4,742	1,163	3,131	4,736	1,161	4,104
Total length of trunk mains	Km	51.97	53.08	54.19	56.35	61.09	62.25	65.38	70.11	71.27	75.37
Service mains relaid	metres	96	242	466	738	244	300	1,598	1,281	1,178	1,822
Annual Rainfall (139 year average - 851.4mm)	mm	1014.1	874.7	695.3	757.5	984.6	961.4	1026.9	957.8	986.9	756.9
Number of employees at end of year	Number	120	117	118	118	117	114	113	112	112	116
Total water supplied	Ml	6,674	6,622	6,834	6,994	7,229	7,269	7,262	7,317	7,207	7,301
Maximum day's demand	Ml	27.5 7 July	26.9 10 August	27.0 21July	25.7 20 August	27.6 9 August	29.7 29 July	27.0 20 July	29.4 25 June	26.0 28 July	28.4 13 July
Maximum month's demand	Ml	738.1 July	709.7 August	728.2 July	705.3 August	756.8 August	794.1 July	721.7 July	733.1 June	702.5 July	725.9 July

WATER QUALITY

FOR THE YEAR ENDED 31 DECEMBER 2003

Microbiological quality

Water leaving treatment works

Supply point & average daily volume distributed from Works (Ml/d)	No. of samples	% compliance with the Maximum Allowable Concentration (MAC)	
		Total coliforms	Faecal coliforms
Handois (10.2 Ml/d)	1037	100%	100%
Augrès (9.7 Ml/d)	365	100%	100%
Total (19.9 Ml/d)	**1402**	**100%**	**100%**

Water in service reservoirs

Capacity of Reservoirs (Ml)	No. of samples	% compliance with the Maximum Allowable Concentration (MAC)	
		Total coliforms	Faecal coliforms
Westmount 9 Ml	347	100%	100%

Water in distribution

Zone	No. of samples	% compliance with the Maximum Allowable Concentration (MAC)	
		Total coliforms	Faecal coliforms
Zone 1: East			
Random consumer taps	96	96.9%	99%
Fixed points	416	100%	100%
Total	**512**	**99.4%**	**99.8%**
Zone 2: West			
Random consumer taps	49	100%	100%
Fixed points	248	99.6%	100%
Total	**297**	**99.7%**	**100%**

Samples exceeding prescribed concentrations were immediately resampled for three consecutive days - recheck samples were clear.

WATER QUALITY CONTINUED

Physical and Chemical Quality

Water in Distribution

Parameter	Maximum Allowable Concentration (MAC)	Concentration or value			No. of samples taken	% compliance with MAC
		Minimum	Mean	Maximum		
pH Value	6.5 – 9.5	7.0	7.4	8.3	210ƒ	100%
Conductivity	1500 µSm/cm at 200C	464	596	690	131	100%
Turbidity	4 N.T.U.	0.11	0.32	1.12	131	100%
Nitrate *	50 mg NO_3/l	21.0	39.8	55.0	50	84%
Nitrite **	0.1 mg NO_2/l	0.001	0.025	0.238	132	93.2%
Ammonia	0.5 mg NH_4/l	<0.01	0.09	0.16	131	100%
Iron	200 µg Fe/l	<10	31	140	74	100%
Aluminium	200 µg Al/l	<20	<20	138	259	100%
Manganese	50 µg Mn/l	<20	<20	34.2	132	100%
Colour	20 Hazen Units	<0.69	4.3	5.0	131ƒ	100%
Copper	3000 µg Cu/l	<4	61	632	74	100%
Lead	50 µg Pb/l	<1	5	36	74	100%
Zinc	5000 µg Zn/l	<6	30	152	74	100%
Chloride	400 mg Cl/l	50	72	110	131	100%
Dissolved Solids	1500 mg/l	270	409	483	131	100%
Oxidizability	5 mg O_2/l	0.10	0.37	0.71	127	100%
Total Hardness	mg $CaCO_3$/l no value	108	142	179	131	NA
Alkalinity	mg $CaCO_3$/l no value	44	60	86	131	NA
Residual Chlorine	mg Cl_2/l no value	<0.02	0.23	0.54	180ƒ	NA

mg/l	=	milligrams per litre
µg/l	=	micrograms per litre
<	=	indicates the concentration is below the detection level of the test
ƒ	=	in addition to the “compliance” chemical samples several hundred examinations were made for bacteriological and operational sampling purposes, all results were below the MAC.

Nitrate: The MOU gives the Company a dispensation for nitrate of 33% of samples that can be over 50 mg/l, up to a limit of 70 mg/l.

Nitrite: Provisional guideline of 3 mg NO2/l set by World Health Organisation Quality Guidelines 1995.

WATER QUALITY CONTINUED

Pesticides detected results in µg/litre

Water in Distribution

Parameter	Maximum Allowable Concentration (MAC)	Concentration or value			No. of samples taken	% compliance with MAC
		Minimum	Mean	Maximum		
Atrazine µg/l	0.1	<0.01	<0.01	0.012	8	100%
Simazine µg/l	0.1	<0.01	<0.01	0.011	8	100%
Propazine µg/l	0.1	<0.01	<0.01	0.028	8	100%
Terbuthylazine µg/l	0.1	<0.01	<0.01	0.021	8	100%
Cyanazine µg/l	0.1	<0.01	0.025	0.092	52	100%
Mecoprop µg/l	0.1	<0.01	<0.01	0.013	52	100%
Triclopyr µg/l	0.1	<0.01	<0.01	0.017	52	100%
Linuron µg/l	0.1	<0.01	<0.01	0.035	52	100%
Diuron µg/l	0.1	<0.01	0.010	0.074	52	100%
Carbetamide µg/l	0.1	<0.01	<0.01	0.018	52	100%
Dalapon µg/l	0.1	<0.01	0.013	0.047	9	100%

µg/l = micrograms per litre

< = indicates the concentration is below the detection level of the test.

UK = United Kingdom advisory limits quoted in "Water Quality Regulations 1989".

*UK = "likely advisory value", has been calculated by the Company consultants using a formula given in the "Water Regulations 1989". The calculations confirm the low toxicity of these particular pesticides.

WHO = advisory limits quoted in "World Health Organisation Quality Guidelines 1993".

NB In addition to the above parameters, examinations were carried out for a further seventy one types of pesticides, the results of which were below the detection level of the tests.

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