Jersey Water

Annual Report and Financial Statements 2004

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, FIEE, 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, Senior Independent Director*

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-third annual general meeting of the shareholders of The Jersey New Waterworks Company Limited will be held in the Ouless Room at the Jersey Museum, The Weighbridge, St Helier, Jersey on 20 May 2005, at 9.00 am. Coffee will be served from 8.30 am.

- To receive the Financial Statements for the year ended 31 December 2004.
- To declare a final gross dividend of 255.1 pence per share (gross) on the ordinary and 'A' ordinary shares of the Company.
- To re-elect David Norman and Carlyle Hinault, the Directors retiring by rotation.
- To approve the Directors' fees for 2005 of £12,000 for the Chairman and £6,000 for other Directors (2004: £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

Helier Smith
Company Secretary

Registered Office:

Mulcaster House
Westmount Road
St Helier
Jersey
JE1 1DG

11 April 2005

To facilitate the preparation of dividend warrants the share transfer books of the Company will be closed from 9 May 2005 to 20 May 2005, both days inclusive, and, subject to the dividend being confirmed, dividend warrants will be posted on 20 May 2005 to all ordinary and 'A' ordinary shareholders registered on 20 May 2005.

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

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 Snowden, EurIng, BSc(Eng), MSc., CEng, FCIWEM, FICE, FIMechE, FIEE
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, the Institution of Mechanical Engineers, the Institution of Electrical Engineers and a member of 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 was also a Procureur du Bien Public for the Parish of St John for a number of years.

Richard Pirouet FCA
Richard Pirouet, a Chartered Accountant, joined the Board as a non-executive Director in 1998 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 also is a member of the Group's trading divisional boards. 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

Shareholder return

In April 2004, The Finance & Economics Committee of the States of Jersey (the 'States'), the Company's majority shareholder, announced a strategic review of water services provision in Jersey. This followed the approach, in January 2004, by The Jersey Electricity Company Limited ('JEC') who were considering making an offer for your Company.

Queen's Valley Reservoir

The review was completed during 2004 and, as I reported to shareholders in my letter dated 7 April 2005, the States announced on 6 April 2005 that they did not wish to sell their shareholding and are fully supportive of your Board and its plans for the future of the Company.

Due to the significant investment that the Company has made extending and improving the water supply infrastructure for the benefit of our customers and the Island, our shareholders have received little or no return on their substantial investment in the Company for many years. I indicated in last year's report that with the levels of the very heavy capital expenditure having reduced for the foreseeable future, there was scope to give more emphasis to shareholder value.

Now that the period of uncertainty referred to above has been concluded, the Directors have implemented their plan which includes a progressive results based dividend policy funded through positive cash flows which will of course be dependent on future income levels but which provides shareholders with a significantly increased return.

The policy shall be for the Company to distribute to ordinary and A ordinary shareholders dividends broadly equal to one third of normal operating cash flows (assuming the annual operation of the desalination plant) adjusted for finance costs, tax and preference dividends. This equates to a total proposed equity dividend for 2004 of £1,000,000 (net). Interim dividends, which are usually declared in September will approximate to 40% of the previous year's total dividend.

Your Board is very conscious of the need to carefully balance the Company's duties to customers and shareholders alike and has implemented a plan that will not only support an increased return for shareholders, but will allow the Company to continue improving and extending the water supply system with an anticipated average budgeted spend of £2.5 million per year over the next five years. The Board has adopted a 5 year planning cycle in line with UK industry standards.

For 2005 we have implemented an increase of 4% in our unmeasured tariffs and in line with the Company's policy of encouraging customers to move to metered supplies, we have not increased metered tariffs.

Our general policy on future tariff increases remains unchanged and we intend to continue to seek revenue increases at or marginally below RPI.

Chairman's Statement continued

Review of the year's financial performance

Turnover for the year at £12.4 million was up 3.5% compared to 2003. Reductions in rechargeable works and other income were countered by a 5.6% increase in water supply charges mainly due to our 3.5% tariff increase in 2004. Metered water sales recovered after being adversely affected in 2003 by the water restrictions that year and we have also benefited in 2004 from an increased awareness of the obligation of non metered customers to pay for the use of hosepipes.

Total expenditure before interest rose by £235,586 (2.6%) to £9.2 million with the unexpected costs of dealing with the approach from the JEC more than offset by the costs saved in not running the desalination plant during the year.

During the year further disposals of property assets including Le Mourier Farm were completed, producing one-off profits of £520,469.

Interest payable rose to £828,947 for the year as a result of increases in the underlying base rate. Other finance costs relate to the FRS 17 charge for our pension scheme and benefited from improvements in the expected income streams from the scheme's investments.

Profits at the operating level increased by £179,529 (5.9%) to £3.2 million and after the £520,469 profit on sale of fixed assets and interest and other finance costs, we achieved a profit before tax of £2.8 million compared to £2.4 million in 2003.

Capital expenditure at £2.6 million was £0.9 million behind budget due mainly to timing differences and cost savings and significantly lower than the £6.3 million spent in 2003. This higher profit and lower capital expenditure resulted in a net cash inflow for the year of £542,184, reducing net debt to £14.9 million.

During the year the Company paid contributions of £1.2 million to its defined benefit and unfunded pension schemes. This helped reduce the net pension liability from £3.6 million to £3.1 million.

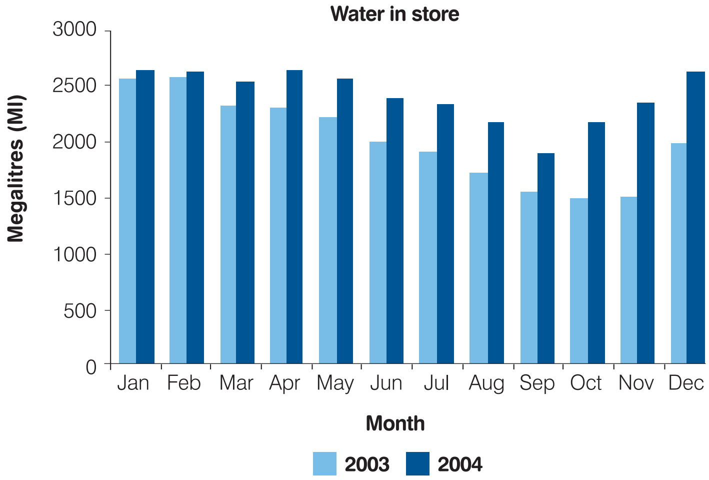
Further to my comments above and adopting the new dividend policy, your Directors are recommending a final dividend of 255.1 pence per Ordinary and A Ordinary Share (gross), which together with the interim dividend of 3.7 pence per share (gross), makes the total dividend of 258.8 pence per share (gross) for the year.

Val de la Mare Reservoir

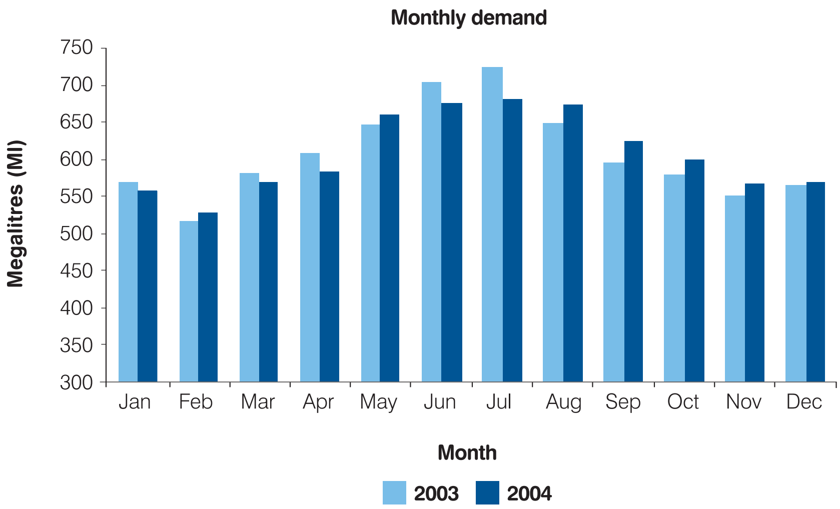
Chairman's Statement continued

Water resources

After the severe drought experienced in 2003, we were pleased to see the water levels in our reservoirs fully recovered by the end of January 2004. Rainfall during the year was mixed, but with July, August and October well above the long-term average. Reservoir water levels for the whole of 2004 remained above the 10 year average level obviating the need to operate the desalination plant.



Total water consumption for the year was 7,305 Ml, virtually the same as recorded in 2003 when formal restrictions on non-essential use of water were applied from July to October. The reason for this can be attributed to two main factors; firstly the unsettled summer which resulted in lower than normal demand and secondly the installation of a number of pressure reducing valves at strategic positions as the new gravity fed Les Platons Service Reservoir distribution system came into service. Overall consumption has now remained static for the last 6 years.



During the year the Company submitted supporting evidence to the States Scrutiny Panel reviewing the draft Water Resources (Jersey) Law being proposed by the Environment & Public Services Committee (E&PSC). 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.

Chairman's Statement continued

Water quality

From 1 January 2004, the amendment to the Water (Jersey) Law 1972, which defines water quality criteria, became effective. The law amendment sets out Maximum Allowable Concentrations (MAC) for physical, bacteriological and chemical parameters. The parameters and MACs are identical to the Water Supply (Water Quality) Regulations 2000 for England & Wales, which the Company had applied as Best Practice since their introduction.

A dispensation under the law for nitrate levels has been granted by the E&PSC for 5 years and allows up to a maximum of 33% of samples for nitrate to be above 50 mg/l, but not greater than 70 mg/l. In 2004, 5% of the samples taken were above 50mg/l the highest being 51.8 mg/l.

Shareholders are reminded that the Company has no control over the water catchment areas and the diffuse pollution of water resources from nitrate which is why a dispensation 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 Island's water resources.

Les Platons Service Reservoir

As announced in February 2005, I am pleased to report that 99.80% of treated water supplied by the Company in 2004 complied with the Maximum Allowable Concentrations as set out in the amendment to the Water (Jersey) Law 1972. We were, however, extremely disappointed with the discovery of cyanazine pollution at Grands Vaux at the end of 2004 which adversely affected an excellent set of results. In order to resolve the problem quickly it was decided to completely empty the reservoir, despite assurances from our UK based technical advisor that there was no health risk to consumers. A similar pollution incident during more critical summer months could have far more serious consequences than just the cost involved. Full details of the quality of water supplied in 2004 are shown in our Water Quality Report.

The Company's reservoirs and infrastructure

The new, gravity fed, high level distribution system served by the Les Platons Service Reservoir was completed and brought into commission in stages during the year. This work involved the transfer of booster pumped distribution areas to the high-level gravity system and enabled the majority of the booster pumping stations to be taken out of service. The system increases the treated water storage capacity of the network by 9Ml (a 100% increase) and reduces the energy required to move water around the island. A number of pressure-reducing valves situated at strategic points in the distribution system were installed to reduce and regulate pressures in the lower level areas. The relatively small high level areas of Trinity and St John which are at a similar elevation to the service reservoir are supplied by a new small booster pumping station at the service reservoir. We now supply approximately 90% of the total number of connections through the gravity fed distribution system and further extension of the system, to supply high-level areas in the east of the Island, is planned in the future.

The Company's reservoirs are subject to the Reservoirs (Jersey) Law 1996. The law requires them to be operated, maintained and inspected to ensure their safety. During the year Val de la Mare Reservoir and Grands Vaux Reservoir were given a time-related inspection by an Independent Qualified Engineer. The inspection showed no abnormalities.

Chairman's Statement continued

During the year, the old pumping plant at Val de la Mare Reservoir Pumping Station was replaced with higher capacity equipment, together with associated electrical control gear, variable speed drives and a diesel-driven standby generator set. The new pumps will allow increased rates of water transfer from Val de la Mare Reservoir to the treatment works.

The Wash Water Recovery Plant at Handois WTW was commissioned during the year. Whilst the formal take-over tests were completed in January, due to a number of technical issues the longer-term (100 day) Performance Tests have been delayed until 2005, to allow the plant to be tested on higher flow rates when the demand for water increases in the spring.

The expansion of the Operational Supervisory & Data Acquisition (SCADA) system continued during the year allowing a number of raw water pumping stations to be controlled and monitored remotely from a central location. This work is due to be completed in 2005.

Modifications to the chlorination and pH correction systems at Augrès WTW were completed during the year. An in-line electrically operated mixer was installed in the filtered water main by means of an under-pressure connection. This has resulted in improved mixing characteristics, more effective use of treatment chemicals and better control of treated water quality.

Some 7 km of water mains extensions were completed during 2004 and 812 new dwelling units connected to our supply system. As was planned our mains renewal programme was increased in the year with 2.5 km of old water mains replaced. We intend to continue with this target in future years.

The diversion of both a trunk water main and service main was undertaken in Union Street, St Helier at the same time as E&PSC were installing a new surface water sewer; such operations clearly demonstrate the very high density of underground services in St Helier. Our future mains renewal programme is predominantly within the Parish of St Helier, since this is the oldest part of our distribution network. As I mentioned in last year's report, the renewal of old water mains inevitably causes disruption to roadusers and residents; the Company is pro-active in pre-planning and advising residents and road users of future works and remains committed to minimising disruption.

Good progress has been made during the year in converting old manual read water meters to the Electronic Encoded (EE) type meters. These new type of meters can be read electronically and the data is transferred directly into the billing system software, bringing about major savings in meter reading time.

Work undertaken in Union Street

Chairman's Statement continued

Rebranding

On 8 November 2004, with a view to updating its public profile the Company adopted Jersey Water as its trading name, took on a new livery and published its first website (www.jerseywater.je). The website being designed to act as a point of reference for customers, shareholders and the general public in all aspects of the Company's business.

Board of Directors

Carlyle Hinault and myself, David Norman, both retire by rotation in accordance with Article 74(b) and are seeking re-election.

The Company staff and management

I am sure that shareholders would wish to join me in complimenting the professionalism of our staff in what has been a time of anxiety and uncertainty for many of them. They have continued to carry out their many and varied duties in a way to be envied by other employers as well as implementing new technology and systems which will continue to bring changes to work practices and allow the Company to realise improvements in efficiency in delivering our service to customers.

David Norman
Chairman

11 April 2005

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.

Howard Snowden
Managing Director & Engineer

11 April 2005

Corporate Governance

Introduction

In July 2003, the Board voluntarily resolved to adopt the requirements of the Combined Code on Corporate Governance issued by the Financial Reporting Council ('the Code').

The Board are of the opinion that, throughout the year under review, the Company has been in compliance with the Code provisions set out in Section 1 of the Code except for the following matters:

- As reported in the corporate governance section of the 2003 financial statements the Company had not undertaken a formal review of the effectiveness of the Company's system of internal control nor had it documented its process of identifying, evaluating and managing the significant risks faced by the business. During 2004, the Company undertook a formal, documented risk assessment exercise and evaluated the effectiveness of the systems of internal control in meeting those risks. The findings of the review were formally accepted by the audit committee on 16 December 2004.
- As reported in the corporate governance section of the 2003 financial statements the Board had not appointed a Senior Independent Director as required by the Code. On 17 September 2004, Richard Pirouet was elected Senior Independent Director.
- In July 2003, the Code was revised and included a requirement that non executive Directors serving longer than nine years on the Board should be subject to annual re-election. The Board believes that this provision of the Code is not in the best long term interests of the Company and have therefore resolved not to apply it.

Directors and the Board

The Board

The Board comprises seven Directors, two of whom are executive and five of whom are non-executive Directors. The Board meets regularly, normally 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.

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.

Meetings and committee membership

During the year the Board met 13 times. Details of Board meeting attendance, committee membership and committee meeting attendance are provided in the table below.

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Number of meetings in 2004	**13**	**3**	**1**	**1**
David Norman	13 (Chairman)			1 (Chairman)
Senator Len Norman	13			
Richard Pirouet	13	3 (Chairman)	1 (Chairman)	1
Stephen Marie	13	3	1	1
Carlyle Hinault	10	3	0	
Howard Snowden	13			
Helier Smith	13			

Corporate Governance continued

Director independence

The Board considers all non executive directors to be independent in character and judgement. However, both David Norman and Senator Len Norman have been Board members for more than nine years and Senator Len Norman is a member of the States of Jersey, the Company's majority and controlling shareholder. David Norman and Senator Len Norman do not therefore meet the criteria of independence set down in the Combined Code. Accordingly, the Board have determined that Richard Pirouet, Carlyle Hinault and Stephen Marie shall be deemed independent.

Performance evaluation

In order to ensure that the Board continues to operate effectively, it has developed and implemented a process of performance evaluation. The process measures the performance of the Board as a whole against a set of predefined targets and of individual directors by way of self and peer appraisal. The results of the performance assessments and appraisals are fed back to the individual directors and the Board as a whole (as appropriate) and action taken accordingly.

Reappointment

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. Directors appointed to fill a casual vacancy must seek formal appointment by the Shareholders at the Annual General Meeting. Biographical notes of all Directors are included on page 4.

Relations with shareholders

The Company is in regular contact with its majority and controlling shareholder, the States of Jersey. Details of contact with and the views of the States are passed on to the whole Board as necessary.

Audit Committee

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

The terms of reference of the audit committee, which are available upon request, 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 monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance. The Committee are briefed on changes to reporting requirements and provided with information on any accounting or reporting issues that arise. The Audit Committee review in detail the financial statements before making a recommendation to the Board as to whether or not they should be formally approved.

- to review the operation and effectiveness of the Company's internal financial and other controls and make recommendations for improvement where necessary. During the year the Committee undertook the first risk assessment and evaluation of effectiveness of the systems of internal control.

- to oversee the external audit process and manage the relationship with the external auditors. The Committee formally considers the performance and independence of the external auditors on a regular basis taking into consideration all applicable professional and regulatory requirements. The Committee also has procedures in place to protect auditor independence and control the extent to which the auditors may be retained for non audit services and the basis upon which such services are purchased.

Corporate Governance continued

- The committee is required to make recommendations to the Board as to the re-election and remuneration of the auditors at the Annual General Meetings and does so based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.

The Committee have considered the need for an internal audit function and have concluded that due to the size and type of business that such a function would not be cost effective.

Remuneration Committee

The Remuneration Committee was made up of David Norman (Chairman), Senator Len Norman and Richard Pirouet until 17 September 2004 when Richard Pirouet became Chairman and David Norman and Senator Len Norman were replaced by Stephen Marie and Carlyle Hinault. The Executive Directors, Howard Snowden and Helier 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 of Executive Directors.

Nomination Committee

The Nominations Committee comprises David Norman (Chairman), Richard Pirouet and Stephen Marie and is primarily responsible for the selection and appointment of the Company's executive and non-executive directors as and when required.

The other duties of the committee include:

- Making recommendations to the main Board as to the re-election of Directors under the 'retirement by rotation' provisions in the Company's Articles of Association whilst giving due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.
- Reviewing and making recommendations to the Board as to the succession planning for executive and non-executive Directors.
- Regularly reviewing the structure, size and composition required of the Board compared to its current position and making recommendations to the Board with regard to any changes.
- Keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability of the organisation to operate effectively.

There were no new appointments to the Board during 2004.

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.

Corporate Governance continued

During the year the Company developed a corporate and departmental risk register detailing and risk grading all of the significant risks faced by the Company. Alongside the register is a process through which the significant risks faced by the business are identified and evaluated on a regular basis and the controls operating over those risks assessed to ensure that they operate effectively. The Audit Committee formally adopted the first risk and control register on 16 December 2004.

The process of risk assessment and reviewing the effectiveness of the systems of internal control will be regularly reviewed by the audit committee, accords with Turnbull guidance and has been in place from the date of adoption by the audit committee up to and including the date on which the financial statements were approved.

Controls adopted by the Board (or its committees) to ensure the effectiveness of the systems of internal control include the following:

- The review of the corporate risk register maintained and updated by the Company and of the status of any actions arising from their regular review. The receipt of confirmation from Senior Management of the proper operation of controls throughout the period of the review.
- The review and approval during the year of terms of reference of sub committees.
- The review and approval during the year of the schedule of matters specifically reserved for its attention.
- 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.

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 2004.

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. With effect from 8 November 2004 the Company adopted 'Jersey Water' as its trading name.

Review of business and future developments

The results for the year are set out on page 21. A review of the Company's business during the year and an indication of the likely future development of the business are provided in the Chairman's statement on pages 5 to 10.

Dividends

In 2004 the Company paid dividends on preference shares totalling £380,665 (net) (2003: £380,665). During the year, an interim dividend of 3.7 pence per share (gross) (2003: 3.5 pence) was paid on the Ordinary and 'A' Ordinary shares totalling £14,297 (net) (2003:£13,524). The Directors recommend a final dividend of 255.1 pence (gross) (2003: 5.91 pence) totalling £985,703 (net) (2003: £22,837).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved and throughout the year ended 31 December 2004 were as detailed on page 2.

In accordance with the provisions of Article 74(b), David Norman and Carlyle Hinault will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

As described on page 13, the Company has undertaken a formal assessment of its performance and that of the individual Directors, including structured meetings between the Director being assessed, the Chairman and the Senior Independent Director. Following this review, the Chairman (or in the case of the Chairman, the Senior Independent Director) has confirmed that the Directors standing for re-election at the Annual General Meeting continue to perform effectively and to demonstrate commitment to their roles.

Directors' interests

Particulars of the holdings of Directors, including family interests, in the share capital of the Company as at 31 December 2004 are:

	Carlyle Hinault	Stephen Marie	David Norman	Howard Snowden	Helier Smith
Ordinary shares					
Beneficial	100	100	190	200	146
Non-beneficial	-	-	7,740	-	-
Preference shares					
Beneficial	-	-	-	-	210

Of the many business interests of David 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.

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.

Directors' report continued

Insurance of Directors and Officers of the Company

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

Substantial shareholdings

Set out below are details of significant shareholdings (3% or more) in each class of share of the Company as at 11 April 2005.

Name	Ordinary shares of £1	'A' ordinary shares	5%	3.5% second	3% third	3.75% third	5% third	2% fourth	10% fifth
			Cumulative preference shares of £5 each						
Allied Mutual Insurance Services Limited	6%								
PJ Amy				3%					
BE Anderson							4%		
PJ Audrain							4%		
PG Blampied	7%		19%	31%	7%	23%	26%	10%	
RM Clarke	3%								
Deenbee Limited			11%	13%	7%	15%	11%	10%	
Forest Nominees Limited								11%	
BF Foster				23%	6%				
JMS Hobbs					4%		4%		
James Capel (Channel Islands) Nominees Limited			25%			11%		4%	
PE Le Couteur			5%		17%		3%	6%	
JH Le Cras			9%	3%	20%		4%	18%	
EJ Morcombe			8%			14%	12%	5%	
FN Morcombe				11%	6%	9%	7%	6%	
The Estate of M Le Marquand Morel							4%		
DF Parlett							4%		
Nordar Limited	3%								
BR Querée	4%								
The States of Jersey	50%	100%							100%

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.

Directors' report continued

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

Helier Smith

Company Secretary

11 April 2005

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 2004 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 15 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 details of Directors, Officers and Advisers, the Notice of the Annual General Meeting, the Board of Director profiles, the Chairman's Statement, the Statement of Company Policy, the Engineer's Certificate, the Corporate Governance report, 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 2004 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

11 April 2005

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 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets	2		**57,150,673**		56,612,193
Current assets					
Stores		**1,127,941**		1,086,344	
Debtors	3	**3,623,179**		3,166,015	
Bank and cash		**49,905**		451	
		4,801,025		4,252,810	
Creditors - Amounts falling due within one year					
Bank overdraft		**-**		(492,730)	
Creditors and accruals	4	**(3,045,562)**		(2,053,754)	
Contract retentions		**(76,969)**		(42,420)	
Income tax		**(2,162)**		(68,355)	
Loans	6	**(3,650,000)**		-	
		(6,774,693)		(2,657,259)	
Net current (liabilities) / assets			**(1,973,668)**		1,595,551
Total assets less current liabilities			**55,177,005**		58,207,744
Creditors - Amounts falling due after more than one year					
Contract retentions		**-**		(127,044)	
Future income tax		**-**		(27,076)	
Loans	6	**(11,250,000)**		(14,900,000)	
			(11,250,000)		(15,054,120)
Provisions for liabilities and charges					
Deferred taxation	7		**(4,538,477)**		(3,947,410)
Net assets excluding pension liability			**39,388,528**		39,206,214
Pension liability	8		**(3,119,207)**		(3,598,473)
Net assets			**£36,269,321**		£35,607,741
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		**29,602,271**		28,940,691
Shareholders' funds	11		**£36,269,321**		£35,607,741

The financial statements on pages 20 to 34 were approved by the Board of Directors on 11 April 2005 and were signed on its behalf by:

DC Norman
Chairman

Profit and Loss Account

For the year ended 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Turnover					
Water supply charges		**11,745,741**		11,118,956	
Rechargeable works income		**501,160**		586,230	
Other income		**166,267**		292,867	
			12,413,168		11,998,053
Cost of sales					
Pumping expenses		**(590,849)**		(622,116)	
Maintenance of reservoirs and works		**(2,034,529)**		(1,902,205)	
Distribution and analysis of water		**(1,868,874)**		(1,774,918)	
Desalination station expenses		**(302,213)**		(779,204)	
Miscellaneous		**(304,674)**		(291,986)	
		(5,101,139)		(5,370,429)	
Administration					
Administration charges	12	**(1,965,978)**		(1,650,328)	
Insurances		**(381,203)**		(413,217)	
		(2,347,181)		(2,063,545)	
Depreciation					
Completed works		**(1,736,383)**		(1,515,143)	
Expenditure			**(9,184,703)**		(8,949,117)
Operating profit			**3,228,465**		3,048,936
Profit on disposal of fixed assets			**520,469**		216,447
Interest					
- payable	13	**(828,947)**		(694,447)	
- receivable		**14,058**		3,001	
Other finance costs	8	**(96,396)**		(181,339)	
			(911,285)		(872,785)
Profit before taxation			**2,837,649**		2,392,598
Jersey income tax	5		**(684,167)**		(396,735)
Profit available for distribution			**2,153,482**		1,995,863
Dividends	14		**(1,380,665)**		(417,026)
Retained profit for the year			**£772,817**		£1,578,837
Earnings per ordinary share of £1	15		**£3.67**		£3.34

There is no material difference between the reported profit for 2004 and 2003 and the profit prepared under the historical cost basis.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2004

	Note	**2004**	2003
		£	£
Profit for the year		**2,153,482**	1,995,863
(Loss) / gain arising on pension liabilities	8	**(111,237)**	197,908
Total recognised gains and losses for the year		**£2,042,245**	£2,193,771

Cash Flow Statement

For the year ended 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Net cash inflow from operating activities	16		**3,819,981**		4,348,297
Returns on investments and servicing of finance					
Interest received		**12,274**		3,001	
Interest paid		**(817,334)**		(660,021)	
Non-equity dividends paid		**(380,665)**		(380,665)	
Net cash outflow on returns on investments and servicing of finance			**(1,185,725)**		(1,037,685)
Taxation					
Jersey income tax paid			**(69,000)**		(207,723)
Capital expenditure					
Purchase of fixed assets		**(2,580,923)**		(6,183,028)	
Disposal of fixed assets		**531,511**		313,184	
Net cash outflow from capital expenditure			**(2,049,412)**		(5,869,844)
Equity dividends paid			**(37,134)**		(35,356)
Management of liquid resources					
Loans repaid by employees		**63,474**		36,204	
Net cash inflow from management of liquid resources			**63,474**		36,204
Net cash inflow / (outflow) before financing			**542,184**		(2,766,107)
Financing					
New loans		**-**		6,000,000	
Loans repaid		**-**		(950,000)	
Net cash inflow from financing			**-**		5,050,000
Increase in cash			**£542,184**		£2,283,893

Reconciliation of net cash flow to movement in net debt

	Note	2004 £	2003 £
Increase in cash		**542,184**	2,283,893
Cash inflow from increase in debt		**-**	(6,000,000)
Cash outflow on repayment of debt		**-**	950,000
Movement in net debt	17	**542,184**	(2,766,107)
Net debt brought forward	17	**(15,392,279)**	(12,626,172)
Net debt carried forward	17	**£(14,850,095)**	£(15,392,279)

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

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.

Notes to the Financial Statements continued

2 Fixed Assets

	Property and completed works	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£	£	£	£
Cost				
Brought forward	64,304,658	3,824,523	1,669,134	**69,798,315**
Additions	-	2,291,768	273,353	**2,565,121**
Disposals	(108,661)	-	(163,385)	**(272,046)**
Transfers	5,385,835	(5,385,835)	-	**-**
Carried forward	**69,581,832**	**730,456**	**1,779,102**	**72,091,390**
Depreciation				
Brought forward	(12,225,367)	-	(960,755)	**(13,186,122)**
Charge for the year	(1,736,383)	-	(279,216)	**(2,015,599)**
Disposals	102,765	-	158,239	**261,004**
Carried forward	**(13,858,985)**	**-**	**(1,081,732)**	**(14,940,717)**
Net book value				
Brought forward	£52,079,291	£3,824,523	£708,379	**£56,612,193**
Carried forward	**£55,722,847**	**£730,456**	**£697,370**	**£57,150,673**

Of the £2,015,599 depreciation charge for the year, £279,216 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 2004 the capital commitments contracted for amounted to £507,563 (2003:£114,345).

3 Debtors

	2004	2003
	£	£
Trade debtors	**3,014,107**	2,875,974
Prepayments	**363,315**	226,567
Loans to employees	**-**	63,474
Other debtors	**245,757**	-
	£3,623,179	£3,166,015

4 Creditors and accruals

	2004	2003
	£	£
Trade creditors	**359,041**	420,960
Other creditors	**144,582**	138,120
Accruals and deferred income	**1,556,236**	1,471,837
Proposed dividend (net)	**985,703**	22,837
	£3,045,562	£2,053,754

Notes to the Financial Statements continued

5 Jersey Income Tax

	2004 £	2003 £
Current tax		
Income tax on the profits for the year	**150,438**	60,040
(Over) / under provision for previous years	**(57,338)**	5,000
Total current tax	**93,100**	65,040
Deferred tax		
Charge for the year	**372,364**	331,695
Under provision for previous years	**218,703**	-
Total deferred tax	**591,067**	331,695
Total tax charge for the year	**£684,167**	£396,735

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:

	2004 £	2003 £
Profit before tax	**£2,837,649**	£2,392,598
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2003: 20%).	**567,530**	478,520
Capital allowances for period in excess of depreciation	**(211,297)**	(340,460)
Capital expenditure, deductible for tax purposes	**(101,701)**	(34,731)
Profit on sale of fixed assets	**(104,094)**	(43,289)
Current tax charge for year	**£150,438**	£60,040

Notes to the Financial Statements continued

6 Loans

	Repayment Dates	2004	2003
		£	£
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**	6,000,000
		£14,900,000	£14,900,000
Loans falling due within one year		**3,650,000**	-
Loans falling due within between one and two years		**-**	3,650,000
Loans falling due after two years but less than five years		**-**	-
Loans falling due after five years or more		**11,250,000**	11,250,000
		£14,900,000	£14,900,000

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.

Subsequent to the year end, the terms of the £3,650,000 loan due for repayment in 2005 were extended for 12 months. The loan is now due for repayment in 2006.

7 Deferred taxation

	2004	2003
	£	£
Capital allowances	**£4,538,477**	£3,947,410
Brought forward	**3,947,410**	3,615,715
Transfer from profit and loss account	**591,067**	331,695
At 31 December	**£4,538,477**	£3,947,410

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 Peter Blampied OBE, Paul Batho, Michael Le Brocq, Richard Pirouet, Helier Smith and Howard 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 2004 totalled £35,250 (2003: £13,789).

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 2004 by a qualified actuary. The major financial assumptions used by the actuary were:

	2004	2003	2002
Rate of increase in salaries	**4.86%**	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	**4.11%**	3.75%	3.75%
Discount rate	**5.23%**	5.38%	5.47%
Inflation assumption	**4.86%**	4.00%	4.00%

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

	2004		2003		2002	
	Expected long term rate of return	**Value £**	Expected long term rate of return	Value £	Expected long term rate of return	Value £
Equities	**8.12%**	**5,198,565**	8.14%	4,708,789	8.18%	3,783,538
Corporate bonds	**5.23%**	**3,445,050**	5.38%	2,896,675	5.47%	1,710,112
Cash	**4.75%**	**553,545**	3.75%	85,040	4.00%	1,047,982
Weighted rate of return on assets	**6.83%**	**£9,197,160**	7.05%	£7,690,504	6.80%	£6,541,632

Notes to the Financial Statements continued

Pensions continued

	2004	2003	2002
	£	£	£
Total market value of assets	9,197,160	7,690,504	6,541,632
Present value of total pension liabilities	(13,096,169)	(12,188,596)	(11,448,930)
Pension deficit	(3,899,009)	(4,498,092)	(4,907,298)
Related deferred tax asset	779,802	899,619	981,459
Net total pension liability	£(3,119,207)	£(3,598,473)	£(3,925,839)

Analysis of the amount charged to Operating Profit

	2004	2003
	£	£
Current service cost	£394,034	£367,582

Analysis of the amount included in Other Finance Costs

	2004	2003
	£	£
Expected return on defined benefit scheme assets	569,359	454,421
Interest on total pension liabilities	(665,755)	(635,760)
Net charge for the year	£(96,396)	£(181,339)

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

	2004	2003
	£	£
Actual return less expected return on defined benefit scheme assets	161,655	409,095
Experience gains arising on the total pension liabilities	193,989	13,139
Changes in assumptions underlying the present value of the total pension liabilities	(494,691)	(174,850)
Actuarial (loss) / gain recognised	(139,047)	247,384
Current tax relief	147,627	32,364
Movement in deferred tax relating to net liability	(119,817)	(81,840)
(Loss) / gain recognised in statement of total recognised gains and losses	£(111,237)	£197,908

Movement in deficit during the year

	2004	2003
	£	£
Total pension deficit at beginning of the year	(4,498,092)	(4,907,298)
Deferred tax asset	899,619	981,459
	(3,598,473)	(3,925,839)
Movement in year:		
Current service cost	(394,034)	(367,582)
Contributions and pensions paid	1,228,560	710,743
Other finance costs	(96,396)	(181,339)
Actuarial (loss) / gain	(139,047)	247,384
	(2,999,390)	(3,516,633)
Movement in deferred tax asset	(119,817)	(81,840)
Total pension deficit at end of the year	£(3,119,207)	£(3,598,473)

Notes to the Financial Statements continued

Pensions continued

History of experience gains and losses	2004 £	2003 £	2002 £	2001 £	2000 £
Difference between the expected and actual return on plan assets:					
Amount	**161,655**	409,095	(2,011,997)	(1,157,719)	(1,323,078)
Percentage of plan assets	**1.8%**	5.3%	31%	16%	17%
Experience gains and losses on total pension liabilities:					
Amount	**193,989**	13,139	(385,605)	614,856	-
Percentage of the present value of pension liabilities	**1.5%**	0.1%	3%	6%	0%
Total amount recognised in statement of total recognised gains and losses:					
Amount	**(111,237)**	197,908	(2,448,572)	(299,513)	(1,664,223)
Percentage of the present value of pension liabilities	**0.8%**	1.6%	21%	3%	17%

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 £669,643 (2003: £672,514) plus a special contribution of £520,000 (2003: £Nil).

Following the results of the latest actuarial valuation as at 31 December 2003 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

		2004 £	2003 £
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

		2004	2003
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	26,419,803	2,520,888	**28,940,691**
Retained profit for year	772,817	-	**772,817**
Transfer of profit on sale of fixed assets to capital reserve	(520,469)	520,469	**-**
Loss relating to pension plan deficit recognised in the statement of total recognised gains and losses	(111,237)	-	**(111,237)**
Carried forward	**£26,560,914**	**£3,041,357**	**£29,602,271**

Notes to the Financial Statements continued

11 Reconciliation of movement in shareholders' funds

	2004	2003
	£	£
Profit for the year	2,153,482	1,995,863
Dividends	(1,380,665)	(417,026)
Retained profit for the year	772,817	1,578,837
(Loss) / gain arising on pension plan	(111,237)	197,908
Opening shareholders' funds	35,607,741	33,830,996
Closing shareholders' funds	£36,269,321	£35,607,741
Equity	30,886,896	30,225,316
Non-equity	5,382,425	5,382,425
	£36,269,321	£35,607,741

12 Administration charges

	2004	2003
	£	£
Included in administration charges are the following:		
Directors' fees (note 18)	32,000	30,815
Auditors' fees - Statutory audit	22,500	21,500
- Other services (Tax advisory and compliance)	4,000	6,000

13 Interest payable

	2004	2003
	£	£
On loans and overdrafts from banks	£828,947	£694,447

Notes to the Financial Statements continued

14 Dividends

Amounts are shown net of 20% tax			2004		2003	
	Paid	**Payable**	**Charge for the year**	Paid	Payable	Charge for the year
Non-equity	**£**	**£**	**£**	£	£	£
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**	1,624	812	2,436
3% cumulative third preference shares	**2,587**	**235**	**2,822**	2,587	235	2,822
3.75% cumulative third preference shares	**2,004**	**401**	**2,405**	2,004	401	2,405
5% cumulative third preference shares	**2,090**	**190**	**2,280**	2,090	190	2,280
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**	£377,301	£3,364	£380,665

Equity			2004		2003	
	Paid	**Proposed**	**Total**	Paid	Proposed	Total
Ordinary shares (2004 Total - 258.8 pence per share)	**7,459**	**514,280**	**521,739**	7,056	11,915	18,971
‘A’ ordinary shares (2004 Total - 258.8 pence per share)	**6,838**	**471,423**	**478,261**	6,468	10,922	17,390
Total dividends paid and proposed	**£14,297**	**£985,703**	**£1,000,000**	£13,524	£22,837	£36,361

Analysis of amount charged in the profit and loss account	**2004**	2003
	£	£
Equity dividends	**1,000,000**	36,361
Non-equity dividends	**380,665**	380,665
	£1,380,665	£417,026

15 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £2,153,482 (2003 - £1,995,863), being the profit available for distribution, less preference share dividends of £380,665 (2003 - £380,665) 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

	2004	2003
	£	£
Operating profit	**3,228,465**	3,048,936
Depreciation	**2,015,599**	1,777,871
Change in order to bring pension contributions onto a cash basis	**(834,526)**	(343,161)
(Increase) / decrease in stores	**(41,597)**	137,576
(Increase) in debtors	**(488,592)**	(179,463)
(Decrease) in creditors	**(59,368)**	(93,462)
Net cash inflow from operating activities	**£3,819,981**	£4,348,297

Notes to the Financial Statements continued

17 Analysis of changes in net debt

	At 1 January 2004	Cash Flows	Other Changes	**At 31 December 2004**
	£	£	£	**£**
Bank and cash	(492,279)	542,184	-	**49,905**
Debt due within one year	-	-	(3,650,000)	**(3,650,000)**
Debt due after one year	(14,900,000)	-	3,650,000	**(11,250,000)**
Total	**£(15,392,279)**	**£542,184**	**-**	**£(14,850,095)**

18 Directors' emoluments

	Base Salary / Fee	**Bonus**	**Benefits**	**Total Emoluments** *(excluding pension contributions)*	
				2004	2003
	£	£	£	**£**	£
Executives					
Howard Snowden[1]	82,583	4,000	9,707	**96,290**	92,855
Helier Smith[2]	70,500	4,000	8,221	**82,721**	15,896
Non-Executives					
David Norman	8,000	-	-	**8,000**	8,000
Leonard Norman	4,000	-	-	**4,000**	4,000
John Germain	-	-	-	**-**	2,000
Carlyle Hinault	4,000	-	-	**4,000**	4,000
Richard Pirouet	4,000	-	-	**4,000**	4,000
Stephen Marie	4,000	-	-	**4,000**	4,000

[1] For the year ended 31 December 2004 the Company's contribution in respect of Howard Snowden's pension was £8,970.
[2] For the year ended 31 December 2004 the Company's contribution in respect of Helier Smith's pension was £3,300.

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

In January 2004, the Company received a claim from MJ Gleeson Limited totalling £780,000. In 2003, 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	1995	1996	1997	1998	1999	2000	2001	2002	2003	**2004**
Additional dwelling units connected	Number	493	549	459	570	812	591	692	1,162	821	**812**
Total dwelling units on supply	Number	28,886	29,435	29,894	30,464	31,276	31,867	32,559	33,721	34,542	**35,354**
Service mains laid	metres	6,152	11,065	8,553	8,993	9,623	3,569	7,439	10,892	7,920	**7,036**
Total length of service mains	Km	365.41	376.48	385.03	394.02	403.64	407.21	414.64	425.53	433.45	**440.48**
Trunk mains laid	metres	1,105	1,526	2,164	4,742	1,163	3,131	4,736	1,161	4,104	**0**
Total length of trunk mains	Km	53.08	54.19	56.35	61.09	62.25	65.38	70.11	71.27	75.37	**75.37**
Service mains relaid	metres	242	466	738	244	300	1,598	1,281	1,178	1,822	**2,497**
Annual Rainfall (140 year average - 851.6mm)	mm	874.7	695.3	757.5	984.6	961.4	1026.9	957.8	986.9	756.9	**883.9**
Number of employees at end of year	Number	117	118	118	117	114	113	112	112	116	**114**
Total water supplied	Ml	6,622	6,834	6,994	7,229	7,269	7,262	7,317	7,207	7,301	**7,305**
Maximum day's demand	Ml	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	**26.5 13 June**
Maximum month's demand	Ml	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	**682.7 July**

Notes

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