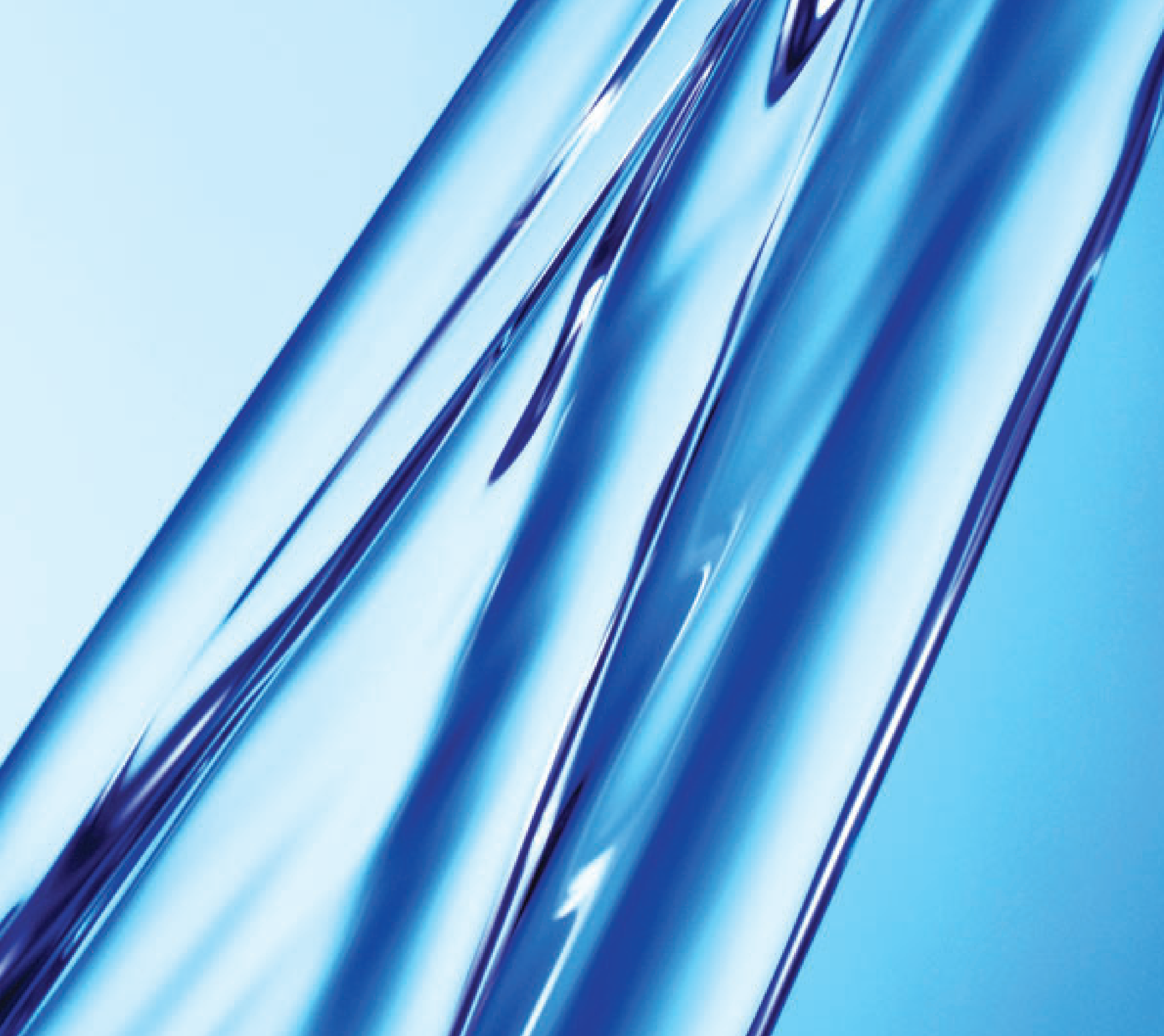
# Annual Report and Financial Statements 2005

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-fourth annual general meeting of the shareholders of The Jersey New Waterworks Company Limited will be held in the Beauport Room at The Hotel de France, St Helier, Jersey on 19 May 2006, at 9.00 am. Coffee will be served from 8:30.

- To receive the Financial Statements for the year ended 31 December 2005.
- To declare a final gross dividend of 172 pence per share on the ordinary and 'A' ordinary shares of the Company.
- To re-elect Richard Pirouet and Howard Snowden, the Directors retiring by rotation.
- To approve the Directors' fees for 2006 of £15,000 for the Chairman and £8,000 for other Directors (2005: £12,000 and £6,000 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

7 April 2006

To facilitate the preparation of dividend warrants the share transfer books of the Company will be closed from 6 May 2006 to 19 May 2006, both days inclusive, and, subject to the dividend being confirmed, dividend warrants will be posted on 19 May 2006 to all ordinary and 'A' ordinary shareholders registered on 19 May 2006.

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

**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 was, up to December 2005, 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

## Review of the year's financial performance

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

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

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

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

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

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

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

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

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

Millbrook Reservoir

## Chairman's Statement (continued)

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

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

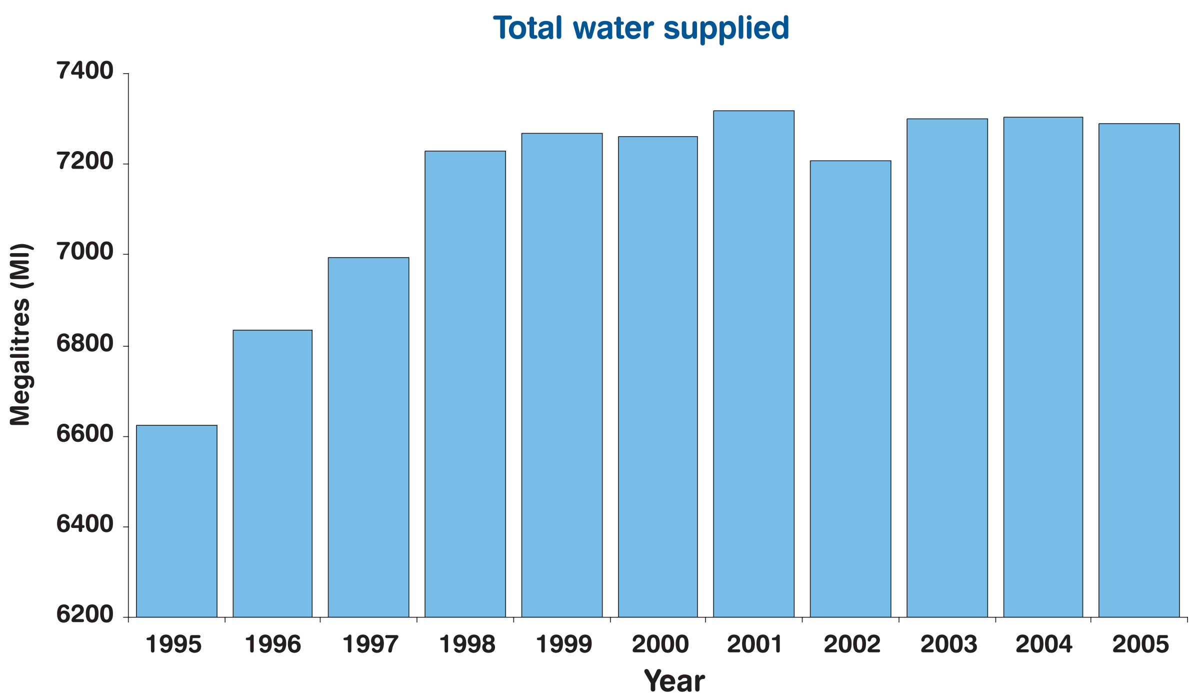
Our policy to continue to seek revenue increases at marginally below RPI remains unchanged and for 2006 we have increased charges to all customers by 1.95%.

### Water Resources

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

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

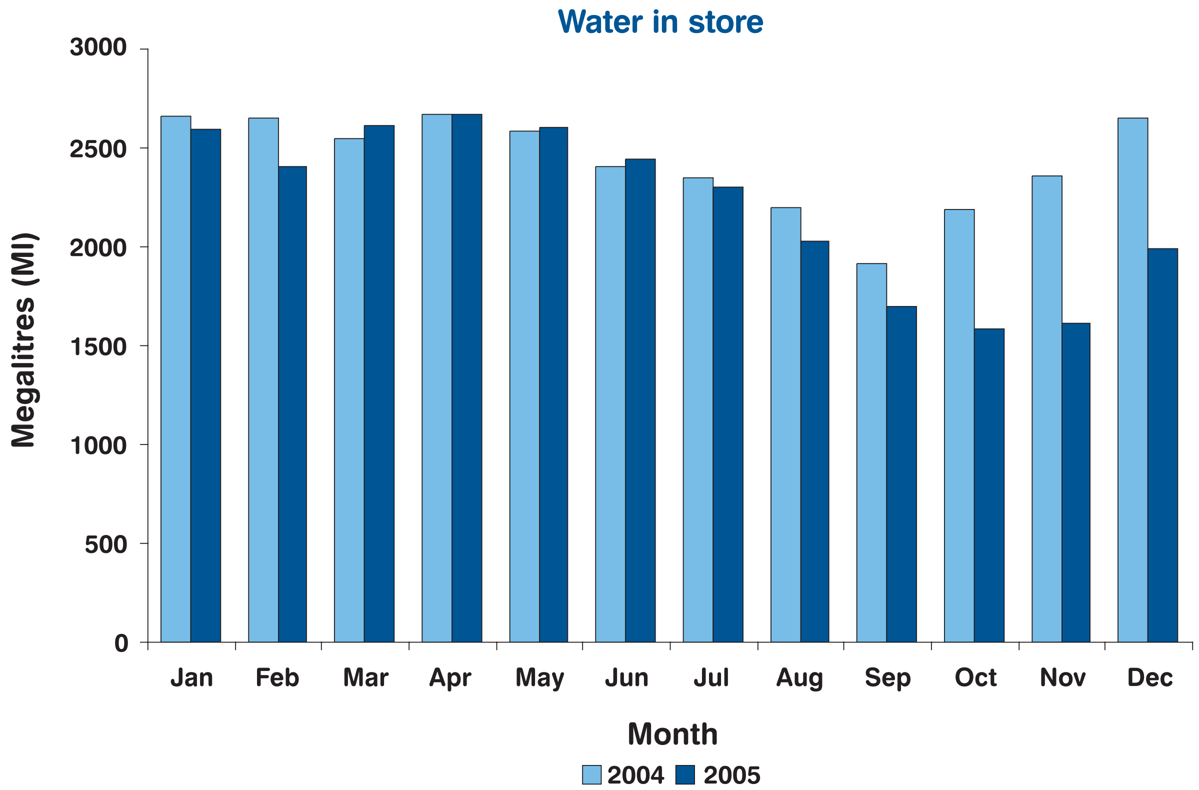
For the third year in a row demand for water in 2005 remained virtually unchanged at just 0.2% lower than the previous year, despite the addition of 629 new connections. We believe that your Company's efforts in the area of demand management have significantly contributed to the flattening of demand.



## Chairman's Statement (continued)

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

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




**"For the third year in a row demand for water in 2005 remained virtually unchanged."**

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

# Chairman's Statement (continued)

## The Company's Reservoirs and Infrastructure

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

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

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

- Les Platons high level distribution system which stores treated water in service reservoirs at Les Platons and distributes it using gravity (rather than pumps). I reported the commissioning of this system to Shareholders last year, but in 2005 we continued to extend it, this time to the east of the Island, allowing another booster station to be taken out of service. Fine-tuning and the use of pressure reducing valves have reduced leakage throughout the network and the small differences in pressure at customers' taps add up to significant savings in water consumed.
- In 2005 the Company won a national Gold "Green Apple" award in recognition of the environmental benefits of the Les Platons scheme, which achieved net energy savings of 30%. The award was presented to the Managing Director, Howard Snowden, at the Houses of Parliament.
- Telemetry systems - The prompt identification and rectification of leakage is a key control in reducing the consumption of water. Your Company has been working hard over the past three years to implement a comprehensive network of electro-magnetic flow meters and pressure regulating valves all linked back to our control room. The "SCADA" (Supervisory Control and Data Acquisition) system monitors the flow of water within discrete zones of the distribution system and raises the alarm if abnormal flows are detected. This allows leak detection staff to target the specific zone and investigate the cause of the problem very quickly. The rollout of additional telemetry equipment and creation of additional distribution zones is ongoing but the work to date has shown us that leakage levels suffered by the network are lower than those generally experienced in the United Kingdom.
- Metering - We view metering as the fairest way to charge for water and actively encourage the use of meters and ultimately would like to see all customers being metered. Some 25% of customers now pay by meter, an increase of nearly 80% in two years. Work started in 2004 to replace old water meters with electronic units, which allow semi-automated meter reading; this work continued in 2005 and remains ongoing. The total man-hours spent meter reading is now less than it was two years ago, when the total metered customer base was 14%.

**Howard Snowden (right) receives the 'Golden' Green Apple Award from former England cricketer Alan Lamb.**

## Chairman's Statement (continued)

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

> **"The Company laid a total of 9.8 km of new treated water mains with 629 new connections."**

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

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

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

### Water Quality

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

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

Grands Vaux Reservoir

# Chairman's Statement (continued)

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

Filter controls at Handois Treatment Works

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

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

## Board of Directors

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

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

## The Company staff

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

**David Norman**
Chairman

7 April 2006

# 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 provide an adequate supply of good quality water whilst limiting increases in the cost of water and providing a reasonable return for its equity shareholders.

# 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 matter:

- 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. One third of directors are required to offer themselves for re-election each year and the Board are of the opinion that re-election once every three years is sufficient for the purposes of the Company.

## 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 12 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 2005** | **12** | **2** | **1** | **1** |
| *David Norman* | 12 (Chairman) | | | 1 (Chairman) |
| *Senator Len Norman* | 11 | | | |
| *Richard Pirouet* | 12 | 2 (Chairman) | 1 (Chairman) | 1 |
| *Stephen Marie* | 11 | 2 | 1 | 1 |
| *Carlyle Hinault* | 11 | 1 | 1 | |
| *Howard Snowden* | 12 | | | |
| *Helier Smith* | 11 | | | |

# 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 has 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 continued its process of 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.
- 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 has considered the need for an internal audit function and has concluded that due to the size and type of business that such a function would not be cost effective.

# Corporate Governance (continued)

## Remuneration Committee

The Remuneration Committee is made up of Richard Pirouet (Chairman), 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 Nomination Committee comprises David Norman (Chairman), Richard Pirouet and Stephen Marie and, since January 2006, Len Norman and Carlyle Hinault. It is primarily responsible for the selection and appointment of the Company's executive and non-executive directors as and when required.

Queen's Valley Reservoir

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 2005.

## 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.

In 2004, 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.

# Corporate Governance (continued)

The process of risk assessment and reviewing the effectiveness of the systems of internal control is regularly reviewed by the audit committee, accords with Turnbull guidance and has been in place for the whole of the year, 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.

Augrès Treatment Works

# Director's Report

The Directors of the Company present the financial statements for the year ended 31 December 2005.

## 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 20. 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 2005 the Company paid dividends on preference shares totalling £380,665 (net) (2004: £380,665).

During the year, an interim dividend of 100 pence per share (gross) (2004: 3.7 pence) was paid on the Ordinary and 'A' Ordinary shares totalling £386,400 (net) (2004:£14,297). The Directors recommend a final dividend of 172 pence (gross) (2004: 255.1 pence) totalling £664,608 (net) (2004: £985,703).

## Directors

### Changes in Directors

The Directors of the Company on the date the financial statements were approved and throughout the year ended 31 December 2005 were as detailed on page 2.

In accordance with the provisions of Article 74(b), Richard Pirouet and Howard Snowden 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 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 2005 are shown on the table below.

| | Ordinary shares | | Preference shares |
|---|---|---|---|
| | *Beneficial* | *Non-beneficial* | *Beneficial* |
| Carlyle Hinault | 100 | - | - |
| Stephen Marie | 100 | - | - |
| David Norman | 190 | 7,740 | - |
| Howard Snowden | 200 | - | - |
| Helier Smith | 146 | - | 253 |

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.

### 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.

# Director’s Report (continued)

## Substantial shareholdings

Set out below are details of significant shareholdings (3% or more) in each class of share of the Company as at 7 April 2006.

| Name | Ordinary shares of £1 | ‘A’ ordinary shares of £1 | 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% | 7% | 10% | 11% | 8% | |
| 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.

## 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

7 April 2006

# 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 2005 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 21. 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements 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 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 International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom accounting standards, of the state of the Company's affairs as at 31 December 2005 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 April 2006

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 2005

| | Note | 2005 £ | 2005 £ | 2004 Restated £ | 2004 Restated £ |
|---|---|---|---|---|---|
| **Fixed assets** | 2 | | **58,580,378** | | 57,248,194 |
| **Current assets** | | | | | |
| Stock and work in progress | | **1,119,812** | | 1,127,941 | |
| Debtors | 3 | **3,435,922** | | 3,623,179 | |
| Bank and cash | | **451** | | 49,905 | |
| | | **4,556,185** | | 4,801,025 | |
| **Creditors** - Amounts falling due within one year | | | | | |
| Bank overdraft | | **(276,883)** | | - | |
| Creditors and accruals | 4 | **(2,651,794)** | | (2,157,380) | |
| Contract retentions | | **(76,436)** | | (76,969) | |
| Income tax | | **(3,292)** | | (2,162) | |
| Bank loans | 6 | **(3,650,000)** | | (3,650,000) | |
| | | **(6,658,405)** | | (5,886,511) | |
| **Net current liabilities** | | | **(2,102,220)** | | (1,085,486) |
| **Total assets less current liabilities** | | | **56,478,158** | | 56,162,708 |
| **Creditors** - Amounts falling due after more than one year | | | | | |
| Contract retentions | | **(8,037)** | | - | |
| Bank loans | 6 | **(11,250,000)** | | (11,250,000) | |
| Non-equity preference shares | 9b | **(5,382,425)** | | (5,382,425) | |
| | | | **(16,640,462)** | | (16,632,425) |
| **Provisions for liabilities and charges** | | | | | |
| Deferred taxation | 7 | | **(4,733,994)** | | (4,538,477) |
| **Net assets excluding pension liability** | | | **35,103,702** | | 34,991,806 |
| Pension liability | 8 | | **(3,079,941)** | | (3,119,207) |
| **Net assets** | | | **£32,023,761** | | £31,872,599 |
| **Equity capital and reserves** | | | | | |
| Called up equity share capital | 9a | | **483,000** | | 483,000 |
| Capital redemption reserve | | | **124,025** | | 124,025 |
| | | | **607,025** | | 607,025 |
| Share premium account | | | **677,600** | | 677,600 |
| Reserves | 10 | | **30,739,136** | | 30,587,974 |
| **Shareholders' funds** | 11 | | **£32,023,761** | | £31,872,599 |

The financial statements on pages 19 to 34 were approved by the Board of Directors on 7 April 2006 and were signed on its behalf by:

**DC Norman**
Chairman

# Profit and Loss Account

For the year ended 31 December 2005

| | Note | 2005 £ | 2005 £ | 2004 Restated £ | 2004 Restated £ |
|---|---|---|---|---|---|
| **Turnover** | | | | | |
| Water supply charges | 12 | **12,038,403** | | 11,745,741 | |
| Rechargeable works income | | **468,248** | | 501,160 | |
| Other income | | **176,450** | | 166,267 | |
| | | | **12,683,101** | | 12,413,168 |
| **Cost of sales** | | | | | |
| Pumping expenses | | **(606,686)** | | (590,849) | |
| Maintenance of reservoirs and works | | **(1,982,391)** | | (2,034,529) | |
| Distribution and analysis of water | | **(2,269,227)** | | (1,868,874) | |
| Desalination station expenses | | **(179,813)** | | (302,213) | |
| Miscellaneous | | **(282,828)** | | (304,674) | |
| | | **(5,320,945)** | | (5,101,139) | |
| **Administration** | | | | | |
| Administration charges | 13 | **(1,915,553)** | | (1,965,978) | |
| Insurances | | **(405,989)** | | (381,203) | |
| | | **(2,321,542)** | | (2,347,181) | |
| **Depreciation** | | | | | |
| Completed works | | **(1,864,748)** | | (1,736,383) | |
| **Expenditure** | | | **(9,507,235)** | | (9,184,703) |
| **Operating profit** | | | **3,175,866** | | 3,228,465 |
| **Profit on disposal of fixed assets** | | | **504,263** | | 520,469 |
| **Interest** | | | | | |
| - payable | 14 | **(835,902)** | | (828,947) | |
| - receivable | | **16,462** | | 14,058 | |
| **Non-equity dividends** | 15 | **(380,665)** | | (380,665) | |
| **Other finance costs** | 8 | **(41,373)** | | (96,396) | |
| | | | **(1,241,478)** | | (1,291,950) |
| **Profit before taxation** | | | **2,438,651** | | 2,456,984 |
| **Jersey income tax** | 5 | | **(322,952)** | | (684,167) |
| **Profit available for distribution to equity shareholders** | | | **2,115,699** | | 1,772,817 |
| **Equity dividends** | 16 | | **(1,372,103)** | | (37,134) |
| **Retained profit for the year** | | | **£743,596** | | £1,735,683 |
| **Earnings per ordinary share of £1** | 17 | | **£4.38** | | £3.67 |

There is no material difference between the reported profit for 2005 and 2004 and the profit prepared under the historical cost basis.

# Statement of Total Recognised Gains and Losses

For the year ended 31 December 2005

| | Note | **2005** | 2004 Restated |
|---|---|---|---|
| | | **£** | £ |
| Profit for the year | | **2,115,699** | 1,772,817 |
| Loss arising on pension liabilities | 8 | **(592,434)** | (111,237) |
| **Total recognised gains and losses for the year** | | **£1,523,265** | £1,661,580 |

# Cash Flow Statement

For the year ended 31 December 2005

| | Note | 2005 £ | 2005 £ | 2004 £ | 2004 £ |
|---|---|---|---|---|---|
| **Net cash inflow from operating activities** | 18 | | **5,083,016** | | 3,819,981 |
| **Returns on investments and servicing of finance** | | | | | |
| Interest received | | **18,246** | | 12,274 | |
| Interest paid | | **(836,087)** | | (817,334) | |
| Non-equity dividends paid | | **(380,665)** | | (380,665) | |
| **Net cash outflow on returns on investments and servicing of finance** | | | **(1,198,506)** | | (1,185,725) |
| **Taxation** | | | | | |
| Jersey income tax repaid / (paid) | | | **61,877** | | (69,000) |
| **Capital expenditure** | | | | | |
| Purchase of fixed assets | | **(3,613,631)** | | (2,580,923) | |
| Disposal of fixed assets | | **713,010** | | 531,511 | |
| **Net cash outflow from capital expenditure** | | | **(2,900,621)** | | (2,049,412) |
| **Equity dividends paid** | | | **(1,372,103)** | | (37,134) |
| **Management of liquid resources** | | | | | |
| Loans repaid by employees | | **-** | | 63,474 | |
| **Net cash inflow from management of liquid resources** | | | **-** | | 63,474 |
| **Net cash (outflow) / inflow before financing** | | | **(326,337)** | | 542,184 |
| **Financing** | | | | | |
| New loans | | **-** | | - | |
| Loans repaid | | **-** | | - | |
| **Net cash flow from financing** | | | **-** | | - |
| **(Decrease) / Increase in cash** | | | **£(326,337)** | | £542,184 |

## Reconciliation of net cash flow to movement in net debt

| | Note | 2005 £ | 2004 Restated £ |
|---|---|---|---|
| (Decrease) / Increase in cash | | **(326,337)** | 542,184 |
| Cash inflow from increase in debt | | **-** | - |
| Cash outflow on repayment of debt | | **-** | - |
| **Movement in net debt** | 19 | **(326,337)** | 542,184 |
| **Net debt brought forward** | 19 | **(20,232,520)** | (20,774,704) |
| **Net debt carried forward** | 19 | **£(20,558,857)** | £(20,232,520) |

# 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.

### Stock and work in progress

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)

## Changes in accounting policy

- FRS 21 - Events after the balance sheet date

  During the year the Company adopted the accounting standard FRS21 - Events after the balance sheet date, which became mandatory for all accounting periods beginning on or after 1 January 2005. The standard requires, inter-alia, that dividends declared after the balance sheet date but before the financial statements are approved shall not be recognised as a liability at the balance sheet date. This is because they do not meet the definition of a liability under FRS12. Previously, dividends would have been recognised as a liability at the balance sheet date in accordance with SSAP17 which has now been replaced by FRS21. The effect of the change in accounting policy is to delay the recognition of final dividends until the following year once they are approved by shareholders at the Annual General Meeting.

  The change in accounting policy has the effect of increasing the retained profit for the prior year by £962,866.

  In respect of the year ended 31 December 2005, the change in policy has reduced retained profit for the year by £321,095.

- FRS 25 - Financial Instruments: Disclosure and Presentation

  During the year the Company adopted the applicable sections of the new accounting standard FRS25 - Financial Instruments: Disclosure and Presentation. The standard sets out certain disclosure and presentation requirements for financial instruments. Under the requirements of the standard, non equity shares must be reclassified as financial liabilities and shown in the appropriate section in the balance sheet. Consequently, dividends on non equity shares are reclassified as finance costs within the profit and loss account.

  The effect on the financial statements for the year ended 31 December 2004 and 2005 is to reduce Net Assets by £5,382,425. Retained profits for both years remain the same, however, dividends on preference shares totalling £380,665 are now included within finance charges.

- Uncompleted works - Contributions received towards the cost of treated water mains

  The Company receives contributions from customers for the extension of some treated water mains. Treated water mains are carried within Tangible Fixed Assets net of contributions received. Contributions received in respect of mains that are incomplete at the year end have historically been included within Uncompleted Works within Fixed Assets, netted against the cost to which they relate. As a result of the increasing volume of projects involving contributions from customers and in a change from the prior year, the treatment of payments received on account has been amended. Where, at the year end, payments received on account exceed the balance of costs on the project, the excess is now shown within other creditors. For the year ended 31 December 2004 this has the effect of increasing fixed assets by £97,521 and increasing current liabilities by the same amount. For the year ended 31 December 2005, the effect is to increase fixed assets by £145,000 and increase current liabilities by £145,000. There is no effect on the net assets or retained profit for either year.

# Notes to the Financial Statements (continued)

## 2 Fixed Assets

| | Property and completed works | Uncompleted works | Motor vehicles, mobile plant & equipment | Total |
|---|---|---|---|---|
| | £ | £ | £ | £ |
| **Cost** | | | | |
| Brought forward per prior year financial statements | 69,581,832 | 730,456 | 1,779,102 | **72,091,390** |
| Change in accounting policy | - | 97,521 | - | **97,521** |
| Revised brought forward | 69,581,832 | 827,977 | 1,779,102 | **72,188,911** |
| Additions | 303,558 | 3,087,397 | 321,779 | **3,712,734** |
| Disposals | (210,831) | - | (153,913) | **(364,744)** |
| Transfers | 3,537,249 | (3,537,249) | - | **-** |
| Carried forward | **73,211,808** | **378,125** | **1,946,968** | **75,536,901** |
| **Depreciation** | | | | |
| Brought forward per prior year financial statements | (13,858,985) | - | (1,081,732) | **(14,940,717)** |
| Change in accounting policy | - | - | - | - |
| Revised brought forward | (13,858,985) | - | (1,081,732) | **(14,940,717)** |
| Charge for the year | (1,864,748) | - | (307,055) | **(2,171,803)** |
| Disposals | 12,603 | - | 143,394 | **155,997** |
| Carried forward | **(15,711,130)** | **-** | **(1,245,393)** | **(16,956,523)** |
| **Net book value** | | | | |
| Brought forward | £55,722,847 | £827,977 | £697,370 | **£57,248,194** |
| **Carried forward** | **£57,500,678** | **£378,125** | **£701,575** | **£58,580,378** |

Of the £2,171,803 depreciation charge for the year, £307,055 relating to motor vehicles, mobile plant and equipment has been allocated to various cost centres included within the Cost of Sales and Administration Expense categories in the Profit and Loss Account.

At 31 December 2005 the capital commitments contracted for amounted to £213,731 (2004: £507,563).

## 3 Debtors

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Trade debtors | **3,059,840** | 3,014,107 |
| Prepayments | **376,082** | 363,315 |
| Other debtors | **-** | 245,757 |
| | **£3,435,922** | £3,623,179 |

# Notes to the Financial Statements (continued)

## 4 Creditors and accruals

| | 2005 | 2004 Restated |
|---|---|---|
| | £ | £ |
| Trade creditors | **604,471** | 359,041 |
| Other creditors | **507,520** | 242,103 |
| Accruals and deferred income | **1,539,803** | 1,556,236 |
| | **£2,651,794** | £2,157,380 |

## 5 Jersey Income Tax

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| **Current tax** | | |
| Income tax on the profits for the year | **161,217** | 150,438 |
| Over provision for previous years | **(33,782)** | (57,338) |
| Total current tax | **127,435** | 93,100 |
| **Deferred tax** | | |
| Charge for the year | **257,980** | 372,364 |
| (Over) / under provision for previous years | **(62,463)** | 218,703 |
| Total deferred tax | **195,517** | 591,067 |
| **Total tax charge for the year** | **£322,952** | £684,167 |

### 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:

| | 2005 | 2004 Restated |
|---|---|---|
| | £ | £ |
| Profit before tax | **£2,438,651** | £2,456,984 |
| Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2004: 20%). | **487,730** | 491,397 |
| Tax at 20% on: | | |
| Capital allowances for period in excess of depreciation | **(99,068)** | (211,297) |
| Capital expenditure, deductible for tax purposes | **(202,725)** | (101,701) |
| Profit on sale of fixed assets | **(100,853)** | (104,094) |
| Dividends on non equity shares - Non deductible | **76,133** | 76,133 |
| Current tax charge for year | **£161,217** | £150,438 |

# Notes to the Financial Statements (continued)

## 6 Bank loans

| | Repayment Dates | 2005 | 2004 |
|---|---|---|---|
| | | £ | £ |
| **Facilities drawn down** | | | |
| HSBC Bank plc | 2006 | 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 | 3,650,000 |
| Loans falling due within between one and two years | | - | - |
| 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 2006 were extended for 4 years. The loan is now due for repayment in 2010.

## 7 Deferred taxation

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Capital allowances | £4,733,994 | £4,538,477 |
| Brought forward | 4,538,477 | 3,947,410 |
| Transfer from profit and loss account | 195,517 | 591,067 |
| At 31 December | £4,733,994 | £4,538,477 |

## 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 Paul Batho, Michael Le Brocq, Richard Pirouet, Helier Smith and Howard Snowden. Jurat Peter Blampied OBE retired as a Trustee of the plan on 22 July 2005.

### 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 2005 totalled £39,697 (2004: £35,250).

# Notes to the Financial Statements (continued)

**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 2005 by a qualified actuary. The major financial assumptions used by the actuary were:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Rate of increase in salaries | 4.39% | 4.86% | 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 | 3.14% | 4.11% | 3.75% |
| Discount rate | 4.74% | 5.23% | 5.38% |
| Inflation assumption | 3.39% | 4.86% | 4.00% |

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

| | 2005 | | 2004 | | 2003 | |
|---|---|---|---|---|---|---|
| | Expected long term rate of return | Value £ | Expected long term rate of return | Value £ | Expected long term rate of return | Value £ |
| Equities | 8.04% | 6,408,687 | 8.12% | 5,198,565 | 8.14% | 4,708,789 |
| Corporate bonds | 4.42% | 5,209,323 | 5.23% | 3,445,050 | 5.38% | 2,896,675 |
| Cash | 4.50% | 64,217 | 4.75% | 553,545 | 3.75% | 85,040 |
| Weighted rate of return on assets | 6.41% | £11,682,227 | 6.83% | £9,197,160 | 7.05% | £7,690,504 |

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | £ | £ | £ |
| Total market value of assets | 11,682,227 | 9,197,160 | 7,690,504 |
| Present value of total pension liabilities | (15,532,153) | (13,096,169) | (12,188,596) |
| Pension deficit | (3,849,926) | (3,899,009) | (4,498,092) |
| Related deferred tax asset | 769,985 | 779,802 | 899,619 |
| Net total pension liability | £(3,079,941) | £(3,119,207) | £(3,598,473) |

| **Analysis of the amount charged to Operating Profit** | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Current service cost | £416,115 | £394,034 |

# Notes to the Financial Statements (continued)

## Pensions continued

| Analysis of the amount included in Other Finance Costs | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Expected return on defined benefit scheme assets | 651,898 | 569,359 |
| Interest on total pension liabilities | (693,271) | (665,755) |
| Net charge for the year | £(41,373) | £(96,396) |

| Analysis of amount recognised in Statement of Total Recognised Gains and Losses | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Actual return less expected return on defined benefit scheme assets | 1,135,218 | 161,655 |
| Experience gains arising on the total pension liabilities | 135,625 | 193,989 |
| Changes in assumptions underlying the present value of the total pension liabilities | (2,011,385) | (494,691) |
| Actuarial loss recognised | (740,542) | (139,047) |
| Current tax relief | 157,925 | 147,627 |
| Movement in deferred tax relating to net liability | (9,817) | (119,817) |
| Loss recognised in statement of total recognised gains and losses | £(592,434) | £(111,237) |

| Movement in deficit during the year | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Total pension deficit at beginning of the year | (3,899,009) | (4,498,092) |
| Deferred tax asset | 779,802 | 899,619 |
| | (3,119,207) | (3,598,473) |
| Movement in year: | | |
| Current service cost | (416,115) | (394,034) |
| Contributions and pensions paid | 1,247,113 | 1,228,560 |
| Other finance costs | (41,373) | (96,396) |
| Actuarial loss | (740,542) | (139,047) |
| | (3,070,124) | (2,999,390) |
| Movement in deferred tax asset | (9,817) | (119,817) |
| Total pension deficit at end of the year | £(3,079,941) | £(3,119,207) |

# Notes to the Financial Statements (continued)

| History of experience gains and losses | 2005 £ | 2004 £ | 2003 £ | 2002 £ | 2001 £ |
|---|---|---|---|---|---|
| **Difference between the expected and actual return on plan assets:** | | | | | |
| Amount | **1,135,218** | 161,655 | 409,095 | (2,011,997) | (1,157,719) |
| Percentage of plan assets | **9.7%** | 1.8% | 5.3% | 31% | 16% |
| **Experience gains and losses on total pension liabilities:** | | | | | |
| Amount | **135,625** | 193,989 | 13,139 | (385,605) | 614,856 |
| Percentage of the present value of pension liabilities | **0.9%** | 1.5% | 0.1% | 3% | 6% |
| **Total amount recognised in statement of total recognised gains and losses:** | | | | | |
| Amount | **(592,434)** | (111,237) | 197,908 | (2,448,572) | (299,513) |
| Percentage of the present value of pension liabilities | **3.8%** | 0.8% | 1.6% | 21% | 3% |

### 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 £708,175 (2004: £669,643) plus a special contribution of £500,000 (2004: £520,000).

Following the results of the latest actuarial valuation as at 31 December 2003 the contribution rate for 2003, 2004 and 2005 was 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

### a) Equity share capital

| | 2005 £ | 2004 £ |
|---|---|---|
| **Authorised** | | |
| 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 |
| **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 |

# Notes to the Financial Statements (continued)

## Share capital continued

Ordinary and 'A' ordinary shares carry no right to fixed income and rank after preference shares and other liabilities. Each ordinary share carries one vote in the event of a poll. Each 'A' ordinary share, whilst in the ownership of the States of Jersey, entitles the holder to such additional votes at a poll as brings the total number of votes attaching to the 'A' ordinary shares to twice the number of votes cast in respect of all other shares.

### b) Non equity preference share capital

| | | 2005 £ | 2004 £ |
|---|---|---|---|
| **Authorised** | | | |
| 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 |
| | | **£5,703,225** | £5,703,225 |
| **Issued and fully paid** | | | |
| 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 |

Preference shares bear interest at the rates indicated above and rank, in the order listed, above ordinary and 'A' ordinary equity shares in the event of winding up.

Upon a poll, every holder of a preference share present at a general meeting in person or by proxy shall have one vote only for all the preference shares held by him, irrespective of the number and class of such preference shares.

## 10 Reserves

| | Retained profit £ | Capital reserve £ | **Total £** |
|---|---|---|---|
| Brought forward per prior year financial statements | 26,560,914 | 3,041,357 | **29,602,271** |
| Prior year adjustment | 985,703 | - | **985,703** |
| Revised brought forward amount | 27,546,617 | 3,041,357 | **30,587,974** |
| Retained profit for the year | 743,596 | - | **743,596** |
| Transfer of profit on sale of fixed assets to capital reserve | (504,263) | 504,263 | **-** |
| Loss relating to pension plan deficit recognised in the statement of total recognised gains and losses | (592,434) | - | **(592,434)** |
| **Carried forward** | **£27,193,516** | **£3,545,620** | **£30,739,136** |

# Notes to the Financial Statements (continued)

## 11 Reconciliation of movement in shareholders' funds

| | 2005 | 2004 Restated |
|---|---|---|
| | £ | £ |
| Profit for the year | 2,115,699 | 1,772,817 |
| Equity dividends | (1,372,103) | (37,134) |
| Retained profit for the year | 743,596 | 1,735,683 |
| Loss arising on pension plan | (592,434) | (111,237) |
| Opening equity shareholders' funds | 31,872,599 | 30,248,153 |
| Closing equity shareholders' funds | £32,023,761 | £31,872,599 |

## 12 Water supply charges

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Unmeasured water charges | 6,246,977 | 6,082,097 |
| Measured water charges | 5,247,247 | 5,131,183 |
| Service charges and other charges for water | 544,179 | 532,461 |
| | £12,038,403 | £11,745,741 |

## 13 Administration expenses

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| Included in administration expenses are the following: | | |
| Directors' fees (note 20) | 48,000 | 32,000 |
| Auditors' fees - Statutory audit | 23,600 | 22,500 |
| - Other services (Tax advisory and compliance) | 4,000 | 4,000 |

## 14 Interest payable

| | 2005 | 2004 |
|---|---|---|
| | £ | £ |
| On loans and overdrafts from banks | £835,902 | £828,947 |

## 15 Non equity dividends

Amounts are shown net of 20% tax

| | | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|---|
| | | Paid | Payable | Charge for the year | Paid | Payable | Charge for the 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 | 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 |

# Notes to the Financial Statements (continued)

## 16 Equity dividends

| Amounts are shown net of 20% tax | **2005** | 2004 Restated |
|---|---|---|
| | **£** | £ |
| Amounts recognised as distributions to equity holders in the year: | | |
| Final dividend for the year ended 31 December 2004 of 255.1 pence per ordinary and 'A' ordinary share (2003: 5.91 pence) | **985,703** | 22,837 |
| Interim dividend for the year ended 31 December 2005 of 100 pence per ordinary and 'A' ordinary share (2004: 3.7 pence) | **386,400** | 14,297 |
| | **£1,372,103** | £37,134 |
| Proposed final dividend for the year ended 31 December 2005 of 172 pence per ordinary and 'A' ordinary share (2004: 255.1 pence) | **£664,608** | £985,703 |

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements.

## 17 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £2,115,699 (2004: £1,772,817), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

## 18 Reconciliation of operating profit to net cash flow from operating activities

| | **2005** | 2004 |
|---|---|---|
| | **£** | £ |
| Operating profit | **3,175,866** | 3,228,465 |
| Depreciation | **2,171,803** | 2,015,599 |
| Change in order to bring pension contributions onto a cash basis | **(830,998)** | (834,526) |
| Decrease / (Increase) in stores | **8,129** | (41,597) |
| Decrease / (Increase) in debtors | **155,211** | (488,592) |
| Increase / (Decrease) in creditors | **403,005** | (59,368) |
| Net cash inflow from operating activities | **£5,083,016** | £3,819,981 |

## 19 Analysis of changes in net debt

| | At 1 January 2005 Restated | Cash Flows | Other Changes | **At 31 December 2005** |
|---|---|---|---|---|
| | £ | £ | £ | **£** |
| Bank and cash | 49,905 | (326,337) | - | **(276,432)** |
| Debt due within one year | (3,650,000) | - | - | **(3,650,000)** |
| Debt due after one year | (16,632,425) | - | - | **(16,632,425)** |
| **Total** | **£(20,232,520)** | **£(326,337)** | **£ -** | **£(20,558,857)** |

# Notes to the Financial Statements (continued)

## 20 Directors' emoluments

| | Salary | Fee | Bonus | Benefits | Total Emoluments | |
|---|---|---|---|---|---|---|
| | | *(excluding pension contributions)* | | | | |
| | | | | | **2005** | 2004 |
| | £ | £ | £ | £ | **£** | £ |
| **Executives** | | | | | | |
| Howard Snowden[1] | 81,917 | 6,000 | 3,000 | 9,566 | **100,483** | 96,290 |
| Helier Smith[2] | 69,333 | 6,000 | 3,000 | 7,078 | **85,411** | 82,721 |
| **Non-Executives** | | | | | | |
| David Norman | - | 12,000 | - | - | **12,000** | 8,000 |
| Leonard Norman | - | 6,000 | - | - | **6,000** | 4,000 |
| Carlyle Hinault | - | 6,000 | - | - | **6,000** | 4,000 |
| Richard Pirouet | - | 6,000 | - | - | **6,000** | 4,000 |
| Stephen Marie | - | 6,000 | - | - | **6,000** | 4,000 |

[1] *For the year ended 31 December 2005 the Company's contribution in respect of Howard Snowden's pension was £9,373.*
[2] *For the year ended 31 December 2005 the Company's contribution in respect of Helier Smith's pension was £4,050.*

Benefits consist of full expenses for the use of a motor car, private health care and prolonged disability and death in service insurance.

## 21 Ultimate controlling party

The ultimate controlling party of The Jersey New Waterworks Company Limited is the States of Jersey.

# Annual Statistics

| | Units | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Additional connections made in the year (net of disconnections) | Number | 623 | 563 | 558 | 829 | 638 | 681 | 1,106 | 775 | 560 | **629** |
| Connections on supply | Number | 28,491 | 29,054 | 29,612 | 30,441 | 31,079 | 31,760 | 32,866 | 33,641 | 34,201 | **34,830** |
| Metered connections | Number | | | | | | | | | 7,541 | **8,567** |
| Service mains laid | metres | 11,065 | 8,553 | 8,993 | 9,623 | 3,569 | 7,439 | 10,892 | 7,920 | 7,036 | **9,795** |
| Total length of service mains | Km | 376.48 | 385.03 | 394.02 | 403.64 | 407.21 | 414.64 | 425.53 | 433.45 | 440.48 | **450.27** |
| Trunk mains laid | metres | 1,526 | 2,164 | 4,742 | 1,163 | 3,131 | 4,736 | 1,161 | 4,104 | 0 | **0** |
| Total length of Trunk mains | Km | 54.19 | 56.35 | 61.09 | 62.25 | 65.38 | 70.11 | 71.27 | 75.37 | 75.37 | **75.37** |
| Service mains re-laid | metres | 466 | 738 | 244 | 300 | 1,598 | 1,281 | 1,178 | 1,822 | 2,497 | **2,450** |
| Burst mains | Number | | | | | 29 | 39 | 16 | 16 | 11 | **28** |
| Annual Rainfall (141 year average – 850.9mm) | mm | 695.3 | 757.5 | 984.6 | 961.4 | 1026.9 | 957.8 | 986.9 | 756.9 | 883.9 | **745.7** |
| Total water supplied | Ml | 6,834 | 6,994 | 7,229 | 7,269 | 7,262 | 7,317 | 7,207 | 7,301 | 7,305 | **7,291** |
| Maximum daily demand | Ml | 27.0<br>21July | 25.7<br>20 August | 27.6<br>9 August | 29.7<br>29 July | 27.0<br>20 July | 29.4<br>25 June | 26.0<br>28 July | 28.4<br>13 July | 26.5<br>13 June | **26.5<br>15 July** |
| Maximum monthly demand | Ml | 728.2<br>July | 705.3<br>August | 756.8<br>August | 794.1<br>July | 721.7<br>July | 733.1<br>June | 702.5<br>July | 725.9<br>July | 682.7<br>July | **699.2<br>July** |
| Number of employees at end of year | Number | 118 | 118 | 117 | 114 | 113 | 112 | 112 | 116 | 114 | **110** |

# Notes

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