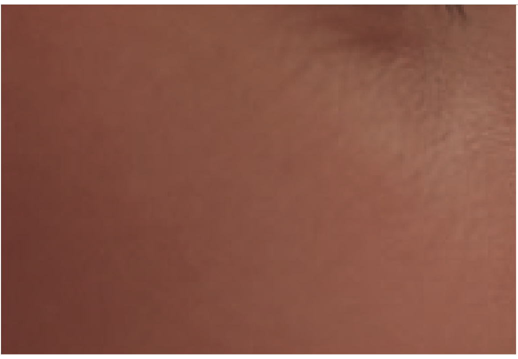


Annual Report and Financial Statements 2006

The Jersey New Waterworks Company Limited

JerseyWater

Contents

Directors, Officers and Advisers	Page 2
Notice of Annual General Meeting	Page 3
Board of Directors	Page 4
Chairman's Statement	Page 5
Business Review	Page 7
Corporate Governance	Page 13
Directors' Report	Page 17
Independent Auditors' Report	Page 20
Balance Sheet	Page 21
Profit and Loss Account	Page 22
Statement of Total Recognised Gains and Losses	Page 23
Cash Flow Statement	Page 24
Notes to the Financial Statements	Page 25
Annual Statistics	Page 36

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, FIET*
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-fifth 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 18 May 2007, at 9.00 am. Coffee will be served from 8:30 am.

- To receive the Financial Statements for the year ended 31 December 2006.
- To declare a final gross dividend of 181 pence per share on the ordinary and 'A' ordinary shares of the Company.
- To re-elect Mr Stephen Marie, the Director retiring by rotation.
- To elect Mr Kevin Keen as a Director of the Company. Mr Keen will be filling the vacancy left by Senator Leonard Norman who will retire as a Director of the Company at the Annual General Meeting.
- To approve the Directors' fees for 2007 of £15,000 for the Chairman and £8,000 for other Directors (2006: £15,000 and £8,000 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

28 March 2007

To facilitate the preparation of dividend warrants the share transfer books of the Company will be closed from 5 May 2007 to 18 May 2007, both days inclusive, and, subject to the dividend being confirmed, dividend warrants will be posted on 18 May 2007 to all ordinary and 'A' ordinary shareholders registered on 18 May 2007.

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

David Norman FCA
David Norman, a Chartered Accountant, joined the Board in 1994 and became Chairman in 1996. He is the Managing Director of Norman (Holdings) 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 member of the States of Jersey since 1983. Senator Norman is due to retire from the Board at the Annual General Meeting on 18 May 2007.

Howard Snowden, EurIng, BSc(Eng), MSc., CEng, FCIWEM, FICE, FIMechE, FIET
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 Engineering and Technology 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

I am pleased to be able to report to Shareholders that your Company's profit before tax for 2006 was £2,800,000 an increase of 15% on 2005 and achieved despite the need to run the desalination plant for three months during the year and a tariff increase of just 1.95%.

This increased profitability can be attributed broadly to a combination of an increase in turnover, driven by the higher than usual number of new connections to the network plus increased demand due to the dry weather of 2006 and productivity savings. These all helped offset the expense of running the desalination plant. Your Board is proposing a final dividend which will result in an increase in the equity dividends for the year of 5% over 2005.

"The Company continues to invest for the future and in 2006 spent just under £3 million on capital works."

As you will see from our Water Quality Report for 2006, the water we produced continued to be of a very high standard, meeting Jersey regulatory requirements, achieving 99.97% compliance, slightly above the England and Wales average.

Your Company continues to invest for the future and in 2006 spent just under £3 million on capital works, concentrating on renewing old water mains, improving water quality, reducing the impact that the Company has on the environment and making use of new technology to generate efficiencies.

During the year we have renewed 2.1km of water mains and extended the network by 6.5km. Our mains renewal programme in and around St Helier will continue for the next few years whilst we renew old pipe work and strengthen our network and I extend our thanks, for their understanding and patience, to those members of the general public inconvenienced by this essential work.

With full reservoirs earlier in the year, despite the very dry conditions throughout the spring and summer of 2006 we had no need to implement hosepipe restrictions as seen across much of the South East of England. However, we did decide to operate the desalination plant for the first time in three years as a precautionary measure to safeguard against the effects of a potentially dry autumn and early winter.

Looking to the future, we hear increasingly that climate change will lead to more unsettled weather patterns. Traditional seasonal cycles appear to be less reliable, with rainfall being unpredictable in both frequency and quantity. With limited water storage capacity in Jersey, it is important that the Island does all it can to conserve water resources and reduce demand. We have already seen areas in the South East of England being declared water scarce and receiving UK government approval to introduce universal mandatory metering, a move which the Company is watching with interest.

In August, the Desalination Plant was brought into action as a precautionary measure.

Chairman's Statement (continued)

The investigation into the existence of significant sustainable sources of water deep underground derived from outside the Island did not provide positive results; this was disappointing, but not unexpected in the light of previous scientific advice. Now that the tests have been performed and the conclusions reached, it is time to concentrate on managing the water resources that are known to exist. The proposed Water Resource (Jersey) Law will help to identify and increase our understanding of those resources, allowing your Company and The States of Jersey to plan more effectively for the future needs of the Island.

Senator Len Norman and Stephen Marie both retire by rotation at the AGM in May and whilst Stephen Marie is seeking re-election, Senator Norman will be retiring. Len Norman has served on the Board for 20 years, making a very valuable contribution during his tenure, initially as a States appointed representative and more latterly as an independent Director and Deputy Chairman. He is a strong advocate of the Company and is a colleague whose counsel the whole Board and I personally will miss.

With limited water storage capacity in Jersey, it is important that the Island does all it can to conserve water resources and reduce demand.

We have been fortunate in persuading Kevin Keen to allow his name to be put forward to fill the vacancy on the board created by Len Norman's retirement. Kevin Keen is well known in business circles. He was Group Finance Director and later ran a major division at Le Riche prior to the formation of CI Traders. He currently holds high profile positions as Managing Director of Jersey Dairy and President of the Chamber of Commerce. I have no doubt that he will be an asset to your Company and accordingly I will be proposing him for election as a Director at the AGM.

I am very pleased to report that the Company received the Investor In People accreditation during the year. We have a very committed workforce and I take this opportunity to thank all our staff and management as well as my colleagues on the Board for their continued support and commitment to the Company.

David Norman
Chairman

28 March 2007

Business Review

Financial Performance

Profit before tax for 2006 increased by 15% over 2005 to £2.8 million as a result of the combination of the effect of increased revenue from both water and non water sales and efficiency savings offsetting the cost of running the desalination plant during the year.

Retained profit for the year stood at £1,318,000 (2005: £744,000) and earnings per ordinary share were increased by 13% to £4.94 (2005: £4.38).

Revenue from water totalled £12.4 million in 2006, an increase of 2.7% on the prior year. The increase being attributed to a (below inflation) tariff increase in April 2006 of 1.95%, the addition of 1,001 new connections during the year and the dry weather over the spring and summer having a favourable effect on metered water income.

Rechargeable works income increased from £468,000 in 2005 to £864,000 in 2006 primarily due to the significant increase in the number of connections to the water network during the year.

Cost increases were held at 4% for the year despite the cost of £242,000 running the desalination plant for nearly three months in the summer, an increase of 10% in the cost of electricity from 1 January 2006 and the cost of meeting the demand for new connections. The project to convert meters to the electronically encoded type was substantially completed in 2006 resulting in a reduction of £92,000 in year on year expenditure. The continued expansion of the Company's telemetry network permitted further reductions in staff numbers through natural wastage with consequent productivity savings.

Further sales of surplus assets including the old St Peter's Booster Station and land in St Peter's Valley netted capital gains of £469,000, a little less than in 2005. The Company continues with the process of disposing of surplus land as and when it becomes redundant.

The income tax charge for the year has increased by 28% to £412,000 primarily due to the higher levels of taxable income arising on rechargeable works.

Dividends paid during 2006 totalled £1,070,000, compared to £1,372,000 in 2005. The implementation of FRS 17 in 2005 requires dividends to be accounted for in the period in which they are paid or become a liability, rather than when they are declared. The effect of this change in treatment coupled with the switch in 2005 to the Company's current dividend policy has caused the apparent reduction in dividends year on year. As shown in the table within the Directors' Report on page 17, actual dividends, paid and proposed for 2006, total £1,104,000, an increase of 5% over the prior year dividend of £1,051,000.

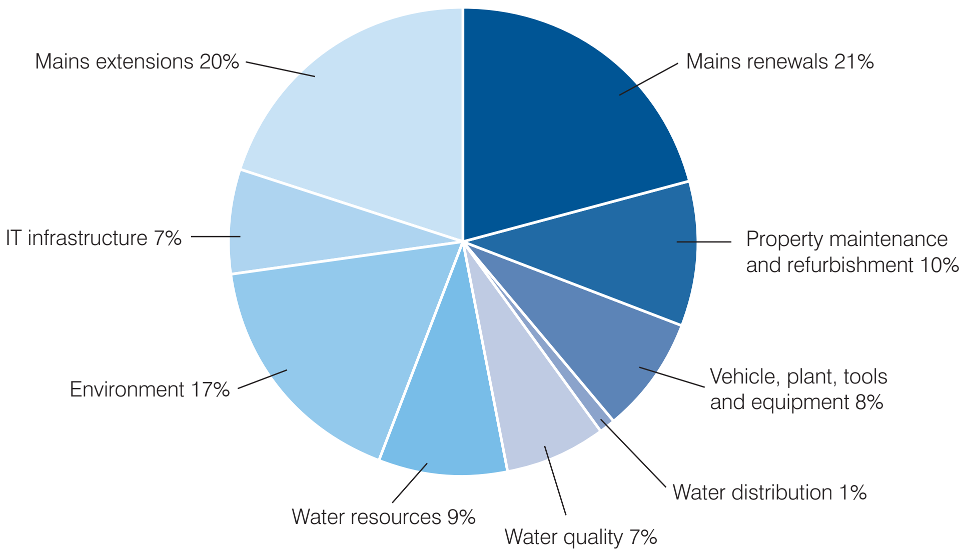
> **"Revenue from water totalled £12.4 million in 2006, an increase of 2.7% on the prior year."**

During 2006 the Company made contributions totalling £588,000 into the defined benefit pension scheme (which has been closed to new members since January 2003). The actuarial valuation of the scheme as at 31 December 2006 shows a deficit net of tax of £2,000,000 compared with the deficit of £3,080,000 in 2005 an improvement mainly due to higher corporate bond yields at the year end (on which the FRS 17 present value of the scheme liabilities is based). Corporate Bond Yield rates do vary and these variations can have a material effect on the valuation of scheme liabilities. Whilst the results are positive they should not be taken as an indication of a permanent improvement in the level of the scheme's deficit. A review is currently underway into the future options for the scheme.

The Company generated net cash inflows of £550,000 during the year compared to outflows of £326,000 in 2005. Net debt at the year end stood at £20,009,000 compared to £20,559,000 in 2005.

Business Review (continued)

Capital expenditure by type



In 2006, capital expenditure totalled just under £3.0 million in line with the budget for the year. An analysis of the expenditure is provided in the chart above. Looking forward the Company expects to continue with annual capital expenditure in the region of £2.5 million (at current prices).

Connections, metering and charges

The recent surge in Jersey home building had the effect of increasing the number of new connections to the treated water network by 60% over 2005 levels. With 1,001 new connections during the year the level was 50% over the 10 year average connection rate. Whilst the number of connections is not expected to continue at this level, it will be dictated by the pace at which new buildings continue to be constructed and, in the longer term, by the policies for population growth implemented by the States of Jersey.

At the end of 2006, Jersey Water had 9,800 live metered connections to its network and 26,600 unmetered dwellings on supply. During 2006, 269 customers made the decision to switch from paying for water on an unmeasured basis to a measured (metered) basis.

The Company encourages customers to switch to paying for water by meter by offering free installation of a water meter and during the last five years has applied differential tariff increases which have reduced the cost of metered water by 7% in real terms over that period.

Jersey Water will be undertaking trials of a fixed network automated meter reading system which would allow water meters to be read using low frequency radio technology to collate meter readings remotely from across the Island. If successful, the system would significantly reduce the need for manual meter reading and could facilitate the future introduction of more widespread metering, for example on change of ownership of a property.

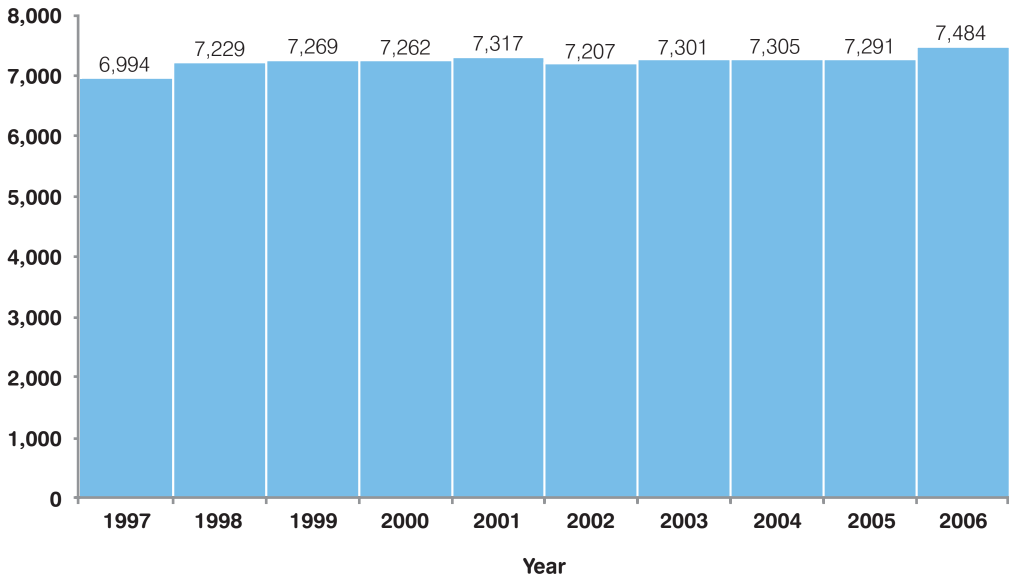
In December 2006, the Company announced tariff increases (based on the September RPI index) effective in April 2007 whereby metered water charges will increase by 2% and unmetered charges by 3.6%. The overall effect of the tariff changes on turnover for 2007 is expected to be an increase of 2.1%. The policy of keeping tariff increases broadly in line with the increase in the Jersey retail price index (RPI) continues.

Business Review (continued)

Water supply and demand

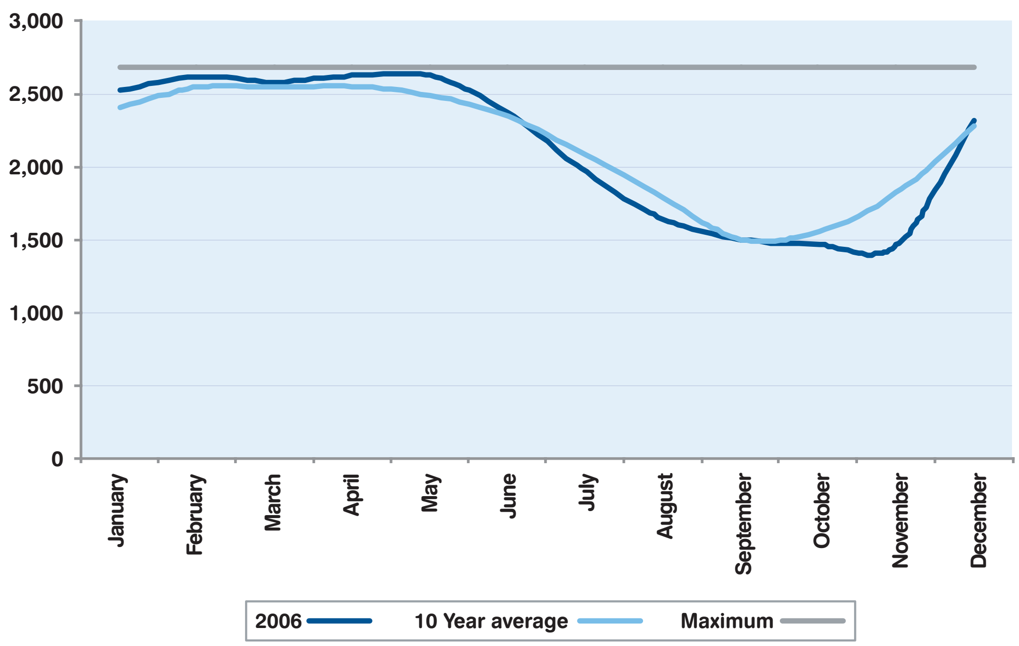
Demand for water during 2006 totalled 7,484Ml (2005: 7,291Ml), an increase of 2.6% over the previous year but in line with expectations during a year with relatively long dry periods.

Total water supplied by year (Ml)



Water levels in the reservoirs started the year at 94% full, reached capacity in March and remained at near full capacity until May. Thereafter demand for water exceeded the rate of replenishment and reservoir levels continued to decline until December when we enjoyed rainfall some 32% above the ten year average; this lifted levels in reservoirs from 55% to 86% full.

Water in store (Ml)



Business Review (continued)

2006 was a predominantly dry year, with annual rainfall 11% below the long term average. Only February, March, September and December had rainfall levels at or above average levels. This resulted in steadily reducing stream flows throughout the spring and summer as the ground water dried up.

The lack of rainfall coupled with summer temperatures 3°C above the long term average resulted in daily demand peaking at 28.9Ml in July 2006 (average daily demand for 2006 was 20.5Ml). The Company ran a 'Use Water Wisely' campaign to raise awareness of the need for water conservation incorporating, for the first time a radio campaign promoting water saving tips and ideas. The national press coverage of water shortages in the South East of England helped to raise the issues of water conservation further. The aim of the Company's campaign was to reduce the volume of water consumed by garden watering which can account for up to one third of daily demand in the spring and summer months.

In August, the Desalination Plant was brought into action as a precautionary measure to protect against the risk of lower than average rainfall levels in the late summer and autumn. The plant ran until November and produced 397Ml of water.

During 2006, the Company took delivery of new computer software which will enable the effect of variables including rainfall patterns, temperature and population to be modelled and will assist us in managing water resources by providing information on the various drought return periods which are the basis for water resource planning.

> **"In August, the Desalination Plant was brought into action as a precautionary measure."**

Water Quality

During 2006, the Company took 18,382 regulatory samples for physical, bacteriological and chemical analysis. Of these, only 6 samples exceeded the Maximum Allowable Concentrations (MAC) set out under the law. Full details of the quality of water supplied are shown in the 2006 Water Quality Report.

Water quality for 2006 was also in line with the requirements set out in the Water Supply (Water Quality) Regulations 2000 for England & Wales and in 2006 we achieved 99.97% compliance, slightly above the most recent England and Wales average of 99.96%.

During the year only 3 out of the 100 regulatory samples taken for nitrate were above 50mg/l limit, the highest being 51.4 mg/l. The low occurrence rate of nitrates can be attributed in the main to the rainfall pattern during 2006. The months when nitrate levels are traditionally high were drier in 2006 than normal resulting in less nitrates being washed off the fields into the Company's raw water sources.

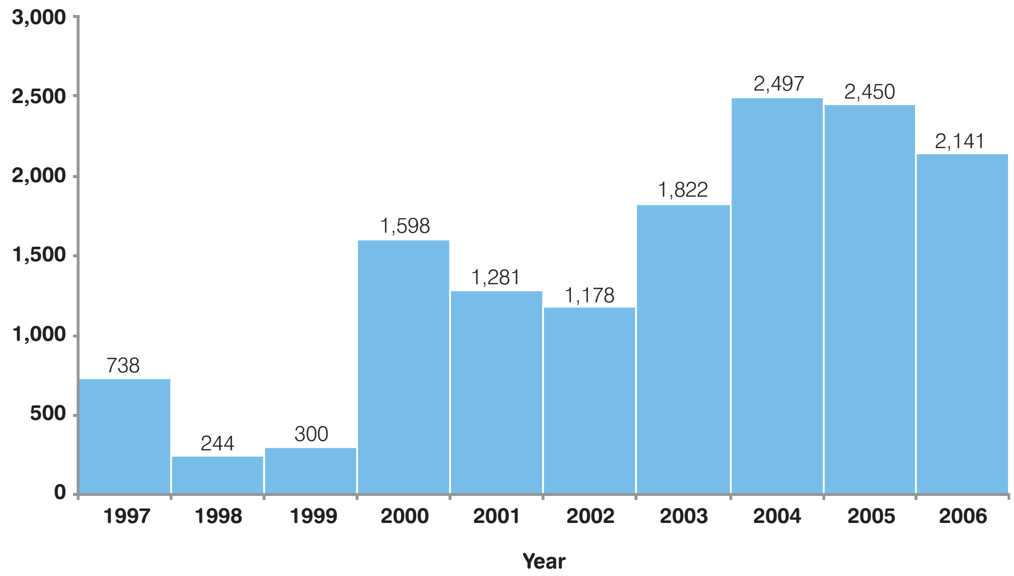
The Company has no control over catchment areas and the diffuse pollution of water resources from nitrate and other agricultural chemicals and will continue to need dispensations under the law. The Company remains an advocate for action by the States to introduce Water Catchment Management Areas under the Water Pollution (Jersey) Law to help reduce nitrates in streams and generally improve the quality of the Island's water resources. We understand that the introduction of the proposed Water Resource (Jersey) Law is required to enable this to be put in place.

Mains network

In 2006 the Company renewed 2.1 km of old water mains, just short of the 2.5 km target for the year. The complex nature of the work makes the renewal of mains and services time consuming and costly. This is especially true in and around St Helier where the volume of underground cables, pipes, ducts and other apparatus is such that much of the work requires hand excavation.

Business Review (continued)

Mains renewals by year (Metres)



In the years to come, the Company plans further work on renewing old water mains and service connections in the St Helier town area, with a target of roughly 2.5km per annum. Inevitably, this necessary work brings short-term disruption to road-users and residents. Wherever possible we work in conjunction with the road authorities and other utilities to minimise the overall disruption.

During the year, the treated water mains network was extended by 6.5 km. Of this 3.5km was funded by developers wishing to bring treated water to property developments and the balance funded by the Company.

Due to the economics of extending the treated water mains network into the more sparsely populated areas of the Island coupled with the need to concentrate efforts and resources on the renewal of existing water mains it is expected that in the next five years only 5.6km of Company funded mains extensions will be laid. Whilst the extensions will bring mains water to some areas not yet supplied, the main purpose of these future extensions is to reinforce the existing treated water network, rationalise the system and connect those areas currently supplied with pumped water to the gravity fed distribution system, reducing the Company's energy usage and leakage.

In 2006, Jersey Water suffered only 14 bursts on the mains network. A review of the rate of bursts experienced in Jersey indicates that it is some 70% below the average rate in England & Wales. The difference being due partly to the Company's relatively modern water network and also the favourable ground conditions in Jersey.

The Company continues to make advances in dealing with leakage and during 2006 installed 3 district meters, which allow discrete areas of the Island to be monitored and tested for leaks. The Jersey Water leak detection team identified and reported 343 leaks (which were predominantly on customer pipe work). The use of pressure reducing valves at key locations around the Island helps to reduce the flow of water lost through leakage. A review undertaken during the year indicates that the leakage rates in Jersey are at least as good as those for Water Only Companies in England & Wales and significantly better than those for Water and Sewerage Companies.

Business Review (continued)

Treatment and processing

In October, the wash water pumping station at Augrès water treatment works was commissioned. This new plant, together with the new 4km connecting transfer pipeline, allows the wash water from the clarifiers and filters at Augrès WTW to be transferred to Handois for treatment at the Company's wash water recovery plant.

The Jersey Water Operational Supervisory & Data Acquisition (SCADA) system was further developed during the year to include remote control and monitoring of Augrès WTW and La Rosière Desalination Plant, allowing the productivity savings mentioned above. To improve site security, closed circuit TV systems have also been installed at Augrès WTW and La Rosière Desalination Plant with real-time images being transmitted by the SCADA network to the central control room.

Constable Geoffrey Fisher (left) presents the Investor in People award to Howard Snowden (right).

Investors in People

During 2006, the Company attained the "Investor in People" award, which recognises the management systems and processes in place throughout the organisation. In addition, the Company's leadership training program has for the second consecutive year resulted in a number of Managers and Supervisors obtaining their NVQ in team leadership and management skills.

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:

- The Code includes 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 eleven 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 2006	**11**	**2**	**4**	**1**
David Norman	11 (Chairman)			1 (Chairman)
Senator Len Norman	9			1
Richard Pirouet	10	2 (Chairman)	4 (Chairman)	1
Stephen Marie	11	2	4	1
Carlyle Hinault	10	1	3	1
Howard Snowden	11			
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, where eligible, 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. Since January 2007, David Norman has also been appointed as a member of the Remuneration Committee.

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.

Queen's Valley Reservoir

Nomination Committee

The Nomination Committee comprises David Norman (Chairman), Carlyle Hinault, Stephen Marie, Len Norman and Richard Pirouet. It 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 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 2006.

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.

At the end of 2006, Jersey Water had 9,800 live metered connections to its network.

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.

Director's Report

The Directors of the Company present the financial statements for the year ended 31 December 2006.

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 22. 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 business review on pages 7 to 12.

Dividends

Ordinary and A Ordinary shares *Amounts are shown net of 20% tax*	**2006** **£'000**	2005 £'000
Interim dividend for the year ended 31 December 2006 of 84 pence net of income tax (2005: 80 pence net of income tax) paid on 22 September 2006.	**405**	386
Proposed final dividend for the year ended 31 December 2006 of 144.8 pence net of income tax (2005: 137.6 pence net of income tax).	**699**	665
	£1,104	£1,051

Preference shares

In 2006 the Company paid dividends on preference shares totalling £381,000 net of income tax (2005: £381,000 net of income tax).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved and throughout the year ended 31 December 2006 were as detailed on page 2.

In accordance with the provisions of Article 74(b), Senator Leonard Norman and Stephen Marie will retire at the forthcoming annual general meeting. Mr Marie, being eligible, offers himself for re-election. Senator Norman will not seek re-election.

The Directors recommend the election of Mr Kevin Keen as Director of the Company to fill the vacancy left by the retirement at the AGM of Senator Norman. Mr Keen is currently Managing Director of Jersey Dairy and has previously been Divisional Managing Director as well as Finance Director of Le Riche Stores. Mr Keen is also President of the Jersey Chamber of Commerce and a Fellow of both the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants.

As described on page 14, 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 Director standing for re-election at the Annual General Meeting continues to perform effectively and demonstrates commitment to his role.

Director’s Report (continued)

Directors' interests

Particulars of the holdings of Directors, including family interests, in the share capital of the Company as at 31 December 2006 are:

	Carlyle Hinault	Stephen Marie	David Norman	Leonard Norman	Howard Snowden	Helier Smith
Ordinary shares	100	100	8,680	-	200	146
Preference shares	-	-	-	65	95	212

Of the many business interests of David Norman, he is a Director of CI Traders Limited and Petroleum Distributors (Jersey) Limited. During the year ended 31 December 2006 he was also a Director of Norman 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.

Substantial shareholdings

Set out below are details of significant shareholdings (3% or more) in each class of share of the Company as at 28 March 2007.

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						3%	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			10%	12%	7%	24%	23%	13%	
DF Parlett							4%		
Nordar Limited	3%								
BR Querée	4%								
The States of Jersey	50%	100%							100%

Director's Report (continued)

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

28 March 2007

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 2006 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

The directors are responsible for the preparation of the financial statements in accordance with applicable Jersey law as set out in the Statement of Directors' Responsibilities.

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 Business Review, 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 2006 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

30 March 2007

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 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Fixed assets	2		**59,372**		58,580
Current assets					
Stock and work in progress		**1,098**		1,120	
Debtors	3	**3,431**		3,436	
Bank and cash		**273**		-	
		4,802		4,556	
Creditors - Amounts falling due within one year					
Bank overdraft		**-**		(277)	
Creditors and accruals	4	**(2,395)**		(2,652)	
Contract retentions		**(83)**		(76)	
Income tax		**(2)**		(3)	
Bank loans	6	**-**		(3,650)	
		(2,480)		(6,658)	
Net current assets / (liabilities)			**2,322**		(2,102)
Total assets less current liabilities			**61,694**		56,478
Creditors - Amounts falling due after more than one year					
Contract retentions		**(7)**		(8)	
Income tax		**(155)**		-	
Bank loans	6	**(14,900)**		(11,250)	
Non-equity preference shares	9b	**(5,382)**		(5,382)	
			(20,444)		(16,640)
Provisions for liabilities and charges					
Deferred taxation	7		**(4,957)**		(4,734)
Net assets excluding pension liability			**36,293**		35,104
Pension liability	8		**(2,000)**		(3,080)
Net assets			**£34,293**		£32,024
Equity capital and reserves					
Called up equity share capital	9a		**483**		483
Capital redemption reserve			**124**		124
			607		607
Share premium account			**678**		678
Reserves	10		**33,008**		30,739
Shareholders' funds	11		**£34,293**		£32,024

The financial statements on pages 21 to 35 were approved by the Board of Directors on 28 March 2007 and were signed on its behalf by:

David Norman
Chairman

Profit and Loss Account

For the year ended 31 December 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Turnover					
Water supply charges	12	**12,358**		12,038	
Rechargeable works income		**864**		468	
Other income		**195**		177	
			13,417		12,683
Cost of sales					
Pumping expenses		**(626)**		(607)	
Maintenance of reservoirs and works		**(2,017)**		(1,982)	
Distribution and analysis of water		**(2,049)**		(2,269)	
Desalination station expenses		**(348)**		(180)	
Miscellaneous		**(450)**		(283)	
		(5,490)		(5,321)	
Administration					
Administration expenses	13	**(2,110)**		(1,915)	
Insurances		**(397)**		(406)	
		(2,507)		(2,321)	
Depreciation					
Completed works	2	**(1,887)**		(1,865)	
Expenditure			**(9,884)**		(9,507)
Operating profit			**3,533**		3,176
Profit on disposal of fixed assets			**469**		504
Interest					
- payable	14	**(839)**		(836)	
- receivable		**12**		17	
Non-equity dividends	15	**(381)**		(381)	
Other finance income / (costs)	8	**6**		(41)	
			(1,202)		(1,241)
Profit before taxation			**2,800**		2,439
Jersey income tax	5		**(412)**		(323)
Profit available for distribution to equity shareholders			**2,388**		2,116
Equity dividends	16		**(1,070)**		(1,372)
Retained profit for the year			**£1,318**		£744
Earnings per ordinary share of £1	17		**£4.94**		£4.38

There is no material difference between the reported profit for 2006 and 2005 and the profit prepared under the historical cost basis.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2006

	Note	**2006**	2005
		£'000	£'000
Profit for the year		**2,388**	2,116
Gain / (Loss) arising on pension liabilities	8	**951**	(592)
Total recognised gains and losses for the year		**£3,339**	£1,524

Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Net cash inflow from operating activities	18		**5,509**		5,083
Returns on investments and servicing of finance					
Interest received		**12**		18	
Interest paid		**(822)**		(835)	
Non-equity dividends paid		**(381)**		(381)	
Net cash outflow on returns on investments and servicing of finance			**(1,191)**		(1,198)
Taxation					
Jersey income tax (paid) / repaid			**(3)**		62
Capital expenditure					
Purchase of fixed assets		**(3,173)**		(3,614)	
Disposal of fixed assets		**478**		713	
Net cash outflow from capital expenditure			**(2,695)**		(2,901)
Equity dividends paid			**(1,070)**		(1,372)
Net cash inflow / (outflow) before financing			**550**		(326)
Financing					
New loans		**-**		-	
Loans repaid		**-**		-	
Net cash flow from financing			**-**		-
Increase / (Decrease) in cash			**£550**		£(326)

Reconciliation of net cash flow to movement in net debt

	Note	2006 £'000	2005 £'000
Increase / (Decrease) in cash		**550**	(326)
Movement in net debt	19	**550**	(326)
Net debt brought forward	19	**(20,559)**	(20,233)
Net debt carried forward	19	**£(20,009)**	£(20,559)

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 arrears) 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'. As permitted under Financial Reporting Standard 19 - Deferred tax balances are not discounted to reflect the time value of money.

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 £'000	Uncompleted works £'000	Motor vehicles, mobile plant & equipment £'000	Total £'000
Cost				
Brought forward per prior year financial statements	73,212	378	1,947	**75,537**
Additions	179	2,557	234	**2,970**
Disposals	(2)	-	(130)	**(132)**
Transfers	2,169	(2,169)	-	**-**
Carried forward	**75,558**	**766**	**2,051**	**78,375**
Depreciation				
Brought forward per prior year financial statements	(15,711)	-	(1,246)	**(16,957)**
Charge for the year	(1,887)	-	(282)	**(2,169)**
Disposals	-	-	123	**123**
Carried forward	**(17,598)**	**-**	**(1,405)**	**(19,003)**
Net book value				
Brought forward	£57,501	£378	£701	**£58,580**
Carried forward	**£57,960**	**£766**	**£646**	**£59,372**

Of the £2,169,000 depreciation charge for the year, £282,000 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 2006 capital commitments contracted for amounted to £66,000 (2005: £214,000).

3 Debtors

	2006 £'000	2005 £'000
Trade debtors	**3,155**	3,060
Prepayments	**235**	376
Other debtors	**41**	-
	£3,431	£3,436

Notes to the Financial Statements (continued)

4 Creditors and accruals

	2006 £'000	2005 £'000
Trade creditors	**507**	604
Other creditors	**315**	508
Accruals and deferred income	**1,573**	1,540
	£2,395	£2,652

5 Jersey Income Tax

	2006 £'000	2005 £'000
Current tax		
Income tax on the profits for the year	**189**	161
Over provision for previous years	**-**	(34)
Total current tax	**189**	127
Deferred tax		
Charge for the year	**226**	258
Over provision for previous years	**(3)**	(62)
Total deferred tax	**223**	196
Total tax charge for the year	**£412**	£323

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:

	2006 £'000	2005 £'000
Profit before tax	**£2,800**	£2,439
Profit before tax multiplied by the standard rate of Jersey income tax of 20% (2005: 20%).	**560**	488
Tax at 20% on:		
Capital allowances for period in excess of depreciation	**(110)**	(99)
Capital expenditure, deductible for tax purposes	**(139)**	(203)
Profit on sale of fixed assets	**(94)**	(101)
Unclaimed capital allowances brought forward	**(104)**	-
Dividends on non equity shares - Non deductible	**76**	76
Current tax charge for year	**£189**	£161

Notes to the Financial Statements (continued)

6 Bank loans

	Repayment Dates	2006	2005
		£'000	£'000
Facilities drawn down			
HSBC Bank plc	2010	3,650	3,650
HSBC Bank plc	2011	5,250	5,250
HSBC Bank plc	2013	6,000	6,000
		£14,900	£14,900
Loans falling due within one year		-	3,650
Loans falling due within between one and two years		-	-
Loans falling due after two years but less than five years		8,900	-
Loans falling due after five years or more		6,000	11,250
		£14,900	£14,900

The Company has a rolling overdraft facility with HSBC Bank plc. Unconditional guarantees have been given by the States of Jersey for the repayment of the principal and interest on loans up to a maximum of £16.2m taken out to fund the Company's capital works programme.

7 Deferred taxation

	2006	2005
	£'000	£'000
Capital allowances	£4,957	£4,734
Brought forward	4,734	4,538
Transfer from profit and loss account	223	196
At 31 December	£4,957	£4,734

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.

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 2006 totalled £32,000 (2005: £40,000).

Notes to the Financial Statements (continued)

Pensions 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 and updated to 31 December 2006 by a qualified actuary. The major financial assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	**4.51%**	4.39%	4.86%
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	**3.26%**	3.14%	4.11%
Discount rate	**5.16%**	4.74%	5.23%
Inflation assumption	**3.51%**	3.39%	4.86%

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

	2006		**2005**		2004	
	Expected long term rate of return	**Value £'000**	Expected long term rate of return	Value £'000	Expected long term rate of return	Value £'000
Equities	**8.08%**	**7,140**	8.04%	6,409	8.12%	5,199
Corporate bonds	**4.99%**	**5,357**	4.42%	5,209	5.23%	3,445
Cash	**5.00%**	**46**	4.50%	64	4.75%	553
Weighted rate of return on assets	**6.75%**	**£12,543**	6.41%	£11,682	6.83%	£9,197

	2006	2005	2004
	£'000	£'000	£'000
Total market value of assets	**12,543**	11,682	9,197
Present value of total pension liabilities	**(15,043)**	(15,532)	(13,096)
Pension deficit	**(2,500)**	(3,850)	(3,899)
Related deferred tax asset	**500**	770	780
Net total pension liability	**£(2,000)**	£(3,080)	£(3,119)

Analysis of the amount charged to Operating Profit	**2006**	2005
	£'000	£'000
Current service cost	**£455**	£417

Notes to the Financial Statements (continued)

Pensions continued

Analysis of the amount included in Other Finance Costs	2006	2005
	£'000	£'000
Expected return on defined benefit scheme assets	753	652
Interest on total pension liabilities	(747)	(693)
Net income / (charge) for the year	£6	£(41)

Analysis of amount recognised in Statement of Total Recognised Gains and Losses	2006	2005
	£'000	£'000
Actual return less expected return on defined benefit scheme assets	(22)	1,135
Experience gains arising on the total pension liabilities	290	136
Changes in assumptions underlying the present value of the total pension liabilities	921	(2,011)
Actuarial gain / (loss) recognised	1,189	(740)
Current tax relief	32	158
Movement in deferred tax relating to net liability	(270)	(10)
Gain / (loss) recognised in statement of total recognised gains and losses	£951	£(592)

Movement in deficit during the year	2006	2005
	£'000	£'000
Total pension deficit at beginning of the year	(3,850)	(3,899)
Deferred tax asset	770	780
	(3,080)	(3,119)
Movement in year:		
Current service cost	(455)	(417)
Contributions and pensions paid	610	1,247
Other finance income / (charges)	6	(41)
Actuarial gain / (loss)	1,189	(740)
	(1,730)	(3,070)
Movement in deferred tax asset	(270)	(10)
Total pension deficit at end of the year	£(2,000)	£(3,080)

Notes to the Financial Statements (continued)

Pensions continued

History of experience gains and losses	2006 £'000	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Difference between the expected and actual return on plan assets:					
Amount	**(22)**	1,135	162	409	(2,012)
Percentage of plan assets	**0.2%**	9.7%	1.8%	5.3%	31%
Experience gains and losses on total pension liabilities:					
Amount	**290**	136	194	13	(386)
Percentage of the present value of pension liabilities	**1.9%**	0.9%	1.5%	0.1%	3%
Total amount recognised in statement of total recognised gains and losses:					
Amount	**951**	(592)	(111)	198	(2,449)
Percentage of the present value of pension liabilities	**6.3%**	3.8%	0.8%	1.6%	21%

Funding of the defined benefit pension plan

The actual funding of the defined benefit pension scheme is determined by the triennial 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 £588,000 (2005: £708,000), no special contributions were made during the year (2005: £500,000).

Following the results of the latest triennial actuarial valuation as at 1 January 2006 the contribution rate for 2006, 2007 and 2008 was set at 14.9% of Pensionable Salaries plus £250,000 per annum 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

	2006 £'000	2005 £'000
Authorised		
252,000 ordinary shares of £1	**252**	252
231,000 'A' ordinary shares of £1	**231**	231
	£483	£483
Issued and fully paid		
252,000 ordinary shares of £1	**252**	252
231,000 'A' ordinary shares of £1	**231**	231
	£483	£483

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

		2006 £'000	2005 £'000
Authorised			
20,000	cumulative preference shares of £5	100	100
20,000	cumulative second preference shares of £5	100	100
100,000	cumulative third preference shares of £5	500	500
100,645	cumulative fourth preference shares of £5	503	503
900,000	cumulative fifth preference shares of £5	4,500	4,500
		£5,703	£5,703
Issued and fully paid			
17,261	5% cumulative preference shares of £5	86	86
17,402	3.5% cumulative second preference shares of £5	87	87
23,509	3% cumulative third preference shares of £5	118	118
16,036	3.75% cumulative third preference shares of £5	80	80
11,400	5% cumulative third preference shares of £5	57	57
90,877	2% cumulative fourth preference shares of £5	454	454
900,000	10% cumulative fifth preference shares of £5	4,500	4,500
		£5,382	£5,382

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 £'000	Capital reserve £'000	Total £'000
Brought forward per prior year financial statements	27,193	3,546	30,739
Retained profit for the year	1,318	-	1,318
Transfer of profit on sale of fixed assets to capital reserve	(469)	469	-
Gain relating to pension plan deficit recognised in the statement of total recognised gains and losses	951	-	951
Carried forward	£28,993	£4,015	£33,008

Notes to the Financial Statements (continued)

11 Reconciliation of movement in equity shareholders' funds

	2006 £'000	2005 £'000
Profit for the year	**2,388**	2,116
Equity dividends	**(1,070)**	(1,372)
Retained profit for the year	**1,318**	744
Gain / (loss) arising on pension plan	**951**	(592)
Opening equity shareholders' funds	**32,024**	31,872
Closing equity shareholders' funds	**£34,293**	£32,024

12 Water supply charges

	2006 £'000	2005 £'000
Unmeasured water charges	**6,300**	6,247
Measured water charges	**5,549**	5,247
Service charges and other charges for water	**509**	544
	£12,358	£12,038

13 Administration expenses

	2006 £'000	2005 £'000
Included in administration expenses are the following:		
Directors' fees (note 20)	**63**	48
Auditors' fees - Statutory audit	**28**	24
- Other services (Tax advisory and compliance)	**4**	4

14 Interest payable

	2006 £'000	2005 £'000
On loans and overdrafts from banks	**£839**	£836

15 Non equity dividends

Amounts are shown net of 20% tax

		2006 Paid £'000	2006 Payable £'000	2006 Charge for the year £'000	2005 Paid £'000	2005 Payable £'000	2005 Charge for the year £'000
5%	cumulative preference shares	**2**	**2**	**4**	2	2	4
3.5%	cumulative second preference shares	**2**	**1**	**3**	2	1	3
3%	cumulative third preference shares	**3**	**-**	**3**	3	-	3
3.75%	cumulative third preference shares	**2**	**-**	**2**	2	-	2
5%	cumulative third preference shares	**2**	**-**	**2**	2	-	2
2%	cumulative fourth preference shares	**7**	**-**	**7**	7	-	7
7.5-10%	cumulative fifth preference shares	**360**	**-**	**360**	360	-	360
Total dividends on non-equity shares recognised in the year		**£378**	**£3**	**£381**	£378	£3	£381

Notes to the Financial Statements (continued)

16 Equity dividends

Amounts are shown net of 20% tax	**2006**	2005
	£'000	£'000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 December 2005 of 172 pence per ordinary and 'A' ordinary share (2004: 255.1 pence)	**665**	986
Interim dividend for the year ended 31 December 2006 of 105 pence per ordinary and 'A' ordinary share (2005: 100 pence)	**405**	386
	£1,070	£1,372
Proposed final dividend for the year ended 31 December 2006 of 181 pence per ordinary and 'A' ordinary share (2005: 172 pence)	**£699**	£665

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 £2,388,000 (2005: £2,116,000), 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

	2006	2005
	£'000	£'000
Operating profit	**3,533**	3,176
Depreciation	**2,169**	2,172
Change in order to bring pension contributions onto a cash basis	**(155)**	(830)
Decrease in stores	**22**	8
Decrease in debtors	**11**	154
(Decrease) / Increase in creditors	**(71)**	403
Net cash inflow from operating activities	**£5,509**	£5,083

19 Analysis of changes in net debt

	At 1 January 2006	Cash Flows	Other Changes	**At 31 December 2006**
	£'000	£'000	£'000	**£'000**
Bank and cash	(277)	550	-	**273**
Debt due within one year	(3,650)	-	3,650	**-**
Debt due after one year	(16,632)	-	(3,650)	**(20,282)**
Total	**£(20,559)**	**£550**	**£ -**	**£(20,009)**

Notes to the Financial Statements (continued)

20 Directors' emoluments

	Salary	Fee	Benefits	Total Emoluments	
		(excluding pension contributions)			
				2006	2005
	£'000	£'000	£'000	**£'000**	£'000
Executives					
Howard Snowden[1]	91	8	9	**108**	100
Helier Smith[2]	82	8	4	**94**	85
Non-Executives					
David Norman	-	15	-	**15**	12
Leonard Norman	-	8	-	**8**	6
Carlyle Hinault	-	8	-	**8**	6
Richard Pirouet	-	8	-	**8**	6
Stephen Marie	-	8	-	**8**	6

[1] *For the year ended 31 December 2006 the Company's contribution in respect of Howard Snowden's pension was £13,000.*
[2] *For the year ended 31 December 2006 the Company's contribution in respect of Helier Smith's pension was £4,000.*

Benefits for Mr Snowden consist of full expenses for the use of a motor car, private health care and prolonged disability and death in service insurance. Benefits for Mr Smith consist of motor fuel, 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	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Additional connections made in the year (net of disconnections)	Number	563	558	829	638	681	1,106	775	560	629	1,001
Connections on supply [1]	Number	29,054	29,612	30,441	31,079	31,760	32,866	33,641			
Live unmeasured supplies	Number								27,500	27,010	26,618
Live metered connections	Number								7,541	8,567	9,763
Service mains laid	metres	8,553	8,993	9,623	3,569	7,439	10,892	7,920	7,036	9,795	6,466
Total length of service mains	Km	385.03	394.02	403.64	407.21	414.64	425.53	433.45	440.48	450.27	453.93
Trunk mains laid	metres	2,164	4,742	1,163	3,131	4,736	1,161	4,104	0	0	0
Total length of Trunk mains	Km	56.35	61.09	62.25	65.38	70.11	71.27	75.37	75.37	75.37	75.37
Service mains re-laid	metres	738	244	300	1,598	1,281	1,178	1,822	2,497	2,450	2,141
Burst mains	Number				29	39	16	16	11	28	14
Annual Rainfall (142 year average – 850.2mm)	mm	757.5	984.6	961.4	1026.9	957.8	986.9	756.9	883.9	745.7	782
Total water supplied	Ml	6,994	7,229	7,269	7,262	7,317	7,207	7,301	7,305	7,291	7,484
Maximum daily demand	Ml	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	26.5 15 July	28.9 17 July
Maximum monthly demand	Ml	705.3 August	756.8 August	794.1 July	721.7 July	733.1 June	702.5 July	725.9 July	682.7 July	699.2 July	767 July
Number of employees at end of year	Number	118	117	114	113	112	112	116	114	110	107

[1] From 2004, the statistic showing Connections on Supply has been replaced by details of Live unmeasured supplies and Live metered connections.

Mulcaster House, Westmount Road,
St. Helier, Jersey, JE1 1DG

Telephone: 01534 707300
Facsimile: 01534 707400

Email: info@jerseywater.je
Website: www.jerseywater.je