Jersey Water

Annual Report and Financial Statements

The Jersey New Waterworks Company Limited

2007

Contents

Directors, Officers and Advisers

Directors

David Charles Norman, *FCA*
Chairman

Richard John Pirouet, *FCA*
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

Kevin Charles Keen, *MBA, FCCA, FCMA*
Senior Independent Director

Stephen John Marie, *MICW, MBIFM, ACIOB*

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-sixth 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 12 June 2008, at 10.00 am for the following purpose.

Ordinary Resolutions

1. To increase the number of Directors permitted to hold office at any one time from seven to ten in accordance with paragraph 63 of the Articles of Association of the Company (which permit such an amendment by Ordinary Resolution).
2. To receive the Financial Statements for the year ended 31 December 2007.
3. To declare a final net dividend of 1.64 pence per share on the ordinary and 'A' ordinary shares of the Company.
4. To re-elect Mr Helier Smith, the Director retiring by rotation.
5. To elect Mr Anthony Cooke as a Director of the Company. Mr Cooke will be filling the vacancy left by Mr Richard Pirouet who will retire as a Director of the Company at the Annual General Meeting.
6. To elect Mrs Mary Curtis as a Director of the Company. This resolution will be proposed subject to the approval of resolution 1 at the meeting.
7. To approve the Directors' fees for 2008 of £18,000 for the Chairman and £10,000 for other Directors (2007: £15,000 and £8,000 respectively).
8. 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

30 April 2008

To facilitate the preparation of dividend warrants the share transfer books of the Company will be closed from 2 June 2008 to 12 June 2008, both days inclusive, and, subject to the dividend being confirmed, dividend warrants will be posted on 12 June 2008 to all ordinary and 'A' ordinary shareholders registered on 12 June 2008.

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: Carlyle Hinault, Stephen Marie, Howard Snowden, David Norman, Helier Smith, Richard Pirouet, Kevin Keen

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 family owned property group and holds directorships in a number of other companies in Jersey, Guernsey and France.

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. For the nine years ending 31 May 2007, Mr Pirouet was a Commissioner and, for most of that period, Deputy Chairman of the Jersey Financial Services Commission. He also has a portfolio of non-executive directorships.

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.

Kevin Keen MBA, FCCA, FCMA

Kevin Keen was appointed to the Board in May 2007. He was previously Managing Director of Jersey Dairy and prior to that a Divisional Managing Director and Finance Director of Le Riche Group. Mr Keen was also recently President of the Jersey Chamber of Commerce and is a Fellow of both the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants.

Stephen Marie MICW, MBIFM, ACIOB

Stephen Marie became a non-executive Director of the Company in 2002. Mr Marie is Property Director of Sandpiper CI and 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 delighted to be able to report to shareholders that, despite modest tariff increases in 2007, we have achieved a profit before tax of £3.5 million, an increase of nearly 13% on 2006 (as restated) and well ahead of budget.

An abundance of rain during 2007 meant that we did not have to operate the desalination plant and this, together with cost savings achieved by staff throughout your Company meant that overall operating expenditure fell by 3.2%.

In view of the excellent results, your Board is recommending a 10% increase in the dividend for 2007.

The figures set out in our Water Quality Report demonstrate the excellent overall quality of water supplied. Disappointingly, due to the wet spring weather, nitrate levels were slightly above the 50 mg/l level (although well within our authorised limits) and this reduced our 99.97% compliance achieved in 2006 to 99.86%, just below the latest published England and Wales average of 99.96%. Without action from the States of Jersey to introduce effective Water Catchment Management Areas to deal with nitrates at source it is likely that similar levels will continue to be seen during wet growing seasons.

In 2007, your Company continued with its programme of renewing the older sections of the treated water network and relaid just under 2km of main. We also laid 5.6km of new mains and made 453 additional connections to the network. Capital expenditure totalled £2.5 million, 34% of which was spent on mains renewals, the balance being used on programmes to maintain and improve our treatment, processing and operating capability.

Queen's Valley Reservoir

Despite modest tariff increases in 2007, we have achieved a profit before tax of £3.5 million.

In last year's Annual Report I drew shareholders' attention to our concerns over the unsettled rainfall patterns that we were experiencing. These unsettled patterns continued in 2007 (albeit with a contrary and abundant effect) causing us to consider further, the possibility of future climate change affecting the availability of water resources; we also remain concerned as to the impact that population growth could have on demand. In order to start addressing these concerns the Company has commissioned an independent specialist consultant to prepare a water resource plan looking ahead 25 years, on the same basis as used by water companies in England and Wales.

Your Board continues to view metering as the fairest way of charging for water and as an effective tool in reducing waste. Harnessing potential reductions in consumption through increased levels of metering makes sense both environmentally and from a water resource management perspective. Accordingly, we have decided that as from 1 January 2009, where there is a change of account holder, it will become compulsory for a meter to be installed and for the new account holder to pay for water by meter, an idea touched on in last year's report. In addition, existing commercial undertakings not currently paying for water on a metered basis will, from 1 January 2009, be required to either pay for water by meter or, where a meter cannot be fitted, pay for water on an assessed volume basis.

Shareholders should be aware that accelerating metering will be expensive for the Company as we currently make no charge for fitting a meter. Nonetheless, your Board firmly believes that in the interests of equity for customers as well as the environment, this is a course that the Company must follow and which is in the long term interests of both your Company and of our Island.

Chairman's statement (continued)

Val de la Mare Reservoir

At the Annual General Meeting the Deputy Chairman, Mr Richard Pirouet and the Finance Director, Helier Smith, retire by rotation in accordance with Article 74.

Mr Smith will be offering himself for re-election, but Mr Pirouet, having served 10 years on the Board has decided not to seek re-election and I should like to take this opportunity to record our appreciation of the very valuable contribution which he has made to the Board and for his hard work on behalf of shareholders.

We have been fortunate in persuading Mr. Tony Cooke to offer himself for election in place of Mr. Pirouet. Tony is Managing Director of Bournemouth and West Hampshire Water Plc and a council member of Water UK which represents the UK water industry and I am confident that his know how and breadth of experience will be an asset to your Company.

The regular retirement and consequent loss of Directors, due to compliance with the requirements of good corporate governance, can be a problem for relatively small Boards such as ours where experience and continuity are important in both supporting the Executives and serving shareholder interests. Accordingly, at the Annual General Meeting I shall be proposing a change to the Articles of Association to increase the current limit on the number of Directors who may hold office at any one time from seven to ten.

Provided that the resolution to increase the limit on the number of Directors is carried, then I shall be proposing the election of Mrs Mary Curtis to the Board. Mary will be known to many of you. She currently works for her own business consultancy firm and was previously Director of Human Resources at Mourant, a post she held for some 6 years. I believe that Mary will bring a new dimension to the Board and add to our collective expertise, for the benefit of the Company.

On behalf of shareholders, I thank our staff, who continue to maintain the high standards of previous years. In 2007, we lost the services of two rather special members of staff who between them had over 90 years of service. Andrew Brandie, our Health & Safety Officer sadly passed away in May and Garnet Renouf, our Workshop & Plant Superintendent, retired in November. Whilst it is sad to lose the knowledge, experience and camaraderie of long standing colleagues it is encouraging for the future to see new faces keen to take on the ever increasing challenges of our business.

David Norman
Chairman

4 April 2008

Business Review

Financial Performance

- **Turnover**

  Turnover increased by 2.4% from £13.5 million (as restated) in 2006 to £13.8 million.

  Revenue from water increased by 3.9% overall. As a result of the reducing number of unmeasured water customers (as all new customers are metered) unmetered water sales increased by only 1%, despite a tariff increase of 3.6% from the second quarter. Conversely, metered water sales increased by 6.2% due to the tariff increase of 2% and the increase in the number of customers in both 2007 and the full effect of the 1,001 new connections in 2006; this despite the lower demand for water during the wet spring and summer.

  Historically, the Company has not recognised the income accruing on metered water consumed between the last meter reading of the year and the year end. As a result of the increasing number of customers paying for water by meter, the treatment has been reviewed and the Company has implemented a new accounting policy which takes account of all unbilled metered water income in the results for the year. The details of the change and effect on the results for the year are explained in note 1 to the accounts.

  Revenue from rechargeable works decreased by 28% to £623,000 due to the reduction in the number of new water connections made in 2007 compared to the near record level in 2006.

- **Operating costs**

  Operating expenditure reduced by 3.2% from £9,627,000 (as restated) in 2006 to £9,319,000. The main reason for the reduction was the saving of £270,000 achieved from not running the desalination plant. In addition other savings were achieved across a number of areas including administration and insurance costs and installation costs associated with the reduced number of new connections in the year.

- **Profit on disposal of fixed assets**

  During the year the Company disposed of a number of pieces of surplus land, including the site of the former booster station at Mont Les Vaux, generating profits totalling £480,000.

  The Company also disposed of items of plant and equipment that had become redundant or obsolete following the decommissioning of a number of booster stations around the Island, the installation of the new Chemical Dosing system at Handois Water Treatment Works and the refurbishment of the pumping station at Tesson. The disposals generated write downs totalling £322,000.

- **Interest costs**

  Despite interest rates increasing over the year, net interest costs remained constant at £827,000. Interest income arising on the higher cash balances offset the increase in interest charges payable.

- **Income tax**

  Income tax charges for 2007 are 36% lower than in 2006 (as restated). The reduction arises mainly from the effect of a lower deferred tax charge in 2007 and the transitional arrangements as Income Tax moves to being charged on an arrears basis in 2006 to a current basis in 2008. As tax in 2008 will be assessed on the average of taxable profits for 2007 and 2008 the effective rate of tax for 2007 is 10%, rather than the 20% in 2006.

Turnover increased by 2.4% from £13.5 million in 2006 to £13.8 million.

Business Review (continued)

- **Equity dividends**

  Dividends paid in 2007 totalled £1,124,000, an increase of 5% over dividends of £1,070,000 in 2006. A final dividend for 2007 of £1.64 is proposed bringing the total dividend for 2007 to £1,217,000, an increase over the total dividends for 2006 of 10%.

	2007	2006
	£'000	£'000
Dividends paid		
Final dividend for the previous year	699	665
Interim dividend for the current year	425	405
	£1,124	£1,070
Dividends proposed		
Final dividend for the current year	£792	£699

- **Defined benefit pension scheme**

  The Company has adopted the changes to accounting standard FRS 17 - Retirement Benefits, announced by the Accounting Standards Board in December 2006. As well as additional disclosure, the changes require the fair value of scheme assets to be based on bid prices rather than mid market prices. The changes, which have not had a material effect on the valuation of pension scheme assets, are fully reflected in these financial statements.

  In 2007, the Company concluded a review of the future options for the defined benefit scheme. After a successful period of consultation with the members of the scheme a new benefits structure was agreed that will permit the scheme to continue for the time being. The Company has agreed to make an additional special contribution into the scheme of £1,065,000 in 2009.

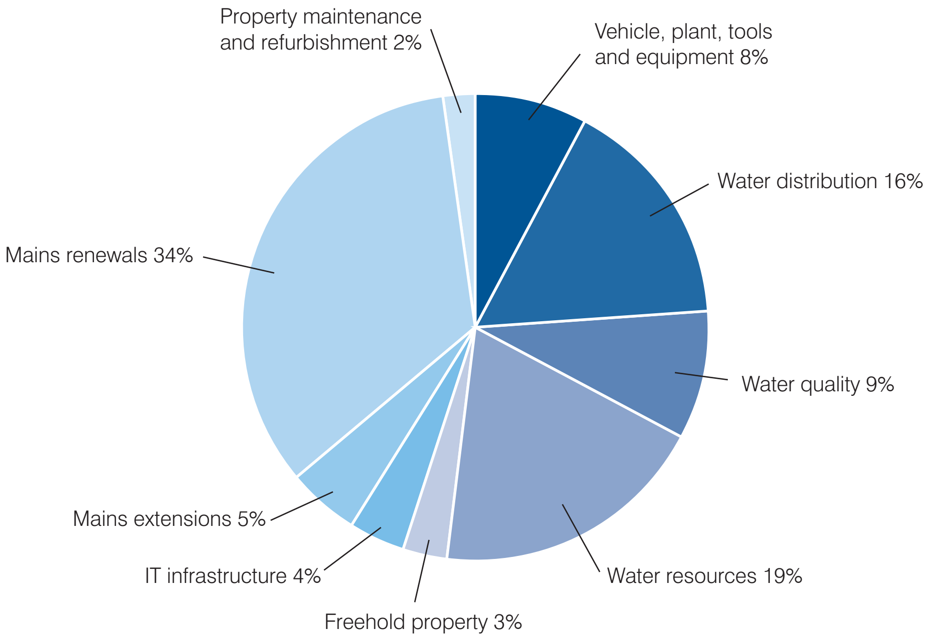
  The FRS 17 valuation at 2007 shows a net surplus of £180,000 compared to a deficit of £2,023,000 (as restated) in 2006. The main reasons for change are employer contributions paid and payable into the scheme of £1,651,000 and actuarial gains of £1,448,000. The actuarial gains being largely driven by an increase in corporate bond yields during 2007.

- **Cash flow**

  Net debt at the end of the year was £18,023,000 compared to £20,009,000. Net cash flows of £1,986,000 were generated in 2007 compared to £550,000 in 2006.

Business Review (continued)

Capital expenditure by type



- **Capital expenditure**

  Capital expenditure for 2007 totalled £2,546,000, in line with budget. An analysis of expenditure by type is provided in the chart above.

  During 2007 the Company adopted a new accounting policy in respect of the treatment of the installation costs of water meters and related equipment. Previously, these costs were charged to the profit and loss account in the year incurred. In 2007, a review of the nature of these costs, which are becoming more material each year, was undertaken and it was determined that it would be more appropriate to recognise them as assets and capitalise them in the balance sheet. Accordingly, the Company has adopted a new accounting policy of capitalising meter installation costs and depreciating them over 10 years. The financial statements and comparatives have been amended to reflect the new treatment. Further details can be seen in note 1.

Connections, metering and charges

During 2007, 453 new properties were connected to the water network, well down on the previous year when 1,001 new connections made 2006 the second highest on record. In addition, 358 existing customers opted to have a meter installed. The Company also renewed 505 service connections, taking the opportunity to install waterfit chambers to facilitate the future installation of meters. At the year end the number of live metered connections stood at approximately 10,600, representing 29% of all customers. The number of live unmeasured supplies has fallen from approximately 26,600 in 2006 to 26,100 in 2007.

In line with the policy of increasing tariffs broadly in line with the rise in the Jersey Retail Price Index, in December 2007 the Company announced tariff increases for 2008 of 3.5% for unmeasured water and 2.3% for metered water (based on the September 2007 RPI of 3.9%). In real terms metered water prices have fallen by nearly 10% since December 2000 providing a financial incentive for customers to consider switching to paying for water by meter.

Business Review (continued)

The Company is aiming to increase the rate of meter penetration and with effect from 1 January 2009 will introduce two measures that will assist with this process:

- Mandatory metering on change of account holder. All customers taking on a supply of water after 1 January 2009 will be required to pay for water by meter. The Company will continue to install water meters free of charge wherever possible. It is anticipated that this will result in approximately 1,700 additional metered connections each year (reducing as meter penetration increases).
- Mandatory metering for all commercial undertakings. There are approximately 850 commercial undertakings that, due to their existing plumbing arrangements, pay for water on an unmeasured basis. After 1 January 2009 all commercial customers will be required to pay for water either by meter, or where a meter cannot be fitted, by an assessed volume charge.

Water Supply and Demand

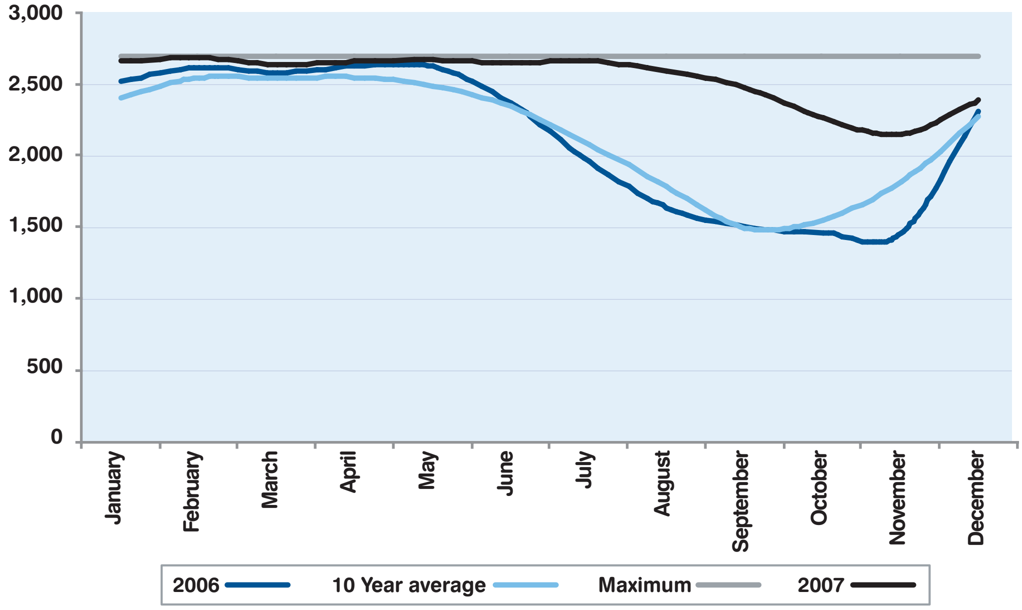
From a water resource view point 2007 was an excellent year. The wet end to 2006 meant that the Company started 2007 with virtually full reservoirs and then enjoyed 60% above average rainfall in the first quarter, which is an important period for water resources.

In contrast to 2006, for most of the months during 2007 rainfall levels were above average, with only April, October, November and December being below. Consequently, water levels in reservoirs throughout the year were much higher than average, the lowest level recorded was 80% full in November, a record high compared to previous years.

Grands Vaux reservoir

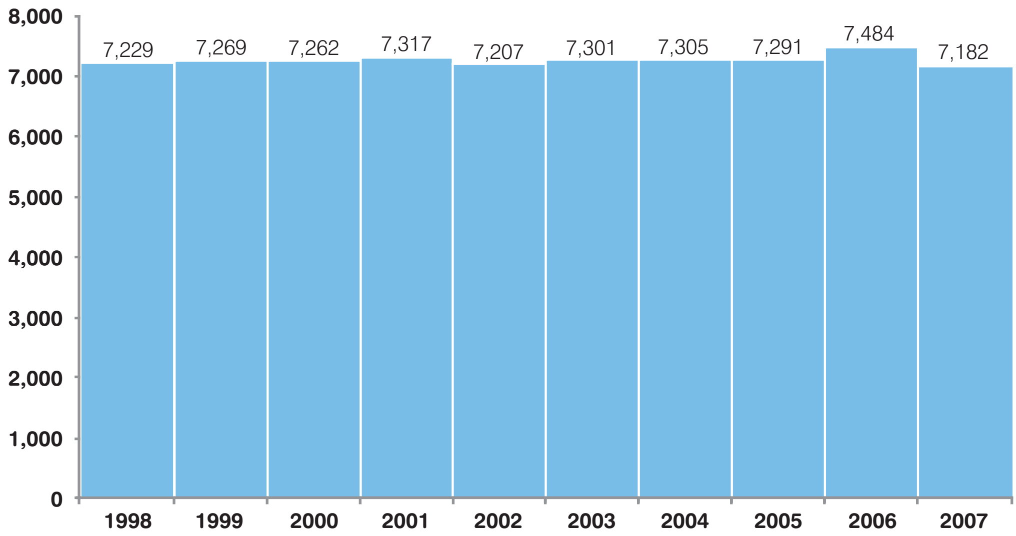
Business Review (continued)

Water in store (Ml)



Total rainfall recorded in 2007 was 11% above the ten year average and consumption was 4% below that recorded in 2006; primarily due to the wet summer months which resulted in reduced garden watering demand.

Total water supplied by year (Ml)



Business Review (continued)

Rainfall patterns experienced in recent years have not been as reliable as they once were and one of the big challenges for the future is the availability of water resources as a result of forecast climate changes. The Company has commissioned an independent specialist consultant to prepare a water resource plan for a projection period of 25 years. The plan is expected to be completed at the end of 2008 and will be developed using the guidelines set out by the England & Wales Environment Agency (EWEA) and is intended to provide estimates in terms of quantum and timing for when additional water resources may be needed. It is expected that the plan will be updated every 5 years, in accordance with the EWEA guidelines.

The Company welcomes the approval by the States of Jersey of the new Water Resources (Jersey) Law 2007. The law has been supported by the Company as it will allow a more thorough understanding of the water resources available and consumed in the Island.

Mains renewal in Green Road, St Clement.

Water Quality

Overall, the quality of treated water supplied during 2007 has been very high, with 99.86% compliance with the maximum allowable concentrations set out in the Water (Jersey) Law 1972. Full details are included within the 2007 Water Quality Report.

Due to the heavy rainfall, recorded levels of nitrates in treated water in the months March to June were above the 50 mg/l limit set out in the Law. Overall during the year some 23% of samples taken for nitrates, were above 50 mg/l, the maximum recorded being 57 mg/l. All samples were well within the operational derogation which permits maximum allowable concentrations of up to 70 mg/l.

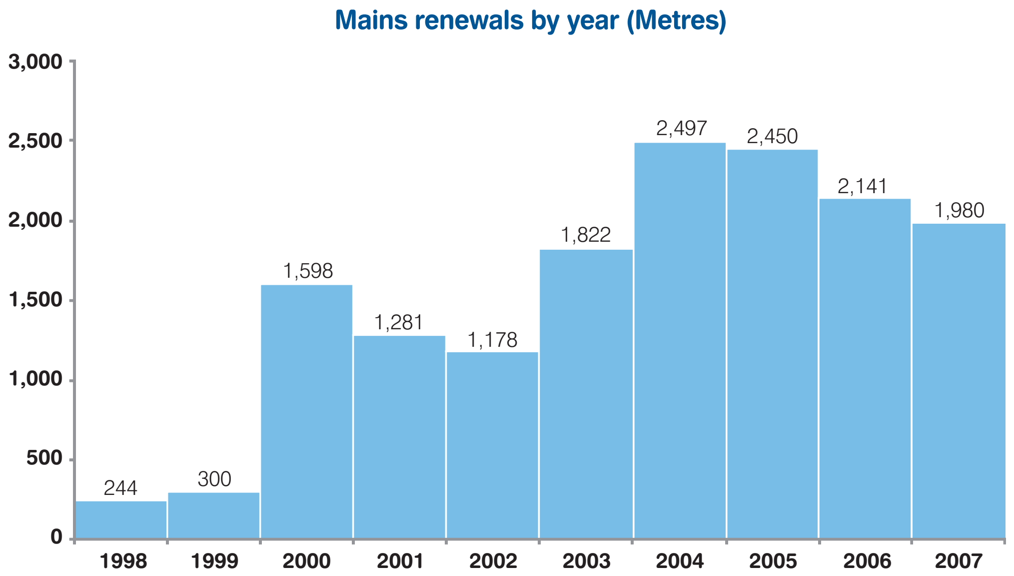
As demonstrated in 2007, where rainfall levels are high during the wet months, nitrate levels in nearly all water resources across the Island can exceed 50 mg/l. The Company has for a long time advocated the introduction of Water Catchment Management Areas (WCMA) under the Water Pollution (Jersey) Law 2000, to control the use of nitrates in catchment areas. The Company has no control over the reservoir catchment areas and the quality of water resources and looks to the States to progress the introduction of WCMA's to provide a sustainable and long-term solution to the level of nitrates in Jersey's water resources.

Mains Network

During the year, work on replacing old water mains in the St Helier town area continued with 1.98km of renewals being completed against a target of 2.5km. As in 2006, the complicated and time consuming nature of renewing mains in St Helier, where the underground service areas in the roads are heavily congested makes the work not only slow, but also expensive. Over the past 10 years the Company has renewed over 15km of water mains as part of the on-going programme required to maintain standards of service in terms of both water quality and pressure.

Renewal work, particularly in the St Helier town area, requires detailed planning and liaison with many authorities, commercial organisations and residents to minimise the disruption that unfortunately such works do inevitably cause.

Business Review (continued)



In 2007, the Company laid approximately 5.6km of new mains, 5.1km of which were funded by third parties wishing to connect property developments to the mains network.

The Company continues to work to minimise water leakage throughout the distribution network. Using the District Meter Areas (DMAs) which are connected to the telemetry system, potential leakages are identified and followed up with detailed surveys of areas to locate leakages. During 2007 the Jersey Water leak detection team successfully identified 348 leaks of which 231 were from customers' own pipe work.

Leakage levels continue to lie well within the regulated range that would be applied to similar water companies in England & Wales.

Treatment and Processing

The chemical dosing plant at Handois water treatment works was replaced during the year. This equipment provides the necessary systems to enable full treatment of water to meet the high quality standards required. The existing plant was reaching the end of its operational life and replacement of the equipment required careful planning to prevent any disruption to the normal operation of the treatment works.

The design of a replacement control system for the Desalination Plant commenced during 2007. The new software to be used is the same as used by the Company's telemetry system; this will enable remote monitoring and control of the plant, as well as familiarisation for staff training and maintenance of the system. The system is due to be installed in the early part of 2008, when a test run of the plant is planned.

Improvements to the sea water intake system at the Desalination Plant were also undertaken in 2007; new sea weed screens were installed to prevent sea weed and other debris blocking the sea water intake pumps. A new water level indication system was installed in the sea water intake shaft together with improved lighting, ventilation and motor operated actuators to the sea water intake valves.

Pumping plant was replaced at the stream abstraction pumping stations at Grève de Lecq and Little Tesson. This equipment, in common with all other refurbished raw water pumping stations, now has the advantage of automatically controlled variable speed driven pumps, allowing rates of water abstraction to match incoming stream water flows.

Company staff and management

During 2007, a number of Managers and Supervisors obtained National Vocational Qualification (NVQ) in Leadership and Management at various levels. The Company is keen to ensure members of staff are given every opportunity to attend training courses for personal development, where this is appropriate to their present and potential roles in the Company.

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 10 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 2007	**10**	**2**	**1**	**2**
David Norman (Non Executive Director)	10 (Chairman)		1	2 (Chairman)
Senator Len Norman[1] (Non Executive Director)	4 (of 4)			1 (of 1)
Richard Pirouet (Non Executive Director)	10	1 (of 1)		2
Carlyle Hinault (Non Executive Director)	9	2	1	2
Kevin Keen[2] (Non Executive Director)	6 (of 6)	1 (of 1) (Chairman)	1	1 (of 1)
Stephen Marie (Non Executive Director)	10	2	1 (Chairman)	2
Howard Snowden (Executive Director)	10			
Helier Smith (Executive Director)	10			

[1] Senator Len Norman retired from the Board on 18 May 2007.
[2] Kevin Keen was appointed to the Board on 18 May 2007.

Corporate Governance (continued)

Director independence

The Board considers all non executive directors to be independent in character and judgement. However, both David Norman and Richard Pirouet have been Board members for more than nine years. David Norman and Richard Pirouet do not therefore meet the criteria of independence set down in the Combined Code. Accordingly, the Board has determined that Carlyle Hinault, Kevin Keen 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 Kevin Keen (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 is 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 Stephen Marie (Chairman), Carlyle Hinault, Kevin Keen and David Norman. 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), Carlyle Hinault, Kevin Keen, Stephen Marie 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.

When selecting candidates for potential appointment as non executive directors, the Committee evaluates the needs of the Company and identifies the necessary skills and experience required by candidates for consideration. The Nomination Committee makes recommendations to the Board taking into account the performance of the candidates at interview, their skills and experience and their ability to meet the specific needs of the Company. Consideration is given to the use of external recruitment consultants and open advertising in the recruitment process. However, this is weighed against the cost of doing so and the specialist needs of the Company as a Water supplier.

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 and adopted 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 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.

Corporate Governance (continued)

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.

Queen's Valley Reservoir

Directors' Report

The Directors of the Company present the financial statements for the year ended 31 December 2007.

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 23. 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 13.

Dividends

Ordinary and A Ordinary shares		
Amounts are shown net of 20% tax	**2007**	2006
	£'000	£'000
Interim dividend for the year ended 31 December 2007. of £0.88 (2006: £0.84) paid on 1 October 2007	**425**	405
Proposed final dividend for the year ended 31 December 2007 of £1.64 (2006: £1.45).	**792**	699
	£1,217	£1,104

Preference shares

In 2007 the Company paid dividends on preference shares totalling £381,000 (2006: £381,000).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved are detailed on page 2. All directors except for Kevin Keen and Senator Len Norman were directors of the Company throughout the year ended 31 December 2007. Senator Len Norman retired from the Board on 18 May 2007. Kevin Keen was appointed to the Board on 18 May 2007.

In accordance with the provisions of Article 74, Richard Pirouet and Helier Smith will retire at the forthcoming annual general meeting. Mr Smith, being eligible, offers himself for re-election. Mr Pirouet will not seek re-election.

The Directors recommend the election of Mr Anthony Cooke as a Non Executive Director of the Company to fill the vacancy left by the retirement at the AGM of Richard Pirouet. Mr Cooke, an economist by background, is currently Managing Director of Bournemouth and West Hampshire Water Plc and has previously held a number of Chief Executive and senior management roles in the United Kingdom and internationally.

The Directors also recommend the election of Mrs Mary Curtis as a Non Executive Director of the Company. Mrs Curtis is a Fellow of the Chartered Institute of Personnel & Development and is currently Director of an independent business consultancy firm, having previously been Director of Human Resources at Mourant and Offshore Island Regional Human Resources Manager at Deloitte & Touche.

As described on page 15, the Company has undertaken a formal assessment of its performance and that of the individual Directors, including structured meetings between the Directors being assessed, the Chairman and the Deputy Chairman. 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.

Directors' Report (continued)

Directors' interests

Particulars of the holdings of Directors, including family interests, in the share capital of the Company as at 31 December 2007 are:

	Carlyle Hinault	Kevin Keen	Stephen Marie	David Norman	Richard Pirouet	Howard Snowden	Helier Smith
Ordinary shares	100	-	100	8,680	-	200	146
Preference shares	-	-	-	-	-	95	212

Of the many business interests of David Norman, he is a Director of Petroleum Distributors (Jersey) Limited, a company with which Jersey Water trades on an arms length basis.

Stephen Marie is the Property Director of Sandpiper CI, a group with which the Company transacts on an arms length basis.

Mr Keen is a Non Executive Director of BG Romeril and Co Limited, a company with which Jersey Water transacts on an arms length basis.

Insurance of Directors and Officers of the Company

The Company maintains an insurance policy on behalf of all 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 4 April 2008.

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%								
BE Anderson							4%		
PJ Audrain						3%	4%		
PG Blampied	7%		19%	31%	7%	23%	26%	10%	
Capital Estates Limited				3%					
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%	
SA Le Couteur	3%		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%

Directors' 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

4 April 2008

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 2007 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 22. 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 Annual 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 2007 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

4 April 2008

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 2007

	Note	2007		2006 Restated	
		£'000	£'000	£'000	£'000
Fixed assets	2		59,831		59,962
Current assets					
Stock and work in progress		1,073		1,098	
Debtors	3	4,225		3,990	
Bank and cash		2,259		273	
		7,557		5,361	
Creditors - Amounts falling due within one year					
Creditors and accruals	4	(2,390)		(2,478)	
Income tax		(159)		(2)	
		(2,549)		(2,480)	
Net current assets			5,008		2,881
Total assets less current liabilities			64,839		62,843
Creditors - Amounts falling due after more than one year					
Creditors	5	(1,067)		(7)	
Income tax		(307)		(268)	
Bank loans	7	(14,900)		(14,900)	
Non-equity preference shares	10b	(5,382)		(5,382)	
			(21,656)		(20,557)
Provisions for liabilities and charges					
Deferred taxation	8		(5,007)		(4,957)
Net assets excluding pension liability			38,176		37,329
Pension surplus / (liability)	9		180		(2,023)
Net assets			£38,356		£35,306
Equity capital and reserves					
Called up equity share capital	10a		483		483
Capital redemption reserve			124		124
			607		607
Share premium account			678		678
Reserves	11		37,071		34,021
Shareholders' funds	12		£38,356		£35,306

The financial statements on pages 22 to 37 were approved by the Board of Directors on 4 April 2008 and were signed on its behalf by:

David Norman
Chairman

Profit and loss account

For the year ended 31 December 2007

	Note	2007		2006 Restated	
		£'000	**£'000**	£'000	£'000
Turnover					
Water supply charges	13	**12,912**		12,433	
Rechargeable works income		**623**		864	
Other income		**282**		195	
			13,817		13,492
Cost of sales					
Pumping expenses		**(645)**		(626)	
Operation of reservoirs and works		**(2,051)**		(2,017)	
Distribution and analysis of water		**(1,679)**		(1,722)	
Desalination station expenses		**(78)**		(348)	
Miscellaneous		**(356)**		(450)	
		(4,809)		(5,163)	
Administration					
Administration expenses	14	**(2,057)**		(2,110)	
Insurances		**(369)**		(397)	
		(2,426)		(2,507)	
Depreciation					
Completed works	2	**(2,084)**		(1,957)	
Expenditure			**(9,319)**		(9,627)
Operating profit			**4,498**		3,865
Profit on disposal of fixed assets			**175**		469
Interest					
- payable	15	**(872)**		(839)	
- receivable		**45**		12	
Non equity dividends	16	**(381)**		(381)	
Other finance income	9	**61**		4	
			(1,147)		(1,204)
Profit before taxation			**3,526**		3,130
Jersey income tax	6		**(273)**		(427)
Profit available for distribution to equity shareholders			**3,253**		2,703
Equity dividends	17		**(1,124)**		(1,070)
Retained profit for the year			**£2,129**		£ 1,633
Earnings per ordinary share of £1	18		**£6.73**		£5.60

There is no material difference between the reported profit for 2007 and 2006 and the profit prepared under the historical cost basis.

Statement of total recognised gains and losses

For the year ended 31 December 2007

	Note	2007	2006 Restated
		£'000	£'000
Profit for the year		**3,253**	2,703
Gain arising on pension liabilities	9	**921**	951
Total recognised gains and losses for the year		**£4,174**	£3,654
Prior year adjustments (see note 1)			
- Recognition of income on unbilled metered water consumption		**446**	
- Capitalisation of meter installation costs		**590**	
- FRS 17 amendment		**(23)**	
Total gains and losses in respect of prior period adjustments		**1,013**	
Total gains and losses recognised since last annual report		**£5,187**	

Cash flow statement

For the year ended 31 December 2007

	Note	2007	2007	2006 Restated	2006 Restated
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19		6,439		5,836
Returns on investments and servicing of finance					
Interest received		45		12	
Interest paid		(871)		(822)	
Non-equity dividends paid		(381)		(381)	
Net cash outflow on returns on investments and servicing of finance			(1,207)		(1,191)
Taxation					
Jersey income tax paid			(2)		(3)
Capital expenditure					
Purchase of fixed assets		(2,632)		(3,500)	
Disposal of fixed assets		512		478	
Net cash outflow from capital expenditure			(2,120)		(3,022)
Equity dividends paid			(1,124)		(1,070)
Net cash inflow before financing			1,986		550
Financing					
New loans		-		-	
Loans repaid		-		-	
Net cash flow from financing			-		-
Increase in cash			£1,986		£550

Reconciliation of net cash flow to movement in net debt

	Note	2007	2006
		£'000	£'000
Increase in cash		1,986	550
Movement in net debt	20	1,986	550
Net debt brought forward	20	(20,009)	(20,559)
Net debt carried forward	20	£(18,023)	£(20,009)

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). Fixed rate income is recognised for the year up to 31 December. In a change from the previous accounting policy, income is now recognised on unbilled metered water supplied between the previous meter reading (usually December) and the year end. The previous policy was not to recognise metered water charges until they were actually billed.

The financial statements incorporate the change in accounting policy and the prior year results and balance sheet have been restated. The effect of the change in accounting policy is to increase retained profit by £93,000 for 2007 and £60,000 in 2006. Net assets as at 31 December 2007 increase by £596,000 and £446,000 for 2006.

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'.

As a result of a change of accounting policy, expenditure on the installation of meters, previously charged to the profit and loss account in the period incurred, is now capitalised and depreciated over 10 years. The effect of the change is to increase retained profit for 2007 by £173,000 and 2006 by £257,000. Net assets as at 31 December 2007 increase by £558,000 and as at 31 December 2006 increase by £590,000.

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
Meters	10 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 Tax. As permitted under FRS 19, deferred tax balances are not discounted to reflect the time value of money.

Notes to the financial statements (continued)

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.

In December 2006, the Accounting Standards Board issued an amendment to FRS 17 applicable to accounting periods commencing on or after 6 April 2007, with early adoption of the changes being encouraged. The changes required in the amendment to FRS 17 have been included within the financial statements including the requirement to base the fair value of scheme assets on bid prices as at the year end. Previously, assets have been valued using mid-market prices. Accordingly, the results and balance sheet for the year end 31 December 2006, whilst not material, have been restated to incorporate the change in accounting policy.

Any surplus or deficit in the defined benefit plan, being the difference between the value of the plan assets and the present value of the plan liabilities, is recognised in the balance sheet as an asset or liability to the extent that any surplus is recoverable through future reduced contributions or that, conversely, any deficit reflects a legal or constructive obligation. The defined benefit asset or liability is shown net of any related deferred tax liability or asset.

2 Fixed assets

	Property and completed works £'000	Uncompleted works £'000	Motor vehicles mobile plant & equipment £'000	Total £'000
Cost				
Brought forward per prior year financial statements	75,558	766	2,051	**78,375**
Prior year adjustment	698	-	-	**698**
Restated brought forward	76,256	766	2,051	**79,073**
Additions	143	2,084	319	**2,546**
Disposals	(912)	-	(143)	**(1,055)**
Transfers	2,312	(2,320)	8	**-**
Carried forward	**£77,799**	**£530**	**£2,235**	**£80,564**
Depreciation				
Brought forward per prior year financial statements	(17,598)	-	(1,405)	**(19,003)**
Prior year adjustment	(108)	-	-	**(108)**
Restated brought forward	(17,706)	-	(1,405)	**(19,111)**
Charge for the year	(2,084)	-	(255)	**(2,339)**
Disposals	582	-	135	**717**
Carried forward	**£(19,208)**	**£-**	**£(1,525)**	**£(20,733)**
Net book value				
Restated brought forward	£58,550	£766	£646	**£59,962**
Carried forward	**£58,591**	**£530**	**£710**	**£59,831**

Of the £2,339,000 depreciation charge for the year, £255,000 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 2007 capital commitments contracted for amounted to £91,000 (2006: £66,000).

Notes to the financial statements (continued)

3 Debtors

	2007	2006 Restated
	£'000	£'000
Trade debtors	3,198	3,155
Prepayments	365	235
Accrued income and other debtors	662	600
	£4,225	£3,990

4 Creditors and accruals

	2007	2006
	£'000	£'000
Trade creditors	312	507
Other creditors	358	315
Contract retentions	78	83
Accruals and deferred income	1,642	1,573
	£2,390	£2,478

5 Creditors due after more than one year

	2007	2006
	£'000	£'000
Defined benefit pension scheme contributions	1,065	-
Contract retentions	2	7
	£1,067	£7

During 2007 the Company agreed a special contribution into the defined benefit pension scheme totalling £1,065,000. The contribution is due for payment in 2009.

6 Jersey income tax

	2007	2006 Restated
	£'000	£'000
Current tax		
Income tax on the profits for the year	280	204
Over provision for previous years	(57)	-
Total current tax	223	204
Deferred tax		
Charge for the year	50	226
Over provision for previous years	-	(3)
Total deferred tax	50	223
Total tax charge for the year	£273	£427

Notes to the financial statements (continued)

Factors affecting tax charge for year

The basis of assessment of trading income to Jersey tax is changing from a prior year basis to a current year basis from 2008. The trading profits shown in these accounts are subject to transitional provisions under the Income Tax (Amendment No 28) (Jersey) Law 2007.

The profits chargeable to tax for the year of charge 2008 will be the average of the adjusted profits for the 2007 and 2008 accounting periods.

Previously, the Company accrued for current tax based on the taxable profit for that accounting period notwithstanding that tax was charged on the Company on a prior year basis. The accounting impact of the transition to an actual basis from 2008 is that only half of the year's profits for 2007 and 2008 year ends will suffer tax at 20%.

To recognise the impact of the transition, the Company is no longer accruing current tax on a prior year basis and, for 2007 and 2008 year ends, is providing for tax at 10% on the taxable profits arising in those years.

With effect from the 2008 year end the Company will make full provision for tax, based on the tax rate applicable to the Company, on its current year taxable profits.

The tax assessed for the year is lower than the standard rate of Jersey income tax (20%). The differences are explained below:

	2007	2006 Restated
	£'000	£'000
Profit before tax	**£3,526**	£3,130
Profit before tax multiplied by the standard rate of Jersey income tax of 20%.	**705**	626
Tax at 20% on:		
Capital allowances for period in excess of depreciation	**(14)**	(96)
Capital expenditure, deductible for tax purposes	**(176)**	(204)
Profit on sale of fixed assets	**(35)**	(94)
Unclaimed capital allowances brought forward	**-**	(104)
Dividends on non equity shares - Non deductible	**76**	76
Effect of transitional provisions	**(276)**	-
Current tax charge for year	**£280**	£204

Notes to the financial statements (continued)

7 Bank loans

	Repayment Dates	2007	2006
		£'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

	2007	2006
Loans falling due within one year	-	-
Loans falling due between one and two years	-	-
Loans falling due after two years but less than five years	8,900	8,900
Loans falling due after five years or more	6,000	6,000
	£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.

8 Deferred taxation

	2007	2006
	£'000	£'000
Capital allowances	£5,007	£4,957
Brought forward	4,957	4,734
Transfer from profit and loss account	50	223
At 31 December	£5,007	£4,957

9 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 benefit section of the scheme was closed to new entrants with effect from 1 January 2003.

The defined contribution scheme and defined benefit scheme are both sections of The Jersey New Waterworks Retirement Benefits Plan (1987).

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 2007 totalled £32,000 (2006: £32,000).

Defined benefit section and unfunded scheme

The FRS 17 actuarial valuation update as at 31 December 2007 shows a change from the 2006 deficit of £2,023,000 to a surplus of £180,000 in 2007.

Notes to the financial statements (continued)

The major assumptions used by the actuary were:

	2007	2006
Rate of increase in salaries	**4.68%**	4.51%
Rate of increase in pensions accrued after 1 January 1999	**3.43%**	3.26%
Discount rate	**5.88%**	5.16%
Expected return on plan assets	**6.55%**	6.75%
Inflation assumption	**3.68%**	3.51%
Mortality assumptions		
Current pensioners at 65 - Male	**84**	84
Current pensioners at 65 - Female	**87**	87
Future pensioners at 65 - Male	**85**	85
Future pensioners at 65 - Female	**88**	88

The post-retirement mortality assumptions allow for expected increases in longevity.

The overall expected rate of return is based on the weighted average return of each class of asset at the start of each accounting period.

	2007	2006 Restated
	£'000	£'000
Reconciliation of the present value of scheme liabilities		
Opening scheme liabilities	**15,043**	15,532
Current service cost	**423**	455
Employee contributions	**29**	29
Interest cost	**785**	747
Actuarial gains	**(1,736)**	(1,211)
Benefits paid	**(578)**	(509)
Closing scheme liabilities	**£13,966**	£15,043
Analysis of funded and wholly unfunded scheme liabilities		
Funded scheme	**13,837**	14,899
Wholly unfunded scheme	**129**	144
Total present value of scheme liabilities	**£13,966**	£15,043
Reconciliation of the fair value of scheme assets		
Opening fair value of scheme assets	**12,514**	11,656
Expected return	**846**	751
Employer contributions	**1,651**	588
Employee contributions	**29**	29
Actuarial losses	**(288)**	(23)
Benefits paid	**(561)**	(487)
Closing fair value of scheme assets	**£14,191**	£12,514
Actual return on scheme assets	**£558**	£729

Notes to the financial statements (continued)

	2007	2006 Restated
	£'000	£'000
Analysis of amounts shown in the balance sheet		
Fair value of plan assets	**14,191**	12,514
Present value scheme liabilities	**(13,966)**	(15,043)
Surplus / (deficit)	**225**	(2,529)
Related deferred tax (liability) / asset	**(45)**	506
Net surplus / (deficit)	**£180**	£(2,023)
Analysis of amounts recognised in the profit and loss account		
Current service cost	**(423)**	(455)
Expected return on pension plan assets	**846**	751
Interest on pension plan liabilities	**(785)**	(747)
Total	**£(362)**	£(451)

Current service costs are included within administration expenses in the profit and loss account. Expected returns on pension plan assets and interest on pension plan liabilities are shown net within other finance income in the profit and loss account.

Analysis of amounts recognised in the statement of total recognised gains and losses	**2007**	2006 Restated
	£'000	£'000
Actual return less expected return on pension scheme assets	**(288)**	(22)
Experience gains arising on scheme liabilities	**241**	290
Changes in assumptions underlying the present value of scheme liabilities	**1,495**	921
Actuarial gain recognised in the statement of total recognised gains and losses	**1,448**	1,189
Current tax relief	**24**	32
Movement in deferred tax relating to net surplus / liability	**(551)**	(270)
Gain recognised in the statement of total recognised gains and losses	**£921**	£951
Cumulative amounts recognised in the statement of total recognised gains and losses	**£(1,185)**	£(2,106)

Analysis of scheme assets	**2007**		2006	
	Long term expected annual rate of return	**% of total fair value of scheme assets**	Long term expected annual rate of return	% of total fair value of scheme assets
Equities	**8.42%**	**47.7%**	8.08%	56.9%
Corporate bonds	**4.72%**	**44.4%**	4.99%	42.7%
Cash and receivables	**5.5%**	**7.9%**	5.00%	0.4%
		100.0%		100.0%

Notes to the financial statements (continued)

History of experience gains and losses	2007	2006 Restated	2005 Restated	2004 Not restated	2003 Not restated
	£'000	£'000	£'000	£'000	£'000
Present value of scheme assets	14,191	12,514	11,655	9,197	7,691
Present value of scheme liabilities	(13,966)	(15,043)	(15,532)	(13,096)	(12,189)
Gross scheme surplus / (deficit)	£225	£(2,529)	£(3,877)	£(3,899)	£(4,498)
Experience gains and losses on scheme liabilities					
Amount	241	290	136	194	13
Percentage of scheme liabilities	1.7%	1.9%	0.9%	1.5%	0.1%
Difference between the expected and actual return on scheme assets					
Amount	(288)	(22)	1,108	162	409
Percentage of scheme assets	2%	0.2%	10%	2%	5%

Funding of the defined benefit pension scheme

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. Employer contributions of £1,651,000 for 2007 include scheduled contributions into the defined benefit scheme totalling £586,000 (2006: £588,000) plus a special contribution of £1,065,000 (2006: £NIL) agreed in 2007 but not payable by the Company until 2009.

Prior to 1 January 2008, Company and member contributions were 14.6% and 5.0% (for contributory members). Future benefit changes with effect from 1 January 2008 have led to the following changes in contribution rates. Company contributions are to be paid at the rate of 12.3% of pensionable salaries from 1 January 2008, reducing to 9.8% in January 2009, plus fixed amounts of £250,000 per annum. Members will contribute at rates of 2.5% and 5.0% of pensionable salaries from 1 January 2008 and 1 January 2009 respectively. These rates will remain in force until the results of the formal actuarial valuation of the plan as at 1 January 2009 are known.

10 Share capital

a) Equity share capital

		2007	2006
		£'000	£'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

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.

Notes to the financial statements (continued)

b) Non equity preference share capital

		2007 £'000	2006 £'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.

11 Reserves

	Retained profit £'000	Capital reserve £'000	Total £'000
Brought forward per prior year financial statements	28,993	4,015	**33,008**
Prior year adjustments	1,013	-	**1,013**
Restated brought forward balance	30,006	4,015	**34,021**
Retained profit for year	2,129	-	**2,129**
Transfer of profit on sale of fixed assets to capital reserve	(175)	175	**-**
Gain relating to pension plan deficit recognised in the statement of total recognised gains and losses	921	-	**921**
Carried forward	**£32,881**	**£4,190**	**£37,071**

Notes to the financial statements (continued)

12 Reconciliation of movement in equity shareholders' funds

	2007	2006 Restated
	£'000	£'000
Profit for the year	3,253	2,703
Equity dividends	(1,124)	(1,070)
Retained profit for the year	2,129	1,633
Gain arising on pension plan	921	951
Opening equity shareholders' funds	35,306	32,722
Closing equity shareholders' funds	£38,356	£35,306

13 Water supply charges

	2007	2006 Restated
	£'000	£'000
Unmeasured water charges	6,362	6,300
Measured water charges	5,972	5,624
Service charges and other charges for water	578	509
	£12,912	£12,433

14 Administration expenses

	2007	2006
	£'000	£'000
Included in administration expenses are the following:		
Directors' fees (note 21)	63	63
Auditors' fees - Statutory audit	30	28
- Other services (Tax advisory and compliance)	4	4

15 Interest payable

	2007	2006
	£'000	£'000
On loans and overdrafts from banks	£872	£839

Notes to the financial statements (continued)

16 Non equity dividends

	2007			2006		
	Paid	**Payable**	**Charge for the year**	Paid	Payable	Charge for the year
	£'000	**£'000**	**£'000**	£'000	£'000	£'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
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

17 Equity dividends

Ordinary and 'A' Ordinary shares	**2007**	2006	**2007**	2006
			£'000	£'000
Dividends paid				
Final dividend for the previous year	**£1.45**	£1.38	**699**	665
Interim dividend for the current year	**£0.88**	£0.84	**425**	405
			£1,124	£1,070
Dividends proposed				
Final dividend for the current year	**£1.64**	£1.45	**£792**	£699

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.

18 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £3,253,000 (2006: £2,703,000), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

19 Reconciliation of operating profit to net cash flow from operating activities

	2007	2006 Restated
	£'000	£'000
Operating profit	**4,498**	3,865
Depreciation	**2,339**	2,239
Change in order to bring pension charges onto a contribution basis	**(1,245)**	(155)
Decrease in stock and work in progress	**25**	22
Decrease in debtors	**(243)**	(64)
Increase / (Decrease) in creditors	**1,065**	(71)
Net cash inflow from operating activities	**£6,439**	£5,836

Notes to the financial statements (continued)

20 Analysis of changes in net debt

	At 1 January 2007	Cash Flows	Other Changes	**At 31 December 2007**
	£'000	£'000	£'000	**£'000**
Bank and cash	273	1,986	-	**2,259**
Debt due within one year	-	-	-	**-**
Debt due after one year	(20,282)	-	-	**(20,282)**
Total	**£(20,009)**	**£1,986**	**£-**	**£(18,023)**

21 Directors' emoluments

	Salary (excluding pension contributions)	Fee	Benefits	Total Emoluments	
				2007	2006
	£'000	**£'000**	**£'000**	**£'000**	£'000
Executives					
Howard Snowden[1]	**94**	**8**	**11**	**113**	108
Helier Smith[2]	**86**	**8**	**5**	**99**	94
Non Executives					
David Norman	**-**	**15**	**-**	**15**	15
Leonard Norman	**-**	**3**	**-**	**3**	8
Carlyle Hinault	**-**	**8**	**-**	**8**	8
Kevin Keen	**-**	**5**	**-**	**5**	-
Stephen Marie	**-**	**8**	**-**	**8**	8
Richard Pirouet	**-**	**8**	**-**	**8**	8

[1] *For the year ended 31 December 2007 the Company's contribution in respect of Howard Snowden's pension was £13,000.*

[2] *For the year ended 31 December 2007 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.

22 Ultimate controlling party

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

Annual Statistics

Year	Units	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Additional connections made in the year (net of disconnections)	Number	558	829	638	681	1,106	775	560	629	1,001	453
Connections on supply[1]	Number	29,612	30,441	31,079	31,760	32,866	33,641				
Live unmeasured supplies	Number							27,500	27,010	26,618	26,126
Live metered connections	Number							7,541	8,567	9,763	10,623
Service mains laid	metres	8,993	9,623	3,569	7,439	10,892	7,920	7,036	9,795	6,466	5,393
Total length of service mains	Km	394.02	403.64	407.21	414.64	425.53	433.45	440.48	450.27	453.93	459.32
Trunk mains laid	metres	4,742	1,163	3,131	4,736	1,161	4,104	0	0	0	180
Total length of Trunk mains	Km	61.09	62.25	65.38	70.11	71.27	75.37	75.37	75.37	75.37	75.55
Service mains re-laid	metres	244	300	1,598	1,281	1,178	1,822	2,497	2,450	2,141	1,980
Burst mains	Number			29	39	16	16	11	28	14	16
Annual Rainfall	mm	984.6	961.4	1026.9	957.8	986.9	756.9	883.9	745.7	782	915.3
Total water supplied	Ml	7,229	7,269	7,262	7,317	7,207	7,301	7,305	7,291	7,484	7,182
Maximum daily demand	Ml	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	24.5 10 June
Maximum monthly demand	Ml	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	662.7 August
Number of employees at end of year	Number	117	114	113	112	112	116	114	110	107	107

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

Notes

Notes

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Jersey Water is the trading name of
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