

Annual Report and Financial Statements

The Jersey New Waterworks Company Limited

2008



JerseyWater

www.jerseywater.je

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Directors, Officers and Advisers

Directors

David Charles Norman, *FCA*
Chairman

Kevin Charles Keen, *MBA, FCCA, FCMA*
Deputy Chairman and Senior Independent Director

Howard Neville Snowden, *Eurlng, 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, *FICW, MBIFM, ACIOB*

Anthony Cooke *BA (Hons) Econ, CEnv, FCIWEM, FIWO, FRSA*

Mary Curtis, *MA, Chartered FCIPD, MIOD, AIBC*

Secretary

Helier James Bennett Smith, *BA, ACA*

Auditors

Ernst & Young LLP
Liberation House
Castle 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-seventh annual general meeting of the shareholders of The Jersey New Waterworks Company Limited will be held in the Leopold Suite at the Grand Hotel, St Helier, Jersey on 22 May 2009, at 2.00pm for the following purpose.

Ordinary Resolutions

1. To receive the Financial Statements for the year ended 31 December 2008.
2. To declare a final net dividend of 194 pence per share on the ordinary and 'A' ordinary shares of the Company.
3. To re-elect Mr Carlyle Hinault, the Director retiring by rotation.
4. To elect Mr Peter Yates as a Director of the Company. Mr Yates will be filling the vacancy left by Mr David Norman who will retire as a Director of the Company at the Annual General Meeting.
5. To approve the Directors' fees for 2009 of £20,000 for the Chairman and £12,000 for other Directors (2008: £18,000 and £10,000 respectively).
6. 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

27 April 2009

To facilitate the preparation of dividend warrants the share transfer books of the Company will be closed from 11 May 2009 to 22 May 2009, both days inclusive, and, subject to the dividend being confirmed, dividend warrants will be posted on 22 May 2009 to all ordinary and 'A' ordinary shareholders registered on 22 May 2009.

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

Board of Directors



From left to right: Helier Smith, David Norman, Mary Curtis, Kevin Keen, Howard Snowden, Tony Cooke, Stephen Marie, Carl Hinault

David Norman FCA

David Norman, a Chartered Accountant, joined the Board as a Non-Executive Director 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.

Kevin Keen MBA, FCCA, FCMA

Kevin Keen was appointed to the Board in May 2007 as a Non-Executive Director. 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.

Howard Snowden Eurlng, 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.

Tony Cooke BA (Hons) Econ, CEnv, FCIWEM, FIWO, FRSA

Tony Cooke became a Non-Executive Director of the Company on 12 June 2008. Mr Cooke is an economist by background and he is currently Managing Director of Bournemouth & West Hampshire Water Plc. He has previously held a number of Chief Executive and senior management roles in the United Kingdom and internationally.

Mary Curtis MA, Chartered FCIPD, MIoD, AIBC

Mary Curtis joined the Board as a Non-Executive Director on 12 June 2008. She is currently Managing Director of a privately owned business consultancy firm and was formerly Director of Human Resources at Mourant and Offshore Island Regional Human Resources Manager at Deloitte & Touche.

Carl Hinault

Carl 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.

Stephen Marie FICW, MBIFM, ACIOB

Stephen Marie became a Non-Executive Director of the Company in 2002. Mr Marie has recently taken a position as Managing Director of ComProp (CI) Ltd a newly formed Channel Island commercial property development company, he was previously Property Director of Sandpiper CI. He is a fellow of the Institute of Clerk of Works, a member of the Institute of Facilities Management and an associate of the Chartered Institute of Building.

Chairman's statement

I am delighted to report to shareholders another satisfactory financial year for Jersey Water. Your Company generated profits before tax of £4,034,000, an increase of 14% on the previous year, in excess of budget and achieved whilst keeping tariff increases below inflation for the seventh consecutive year.

Although operating expenditure increased by 6%, this was better than budget and included expenditure on the Company's Water Resource Plan of £102,000, the operation of the desalination plant for three weeks to test the new control systems installed in the year and increased depreciation charges consistent with the Company's continued investment in its infrastructure, having invested a further £3 million on capital projects in 2008.

Your Company generated profits before tax of £4,034,000, an increase of 14% on the previous year.

Your Board are recommending a final net dividend for 2008 of 194 pence bringing the total dividend for the year to 290 pence, an increase of 15% on 2007.

I am also pleased to report that the quality of water we supplied to our customers in 2008 was once again of a very high standard with the overall compliance level consistent with 2007 at 99.97%, slightly better than the 2007 average figure for water companies in England and Wales. Our water quality results for 2008 are explained in detail in the 2008 Water Quality report.

As previously reported, on 1 January 2009 the Company implemented a policy of requiring that where there was a change of account holder, a water meter be fitted and the property charged for water based on the volume of water consumed. The number of meters installed in 2009 to date has been lower than expected due to the recent downturn in the housing market. However, we still expect to install approximately 1,000 additional meters by the end of 2009 as a result of the new policy. Whilst the process of metering is costly, the benefits of reduced consumption and leakage on customer pipe work clearly outweigh those costs and help defer the need for additional water resources to be introduced.



Handois Treatment Works

In last year's Chairman's statement I mentioned your Board's decision to commission a formal Water Resource Plan based on guidelines set out by the UK Environment Agency and followed by UK Water Companies. The plan, which will be updated every five years, will set out the means by which the likely demand for water over the next twenty five years will be met by the Company, taking into account predictions concerning both climate change and population. The plan is due for completion in 2009 and we intend to publish the summary findings.

In 2009, the Water Resources (Jersey) Law 2007 will come in to force. This new law, which was supported by your Company, is important for the future as it will provide the means for gathering information on water resources across the Island, thus giving data on consumption from sources not provided by the Company. The Company, as with other commercial water abstractors, will be required to pay for abstraction of water and shareholders should note that the licence fee is expected to be in the region of £100,000 per annum.

Given there is currently no method for the sale or purchase of shares in the Company (other than via private transfer), during 2009 the Board will be considering ways in which liquidity in the market for Jersey Water shares can be improved allowing shareholders to sell their shares in a cost effective manner at a price which more fairly reflects the value of the business.

At the Annual General Meeting both Mr Carl Hinault and I will be retiring by rotation in accordance with Article 74. Mr Hinault is offering himself for re-election. I will not be seeking re-election, having served nearly 15 years on the Board, 13 of them as Chairman of your Company.

Chairman's statement (continued)



Queen's Valley Reservoir

As this is my last Chairman's statement I am taking the opportunity to put on record my view that Jersey Water is a tremendous asset to the Island, focusing, as it does, on the provision of high quality treated mains water; it has an infrastructure in extremely good condition, with detailed plans for the continued maintenance and enhancement of its processing and distribution capability for the future. Water supplied by the Company is of excellent quality and the Company has a professional and well trained workforce eager to meet the needs of customers. Consistently low tariff increases have resulted in a reduction in water charges in real terms of 12% for metered water and 5% for unmetered water since 2000, whilst for shareholders, the Company continues to provide a good return and strong dividend growth. The future will inevitably hold challenges and changes for Jersey Water, however, it is, in my view, important that external distractions and pressure for short term gains are not pursued at the expense of the Company's ability to provide for the needs of all of its stakeholders and specifically the focus on providing a first class water supply for our customers.

I am delighted that following my retirement from the Board, Kevin Keen has agreed to take over from me as Chairman and I am confident that the Company will continue to prosper under his stewardship.

We have been fortunate in recruiting Peter Yates as a prospective Director. Peter is a recently retired partner of PricewaterhouseCoopers and if elected will take over from Kevin Keen as Chairman of the Audit Committee. I shall be proposing his election at the AGM.

I continue to be impressed with the very positive attitude of our staff to their work throughout the Company and on behalf of my colleagues on the Board, as well as Shareholders, I take this opportunity to thank all of them for their continued support and commitment to your Company.

David Norman

3 April 2009

Business Review

Financial Performance

• Turnover

Turnover for 2008 was £14.4 million, an increase of 4% on the prior figure of £13.8 million.

Revenue from water sales increased by 4.3% to £13.5 million, from £12.9 million in 2007. Sales of water to customers paying on an unmeasured basis increased by 1% to £6.4 million, this being despite a tariff increase of 3.5% in April 2008. The slow rate of growth in the value of unmeasured charges is in line with expectation and consistent with the transition to billing customers on a metered basis. With the introduction of compulsory metering on change of account holder it is expected that the value of unmeasured water sales will drop away more rapidly in future in favour of metered water sales.

Metered water sales for 2008 totalled £6.5 million, an increase of 8.6% over 2007. Metered water tariff increases in 2007 were just 2.25% with the balance being due to the growing number of metered water customers.

Rechargeable works income remained in line with the previous year at £0.6 million, consistent with the lower number of water connections made in 2007 and 2008 and the general level of building activity in the Island.

• Operating costs

Operating expenditure increased by 6.3% from £9.3 million in 2007 to £9.9 million in 2008. This increase was lower than budgeted and as a result of a number of specific items including expenditure on the Company's Water Resource Plan in 2008 of £102,000, additional depreciation on completed works of £128,000 arising from the Company's capital expenditure in 2007 and 2008 and the running of the desalination plant for three weeks at an additional cost of approximately £51,000 in order to test the new control system. Electricity charges increased in 2008 by £41,000 as a result of the 10% increase in the electricity tariff in 2008. Further significant increases in electricity costs are expected in 2009 and for the future following the announcement of tariff increases for 2009 of 25%. In addition, the Company provided £51,000 against slow moving pipe stock in accordance with its stock provisioning policy and incurred an additional £60,000 on site maintenance, decommissioning redundant sites and overhauling one of the pumps at Val de La Mare Pumping Station.

• Profit on disposal of fixed assets

During the year, the Company sold two areas of land and sundry plant and vehicles generating proceeds of £529,000. In addition, these sales coupled with the disposal of a number of pieces of plant and equipment following decommissioning in 2008 generated an overall profit on sale of fixed assets of £493,000.

• Interest costs

During 2008, the fall in interest rates has had a positive effect on interest payable by the Company. Interest payable reduced from £872,000 in 2007 to £835,000 in 2008. The higher levels of cash held by the Company during 2008 resulted in an increase in interest income for the year of £133,000.

• Income tax

Income tax charges for 2008 are at £4,000 compared to £273,000 in 2007. The positive variance is due mainly to a deferred tax credit of £234,000 in 2008 on accelerated capital allowances compared to a charge of £50,000 in 2007. The income tax charge for 2008 was £238,000, slightly higher than the charge of £223,000 in 2007.

Turnover for 2008 was £14.4 million, an increase of 4% on the prior figure of £13.8 million.

Business Review (continued)

- Equity dividends**

Dividends paid in 2008 totalled £1,256,000, an increase of 12% over dividends of £1,124,000 in 2007. A final dividend for 2008 of £1.94 is proposed bringing the total dividend for 2008 to £1,401,000, an increase over the total dividends for 2007 of 15%.

	2008	2007
	£'000	£'000
Dividends paid		
Final dividend for the previous year	792	699
Interim dividend for the current year	464	425
	<u>£1,256</u>	<u>£1,124</u>
Dividends proposed		
Final dividend for the current year	<u>£937</u>	<u>£792</u>

- Defined benefit pension scheme**

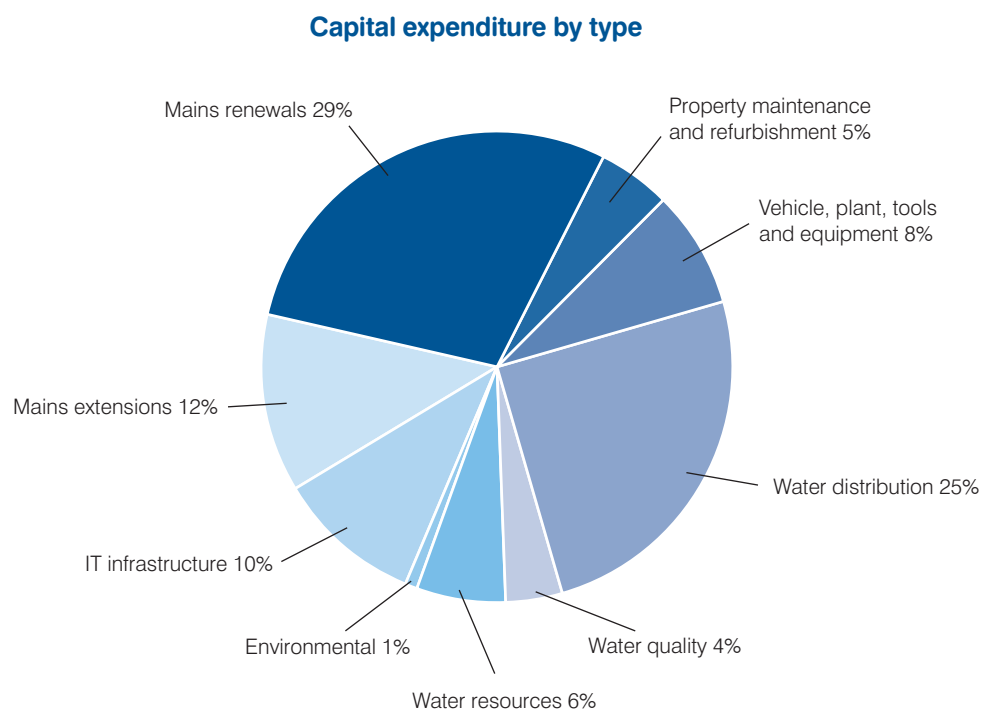
A full FRS 17 valuation of the defined benefit sections of the scheme was undertaken as at 31 December 2008. The valuation identified a net deficit of £1,056,000 (2007: surplus of £180,000) arising primarily as a result of the reduction in asset values following the turmoil in the markets experienced in 2008.

- Cash flow**

Net debt at the end of the year was £16,034,000 compared to £18,023,000 in 2007. Net cash flows before financing and use of liquid resources were £1,989,000 (2007: £1,986,000).

- Capital expenditure**

Capital expenditure for 2008 totalled £2,980,000, in line with budget. An analysis of expenditure by type is provided in the table below.



Business Review (continued)

Connections, metering and charges

In 2008, 508 new service connections were made to the distribution network, the majority of which were due to new housing development sites. In some cases, bulk meters were installed to supply multiple-dwelling apartment buildings allowing a total of 637 new dwelling units to be connected.

In conjunction with water main renewal schemes, 441 existing connections were renewed during the year and made ready to accept water meters in preparation for future metering. In addition, a total of 263 existing connections were fitted with a meter at the request of customers wishing to pay for water by meter.

The Company continues to promote water metering as the fairest way of charging and from experience in England and Wales, metering has proven to reduce consumption by an average of 10% and help to combat leakage on customer supply pipes. With effect from 1 January 2009, the Company has implemented a policy of installing meters on change of account holder and charging for water based on the volume consumed. It is expected that during 2009 a total of approximately 1,000 properties will be fitted with a meter under this scheme. At the end of 2008, there were approximately 11,200 metered water connections, 31% of the total customer base.

With the implementation of the policy of metering on change of account holder from 1 January 2009, there will be a steady increase in this percentage in future years.

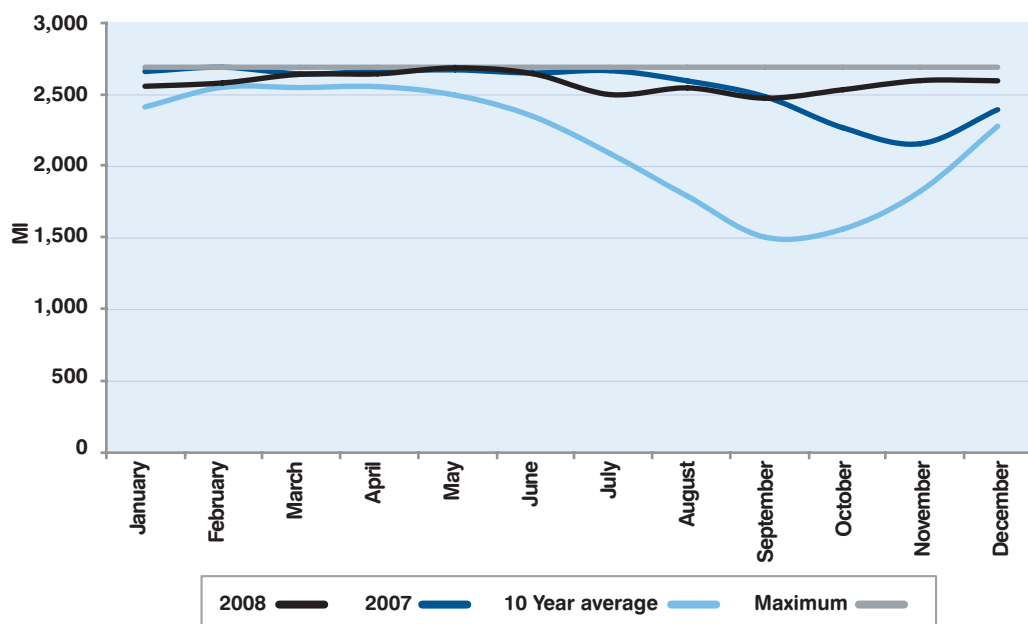
In December 2008, the Company announced tariff increases of 2.5% for both metered and unmetered water charges taking effect from 1 April 2009, the seventh consecutive year in which tariff increases have been either at or below RPI.

From 1 April 2009, the Company has discontinued charging a standard price for making connections to the water network. New regulations affecting the ability of the Company and contractors to work in roads and new requirements for road reinstatement are such that the costs incurred by the Company when installing new connections can fluctuate significantly depending on the conditions imposed by the road authorities. Accordingly, all new connections after 1 April 2009 will have individual and site specific priced quotations.

Water Supply and Demand

2008 was another relatively wet year with total rainfall 16% above the 10 year average. Our reservoirs were full at both the beginning and at the end of the year, with the lowest level being recorded in July at 93%. Levels in the reservoirs have not fallen below 80% for two years, which is a record and demonstrates how wet the past two years have been.

Water in store



Business Review (continued)

In 2007, the Company commissioned a Water Resource Plan to provide estimates on the availability of and demand on water resources for the next 25 years and indicate the necessary works that the Company will need to undertake over that period in order to safeguard the continued supply of water. The initial phase is now complete and the final report including options for additional water resources and demand management is due for completion during 2009. The Water Resource Plan is being developed using the guidelines set out by the England and Wales Environment Agency and will be updated every 5 years, in accordance with those guidelines. A summary of the findings will be published later in 2009.

Demand for water during 2008 was 3.1% above that in 2007, a figure skewed by an unusually high number of burst water mains and services in the first quarter of the year caused by the relatively cold weather. After allowing for bursts the demand increase is in line with the 1% to 1.2% norm.

In April 2008, our reservoirs at Millbrook, Dannemarche and Handois were given a time related inspection, in accordance with the Reservoirs (Jersey) Law 1996. The inspection was undertaken by an independent Inspecting Engineer from the UK and he reported the reservoir structures to be in satisfactory condition.

Water Quality

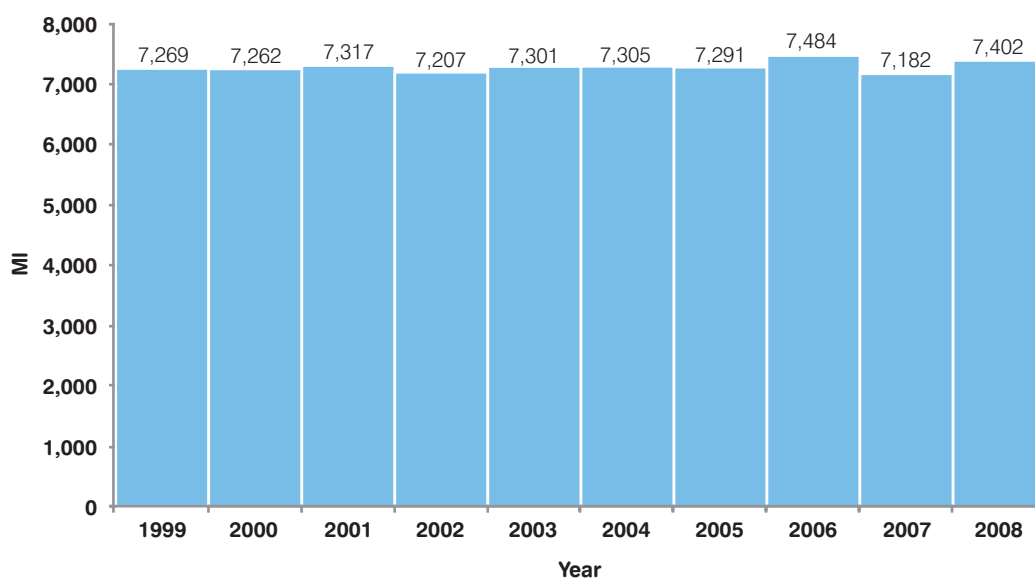
The quality of water supplied to our customers in 2008 was once again of a very high standard. The compliance level for treated water analysed was 99.97%, slightly better than the average figure for water companies in England and Wales for 2007.

As a result of well below average rainfall in February, a critical period affecting the leaching of nitrates into water resources, there were no nitrate failures reported during the year.

In November 2008, the Minister for Planning & Environment approved the renewal of existing dispensations under the Water (Jersey) Law 1972, for nitrates, iron and manganese; parameters which are outside the control of the Company. Jersey Water is entirely reliant on surface waters for water resources and is unable to blend water from different sources and with different characteristics, unlike most water companies in the UK. The nitrate dispensations allow 33% of samples taken in a year to be above the 50mg/l level but not exceeding 70mg/l.

The full report on water quality in 2008 is given in our Water Quality Report.

Total water supplied by year



Business Review (continued)

Mains Network

In 2008, 7.5km of new water mains were laid of which 4.9km was funded by the Company and the balance of 2.6km being funded by third parties to supply new housing developments.

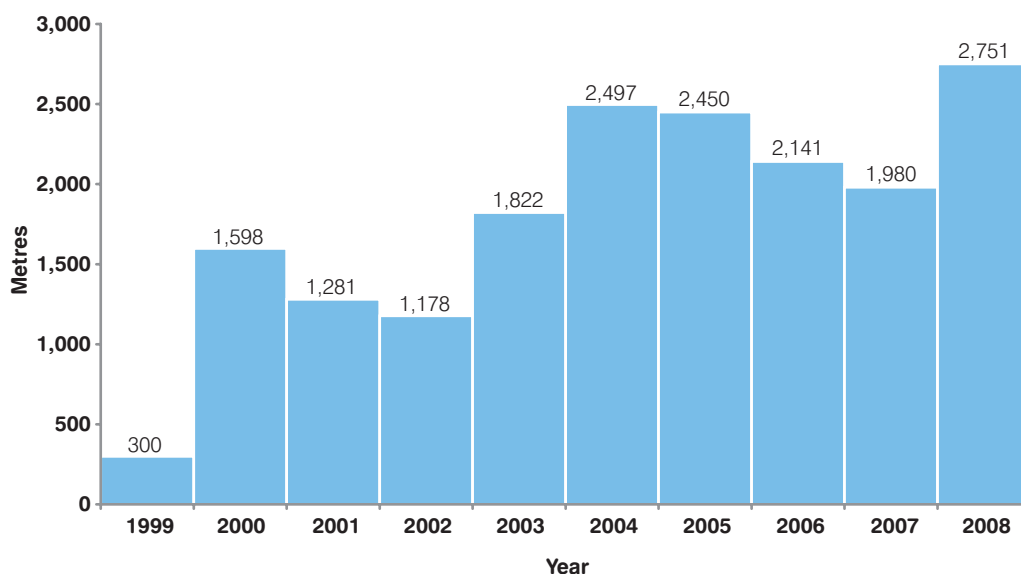
As part of the first phase of the works to reinforce the water distribution infrastructure in the north-east of the Island, 1.1 km of new 300mm diameter trunk mains were laid along the planned route from Trinity to St Martin and Maufant. This new trunk main will supply water by gravity from Les Platons Service Reservoir into the high level north-east areas of the distribution network. The primary purpose of this work is to strengthen the infrastructure network in the east for future demand, but it also allows the opportunity to create a number of new District Metered Areas (DMA) which will greatly assist with future leakage detection. The provision of this new infrastructure is being undertaken in two phases, with the final phase, to link to the existing trunk main at Maufant in 2010. The commissioning of the final phase, will provide further efficiencies, allowing the existing Booster Pumping Station at Gorey to be taken out of service, resulting in operational and energy savings to be made.

The Company renewed 2.8 km of old water mains during the year, an increase on 2007. The mains chosen for replacement are prioritised by customer service issues, such as discolouration of water and burst history.

The age of the water main alone is not a deciding factor in its planned replacement. This work requires extensive planning with the road authorities, parishes and local businesses, to minimise the disruption caused. Therefore the work tends to be expensive and slow, particularly when working in areas where underground services are dense and excavation can only be carried out safely by hand. We remain conscious of the disruption which this essential work can cause the public and we work very hard to minimise this.

During 2008, improvements were made to the service reservoirs at Westmount, St Helier. The inlet and outlet pipe work to both service reservoirs, was replaced and re-configured to ensure water moves efficiently through both the service reservoirs. New sampling points were also installed to improve the sampling of the water.

Mains renewals by year



Business Review (continued)

Treatment and Processing

The replacement control system at the Desalination Plant was installed and commissioned during the year. This work involved the installation of new hardware and software to control the operation of the plant, which apart from starting and stopping is now an automated process. The software used is identical to that used by our existing Supervisory, Control and Data Acquisition (SCADA) system and has allowed easy integration of the plant control system on to the SCADA network, allowing remote monitoring of the site from other points of the network. The plant was operated to full output for a short time to test the control system and ensure its satisfactory operation. Improvements were also undertaken at the sea water intake shaft to improve access into this restricted area of the Plant.

During the year, work commenced on the design and procurement of replacement pumping plant and associated control equipment for Queen's Valley Reservoir Pumping Station. Two new high lift pumps are to be installed, together with new electrical control panels by contractors in the early part of 2009. The works also include the installation of a standby power supply generator, in case of mains electricity supply failure. This new infrastructure will increase the pumping capacity rate of raw water from Queen's Valley Reservoir to the treatment works and is due to be completed in time for the summer demand period.

The Company staff and management

The Company recognises the valuable contribution made by Jersey Water staff and invests heavily in the training and education of its workforce. During 2008, the programme of funding training for National Vocational Qualifications (NVQ) in Leadership and Management continued in addition to the funding of other more specialised qualification training for other staff.



The Chairman with the recipients of long service awards in 2008.

Back row (left to right): Stephen McShane, Peter Audrain

Middle row: Paul Batho, Peter Hamel

Front row: David Le Monnier, Alan Modral, David Norman, Malcolm Hamon

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 eight Directors, two of whom are Executive and six 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 nine 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 2008	9	2	1	1
Tony Cooke ¹ (Non-Executive Director)	4 (of 5)	1 (of 1)		0 (of 0)
Mary Curtis ¹ (Non-Executive Director)	5 (of 5)		1	0 (of 0)
Carl Hinault (Non-Executive Director)	8	2		1
Kevin Keen (Non-Executive Director)	9	2 (Chairman)		1
Stephen Marie (Non-Executive Director)	9	1 (of 1)	1 (Chairman)	1
David Norman (Non-Executive Director)	9 (Chairman)		1	1 (Chairman)
Richard Pirouet ² (Non-Executive Director)	4 (of 4)			1 (of 1)
Howard Snowden (Executive Director)	9			
Helier Smith (Executive Director)	9			

¹ Tony Cooke and Mary Curtis were appointed to the Board on 12 June 2008.

² Richard Pirouet retired from the Board on 12 June 2008.

Corporate Governance (continued)

Director independence

The Board considers all Non-Executive Directors to be independent in character and judgement. However, both David Norman and Carl Hinault have been Board members for more than nine years. David Norman and Carl Hinault do not therefore meet the criteria of independence set down in the Combined Code. Accordingly, the Board has determined that Tony Cooke, Mary Curtis, 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 is made up of Kevin Keen (Chairman), Tony Cooke and Carl Hinault. 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.
- 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), Mary Curtis 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.



Grands Vaux Reservoir

Nomination Committee

The Nomination Committee comprises David Norman (Chairman), Tony Cooke, Mary Curtis, Carl Hinault, Kevin Keen and Stephen Marie. 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 Director, 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.

Corporate Governance (continued)

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.

The Company has 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.

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

- The review of the corporate risk register maintained and updated by the Company and of the status of any actions arising from their regular review.
- The receipt of confirmation from Senior Management of the proper operation of controls throughout the period of the review.
- The review and approval during the year of terms of reference of sub Committees.
- The review and approval during the year of the schedule of matters specifically reserved for its attention.
- The review of reports received from the Audit Committee concerning the findings of the external auditors on the financial statements of the Company and the systems of internal control.

Going Concern

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

Directors' responsibilities

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

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

Directors' Report

The Directors of the Company present the financial statements for the year ended 31 December 2008.

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. The Company has 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 <i>Amounts are shown net of 20% tax</i>	2008	2007
	£'000	£'000
Interim dividend for the year ended 31 December 2008 of £0.96 (2007: £0.88) paid on 1 October 2008.	464	425
Proposed final dividend for the year ended 31 December 2008 of £1.94 (2007: £1.64).	937	792
	£1,401	£1,217

Preference shares

In 2008 the Company paid dividends on preference shares totalling £381,000 (2007: £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 Richard Pirouet, Tony Cooke and Mary Curtis were Directors of the Company throughout the year ended 31 December 2008. On 12 June 2008, Richard Pirouet retired from the Board and Tony Cooke and Mary Curtis were appointed to the Board.

In accordance with the provisions of Article 74, David Norman and Carl Hinault will retire at the forthcoming annual general meeting. Mr Hinault, being eligible, offers himself for re-election. Mr Norman will not seek re-election.

The Directors recommend the election of Mr Peter Yates as a Non-Executive Director of the Company to fill the vacancy left by the retirement at the AGM of David Norman. Mr Yates, a Chartered Accountant and former President of the Jersey Society of Chartered and Certified Accountants, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for a total of 31 years.

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 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 and beneficial interests, in the share capital of the Company as at 31 December 2008 are:

	Tony Cooke	Mary Curtis	Carl Hinault	Kevin Keen	Stephen Marie	David Norman	Howard Snowden	Helier Smith
Ordinary shares	-	-	100	-	100	8,680	200	146
Preference shares	-	-	-	3,972	-	-	95	3,235

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 was, during the year up to July 2008, the Property Director of Sandpiper CI, a Group with which the Company transacts on an arms length basis.

Kevin Keen is a Non-Executive Director of BG Romeril and Co Limited and an employee of Voisin & Co, companies 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 3 April 2009.

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%					
FA Clarke	4%								
Deenbee Limited			11%	13%	7%	15%	11%	10%	
Forest Nominees Limited								11%	
BF Foster				23%					
JMS Hobbs					4%		4%		
Keen's Pension Fund Limited				23%					
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%								
HJB Smith					6%				
UBS Jersey Nominees Limited			24%			11%		3%	
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

3 April 2009

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 2008 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 Five Year Summary. 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 2008 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

3 April 2009

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 2008

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Fixed assets	2		60,303		59,831
Current assets					
Stock and work in progress		1,110		1,073	
Debtors	3	4,579		4,225	
Bank and cash		4,248		2,259	
		9,937		7,557	
Creditors - Amounts falling due within one year					
Creditors and accruals	4	(4,079)		(2,390)	
Income tax		(501)		(159)	
		(4,580)		(2,549)	
Net current assets			5,357		5,008
Total assets less current liabilities			65,660		64,839
Creditors - Amounts falling due after more than one year					
Creditors	5	-		(1,067)	
Income tax		-		(307)	
Bank loans	7	(14,900)		(14,900)	
Non-equity preference shares	10b	(5,382)		(5,382)	
			(20,282)		(21,656)
Provisions for liabilities and charges					
Deferred taxation	8		(4,773)		(5,007)
Net assets excluding pension liability			40,605		38,176
Pension (liability) / surplus	9		(1,056)		180
Net assets			£39,549		£38,356
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		38,264		37,071
Shareholders' funds	12		£39,549		£38,356

The financial statements on pages 21 to 36 were approved by the Board of Directors on 3 April 2009 and were signed on its behalf by:

David Norman
Chairman

Profit and loss account

For the year ended 31 December 2008

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Turnover					
Water supply charges	13	13,463		12,912	
Rechargeable works income		613		623	
Other income		302		282	
			14,378		13,817
Cost of sales					
Pumping expenses		(671)		(645)	
Operation of reservoirs and works		(2,238)		(2,051)	
Distribution and analysis of water		(1,721)		(1,679)	
Desalination station expenses		(140)		(78)	
Miscellaneous		(316)		(356)	
		(5,086)		(4,809)	
Administration					
Administration expenses	14	(2,265)		(2,057)	
Insurances		(343)		(369)	
		(2,608)		(2,426)	
Depreciation					
Completed works	2	(2,212)		(2,084)	
Expenditure					
			(9,906)		(9,319)
Operating profit					
			4,472		4,498
Profit on disposal of fixed assets					
			493		175
Interest					
- payable	15	(835)		(872)	
- receivable		178		45	
Non-equity dividends					
	16	(381)		(381)	
Other finance income					
	9	107		61	
			(931)		(1,147)
Profit before taxation					
			4,034		3,526
Jersey income tax					
	6	(4)		(273)	
Profit for the financial year					
		£4,030		£3,253	
Earnings per ordinary share of £1					
	18	£8.34		£6.73	

There is no material difference between the reported profit for 2008 and 2007 and the profit prepared under the historical cost basis.

Statement of total recognised gains and losses

For the year ended 31 December 2008

	Note	2008	2007
		£'000	£'000
Profit for the year		4,030	3,253
(Loss) / Gain arising on pension liabilities	9	(1,581)	921
Total recognised gains and losses for the year		<u>£2,449</u>	<u>£4,174</u>

Cash flow statement

For the year ended 31 December 2008

	Note	2008		2007	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	19		6,842		6,439
Returns on investments and servicing of finance					
Interest received		102		45	
Interest paid		(848)		(871)	
Non-equity dividends paid		(381)		(381)	
Net cash outflow on returns on investments and servicing of finance			(1,127)		(1,207)
Taxation					
Jersey income tax paid			(165)		(2)
Capital expenditure					
Purchase of fixed assets		(2,834)		(2,632)	
Disposal of fixed assets		529		512	
			(2,305)		(2,120)
Equity dividends paid			(1,256)		(1,124)
Net cash inflow before use of liquid resources and financing			1,989		1,986
Management of liquid resources					
Net cash (placed on) / withdrawn from fixed deposit accounts			(2,000)		-
(Decrease) / increase in cash			£(11)		£1,986
Reconciliation of net cash flow to movement in net debt					
	Note		2008		2007
			£'000		£'000
(Decrease) / increase in cash			(11)		1,986
Cash used to increase liquid resources			2,000		-
Movement in net debt	20		1,989		1,986
Net debt brought forward	20		(18,023)		(20,009)
Net debt carried forward	20		£(16,034)		£(18,023)

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). Both fixed rate and metered water 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
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 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.

In December 2006, the Accounting Standards Board issued an amendment to FRS17 applicable to accounting periods commencing on or after 6 April 2007, with early adoption of the changes being encouraged. The Company adopted the changes within the financial statements for the year ended 31 December 2007.

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	77,799	530	2,235	80,564
Additions	-	2,721	259	2,980
Disposals	(307)	-	(121)	(428)
Transfers	2,510	(2,558)	48	-
Carried forward	<u>£80,002</u>	<u>£693</u>	<u>£2,421</u>	<u>£83,116</u>
Depreciation				
Brought forward	(19,208)	-	(1,525)	(20,733)
Charge for the year	(2,212)	-	(258)	(2,470)
Disposals	272	-	118	390
Carried forward	<u>£(21,148)</u>	<u>£-</u>	<u>£(1,665)</u>	<u>£(22,813)</u>
Net book value				
Brought forward	<u>£58,591</u>	<u>£530</u>	<u>£710</u>	<u>£59,831</u>
Carried forward	<u><u>£58,854</u></u>	<u><u>£693</u></u>	<u><u>£756</u></u>	<u><u>£60,303</u></u>

Of the £2,470,000 depreciation charge for the year, £258,000 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 2008 capital commitments contracted for amounted to £348,000 (2007: £91,000).

3 Debtors

	2008	2007
	£'000	£'000
Trade debtors	3,458	3,198
Prepayments	352	365
Accrued income and other debtors	769	662
	<u>£4,579</u>	<u>£4,225</u>

Notes to the financial statements (continued)

4 Creditors and accruals

	2008	2007
	£'000	£'000
Trade creditors	661	312
Other creditors	477	358
Defined benefit pension scheme contributions	1,065	-
Contract retentions	6	78
Accruals and deferred income	1,870	1,642
	<u>£4,079</u>	<u>£2,390</u>

Subsequent to the year end, the Company paid the special contribution into the defined benefit pension scheme totalling £1,065,000.

5 Creditors due after more than one year

	2008	2007
	£'000	£'000
Defined benefit pension scheme contributions	-	1,065
Contract retentions	-	2
	<u>£-</u>	<u>£1,067</u>

6 Jersey income tax

	2008	2007
	£'000	£'000
Current tax		
Income tax on the profits for the year	240	280
Over provision for previous years	(2)	(57)
Total current tax	<u>238</u>	<u>223</u>
Deferred tax		
(Credit) / Charge for the year	(234)	50
Total deferred tax	<u>(234)</u>	<u>50</u>
Total tax charge for the year	<u>£4</u>	<u>£273</u>

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 assessment 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%.

The tax provision included in the results for the year is the tax liability for the Year of Assessment 2008, less the provision made in the 31 December 2007 financial statements.

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

	2008	2007
	£'000	£'000
Profit before tax	<u>£4,034</u>	<u>£3,526</u>
Profit before tax multiplied by the standard rate of Jersey income tax of 20%.	807	705
Tax at 20% on:		
Capital allowances for period in excess of depreciation	(84)	(14)
Capital expenditure, deductible for tax purposes	(172)	(176)
Profit on sale of fixed assets	(99)	(35)
Dividends on non-equity shares - Non deductible	76	76
Effect of transitional provisions	<u>(288)</u>	<u>(276)</u>
Current tax charge for year	<u>£240</u>	<u>£280</u>

Notes to the financial statements (continued)

7 Bank loans

	Repayment Dates	2008 £'000	2007 £'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		-	-
Loans falling due between one and two years		8,900	8,900
Loans falling due after two years but less than five years		6,000	6,000
Loans falling due after five years or more		-	-
		£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

	2008 £'000	2007 £'000
Capital allowances	£4,773	£5,007
Brought forward	5,007	4,957
Transfer (to) / from profit and loss account	(234)	50
At 31 December	£4,773	£5,007

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 Water Pension Plan (the name of the plan was changed from The Jersey New Waterworks Retirement Benefits Plan 1987 on 20 November 2008).

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 2008 totalled £37,000 (2007: £32,000).

Defined benefit section and unfunded scheme

The full FRS17 actuarial valuation as at 31 December 2008 shows a change from the 2007 surplus of £180,000 to a deficit of £1,056,000 in 2008.

Notes to the financial statements (continued)

The major assumptions used by the actuary were:

	2008	2007
Rate of increase in salaries	3.93%	4.68%
Rate of increase in pensions accrued after 1 January 1999	2.88%	3.43%
Discount rate	6.10%	5.88%
Expected return on plan assets	5.52%	6.55%
Inflation assumption	2.93%	3.68%
Life expectancy assumptions		
Current pensioners at 65 - Male	86	84
Current pensioners at 65 - Female	88	87
Future Pensioners at 65 - Male	87	85
Future pensioners at 65 - Female	89	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.

	2008	2007
	£'000	£'000
Reconciliation of the present value of scheme liabilities		
Opening scheme liabilities	13,966	15,043
Current service cost	272	423
Employee contributions	55	29
Interest cost	825	785
Actuarial gains	(1,085)	(1,736)
Benefits paid	(525)	(578)
Closing scheme liabilities	£13,508	£13,966

Analysis of funded and wholly unfunded scheme liabilities

Funded scheme	13,389	13,837
Wholly unfunded scheme	119	129
Total present value of scheme liabilities	£13,508	£13,966

Reconciliation of the fair value of scheme assets

Opening fair value of scheme assets	14,191	12,514
Expected return	932	846
Employer contributions	532	1,651
Employee contributions	55	29
Actuarial losses	(3,013)	(288)
Benefits paid	(509)	(561)
Closing fair value of scheme assets	£12,188	£14,191
Actual (loss) / return on scheme assets	£(2,081)	£558

Notes to the financial statements (continued)

	2008	2007
	£'000	£'000
Analysis of amounts shown in the balance sheet		
Fair value of plan assets	12,188	14,191
Present value scheme liabilities	<u>(13,508)</u>	<u>(13,966)</u>
(Deficit) / Surplus	(1,320)	225
Related deferred tax asset / (liability)	<u>264</u>	<u>(45)</u>
Net (deficit) / surplus	<u><u>£(1,056)</u></u>	<u><u>£180</u></u>

Analysis of amounts recognised in the profit and loss account

Current service cost	(272)	(423)
Expected return on pension plan assets	932	846
Interest on pension plan liabilities	<u>(825)</u>	<u>(785)</u>
Total	<u><u>£(165)</u></u>	<u><u>£(362)</u></u>

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

	2008	2007
	£'000	£'000
Actual return less expected return on pension scheme assets	<u>(3,013)</u>	<u>(288)</u>
Experience gains arising on scheme liabilities	185	241
Changes in assumptions underlying the present value of scheme liabilities	<u>900</u>	<u>1,495</u>
Actuarial (loss) / gain recognised in the statement of total recognised gains and losses	<u>(1,928)</u>	1,448
Current tax relief	38	24
Movement in deferred tax relating to net liability / surplus	<u>309</u>	<u>(551)</u>
(Loss) / Gain recognised in the statement of total recognised gains and losses	<u><u>£(1,581)</u></u>	<u><u>£921</u></u>

Cumulative amounts recognised in the statement of total recognised gains and losses

<u><u>£(2,766)</u></u>	<u><u>£(1,185)</u></u>
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Analysis of scheme assets

	2008	2007
	% of total fair value of scheme assets	% of total fair value of scheme assets
Equities	48%	48%
Corporate bonds	43%	44%
Cash and receivables	<u>9%</u>	<u>8%</u>
	<u><u>100%</u></u>	<u><u>100%</u></u>

Notes to the financial statements (continued)

History of experience gains and losses	2008	2007	2006	2005	2004
					Not restated
	£'000	£'000	£'000	£'000	£'000
Present value of scheme assets	12,188	14,191	12,514	11,655	9,197
Present value of scheme liabilities	(13,508)	(13,966)	(15,043)	(15,532)	(13,096)
Gross scheme (deficit) / surplus	£(1,320)	£225	£(2,529)	£(3,877)	£(3,899)

Experience gains and (losses) on scheme liabilities

Amount	185	241	290	136	194
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Difference between the expected and actual return on scheme assets

Amount	(3,013)	(288)	(22)	1,108	162
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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. During the year, the Company made scheduled retirement benefit contributions into the defined benefit scheme totalling £532,000 (2007: 586,000), no special contributions were made during the year (2007: £1,065,000).

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 were 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 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

	2008	2007
	£'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

	2008	2007
	£'000	£'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
	<u>£5,703</u>	<u>£5,703</u>
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
	<u>£5,382</u>	<u>£5,382</u>

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	Capital reserve	Total
	£'000	£'000	£'000
Brought forward	32,881	4,190	37,071
Profit for the financial year	4,030	-	4,030
Equity Dividends	(1,256)	-	(1,256)
Transfer of profit on sale of fixed assets to capital reserve	(493)	493	-
Loss relating to pension plan deficit recognised in the statement of total recognised gains and losses	(1,581)	-	(1,581)
Carried forward	<u>£33,581</u>	<u>£4,683</u>	<u>£38,264</u>

Notes to the financial statements (continued)

12 Reconciliation of movement in equity shareholders' funds

	2008	2007
	£'000	£'000
Profit for the year	4,030	3,253
Equity dividends	(1,256)	(1,124)
Retained profit for the year	2,774	2,129
(Loss)/ gain arising on pension plan	(1,581)	921
Opening equity shareholders' funds	38,356	35,306
Closing equity shareholders' funds	£39,549	£38,356

13 Water supply charges

	2008	2007
	£'000	£'000
Measured water charges	6,487	5,972
Unmeasured water charges	6,421	6,362
Service charges and other charges for water	555	578
	£13,463	£12,912

14 Administration expenses

	2008	2007
	£'000	£'000
Included in administration expenses are the following:		
Directors' fees (note 21)	84	63
Auditors' fees - Statutory audit	30	30
- Other services (Tax advisory and compliance)	4	4

15 Interest payable

	2008	2007
	£'000	£'000
On loans and overdrafts from banks	£835	£872

Notes to the financial statements (continued)

16 Non-equity dividends

	2008			2007		
	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	<u>£378</u>	<u>£3</u>	<u>£381</u>	<u>£378</u>	<u>£3</u>	<u>£381</u>

17 Equity dividends

Ordinary and 'A' Ordinary shares

	2008	2007	2008	2007
			£'000	£'000
Dividends paid				
Final dividend for the previous year	£1.64	£1.45	792	699
Interim dividend for the current year	£0.96	£0.88	464	425
			<u>£1,256</u>	<u>£1,124</u>
Dividends proposed				
Final dividend for the current year	£1.94	£1.64	£937	£792

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 £4,030,000 (2007: £3,253,000), 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

	2008	2007
	£'000	£'000
Operating profit	4,472	4,498
Depreciation	2,470	2,339
Change in order to bring pension charges onto a contribution basis	(278)	(1,245)
(Increase) / Decrease in stock and work in progress	(37)	25
Increase in debtors	(176)	(243)
Increase in creditors	391	1,065
Net cash inflow from operating activities	<u>£6,842</u>	<u>£6,439</u>

Notes to the financial statements (continued)

20 Analysis of changes in net debt

	At 1 January 2008	Cash Flows	Other Changes	At 31 December 2008
	£'000	£'000	£'000	£'000
Bank and cash	2,259	(11)	-	2,248
Liquid Resources	-	2,000	-	2,000
Debt due after one year	(20,282)	-	-	(20,282)
Total	<u>£(18,023)</u>	<u>£1,989</u>	<u>£-</u>	<u>£(16,034)</u>

21 Directors' emoluments

	Salary	Fee	Benefits	Total Emoluments	
	<i>(excluding pension contributions)</i>				
	£'000	£'000	£'000	2008 £'000	2007 £'000
Executives					
Howard Snowden ¹	98	10	8	116	113
Helier Smith ²	90	10	3	103	99
Non-Executives					
David Norman	-	18	-	18	15
Tony Cooke	-	6	-	6	-
Mary Curtis	-	6	-	6	-
Carl Hinault	-	10	-	10	8
Kevin Keen	-	10	-	10	5
Stephen Marie	-	10	-	10	8
Richard Pirouet	-	4	-	4	8
Leonard Norman	-	-	-	-	3

¹ For the year ended 31 December 2008 the Company's contribution in respect of Howard Snowden's pension was £11,000.

² For the year ended 31 December 2008 the Company's contribution in respect of Helier Smith's pension was £9,000.

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.

Five Year Summary

	Units	2008	2007	2006	2005	2004
					Not restated ¹	
Balance sheet						
Equity shareholders' funds	£'000	39,549	38,356	35,306	32,024	31,872
Net Debt	£'000	16,034	18,023	20,009	20,559	20,233
Profit and loss account						
Turnover	£'000	14,378	13,817	13,492	12,683	12,413
Operating profit	£'000	4,472	4,498	3,865	3,176	3,228
Profit before tax	£'000	4,034	3,526	3,130	2,439	2,457
Profit for the financial year	£'000	4,030	3,253	2,703	2,115	1,773
Equity dividends paid	£'000	(1,256)	(1,124)	(1,070)	(1,372)	(37)
Financial statistics & ratios						
Capital expenditure	£'000	2,980	2,546	2,970	3,713	2,565
Net cash inflow / (outflow) before financing	£'000	1,989	1,986	550	(326)	542
Earnings per share	£	8.34	6.73	5.60	4.38	3.67
Dividend cover	Times	3.2	2.9	2.52	1.54	48
Interest cover	Times	4.1	3.7	3.55	3.0	3.1
Gearing ²	%	51	53	57	63	64
Operational statistics						
Total water supplied	MI	7,402	7,182	7,484	7,291	7,305
Maximum daily demand	MI	26	25	29	27	27
Annual rainfall	mm	1,042	915	782	746	884
New mains laid	km	4.6	5.6	6.5	9.8	7.0
Mains re-laid	km	2.8	2.0	2.1	2.5	2.5
Net increase in connections	No	508	453	1,001	629	560
Live unmeasured supplies	'000	25.2	26.1	26.6	27.0	27.5
Live metered connections	'000	11.2	10.6	9.8	8.6	7.5
Employees	No	107	107	107	110	114
Water quality						
% Compliance with water quality parameters		99.97%	99.86%	99.97%	99.84%	99.80%

¹ In 2007, the Company adopted three changes in accounting policy concerning the recognition of unbilled income, capitalisation of expenditure on meter installation and changes to the valuation of pension scheme liabilities under FRS 17. The figures for 2005 and 2004 have not been restated to reflect these changes in accounting policy.

² Gearing = Debt (including preference share capital) / equity shareholders' funds

Notes



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