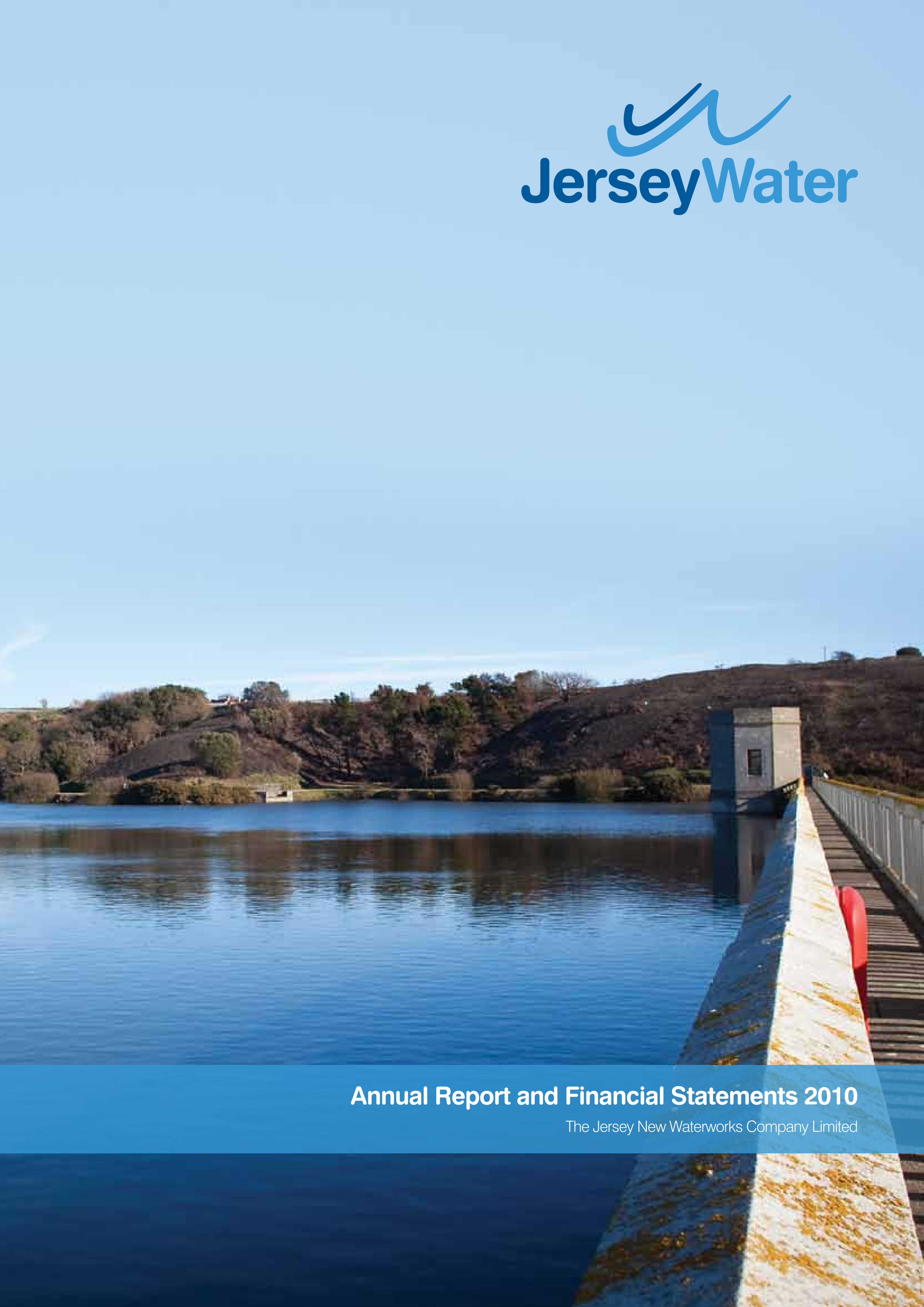


Annual Report and Financial Statements 2010

The Jersey New Waterworks Company Limited

Contents

Directors, Officers and Advisers

Directors

Non Executive

Kevin Keen *MBA, FCCA, FCMA*
Chairman

Carlyle Hinault
Deputy Chairman

Anthony Cooke *BA(Hons) Econ, CEnv, FCIWEM, HIWater, FRSA*
Senior Independent Director

Mary Curtis *MA, Chartered FCIPD, MIoD*

Stephen Marie *FICWCI, MBIFM, ACIOB*

Peter Yates *BSc, FCA*

Executive

Howard Snowden *EurIng, BSc (Eng), MSc, CEng, FICE, FIMechE, FIET, MIWater*
Managing Director and Engineer

Helier Smith *BA(Hons), FCA, CDir, MIWater*
Finance Director

Secretary

Helier Smith *BA(Hons), FCA, CDir, MIWater*

Independent Auditors

PricewaterhouseCoopers CI LLP
Twenty Two Colomberie
St Helier
Jersey
JE1 4XA

Registered Office

Mulcaster House
Westmount Road
St Helier
Jersey
JE1 1DG

Board of Directors

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

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 is a fellow of both the Association of Chartered Certified Accountants and the Chartered Institute of Management Accountants.

Howard Snowden EurIng, BSc(Eng), MSc, CEng, FICE, FIMechE, FIET, MIWater

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 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.

Tony Cooke BA (Hons) Econ, CEnv, FCIWEM, HIWater, 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 the former 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. He is a Trustee of Utilities and Service Industries Training Ltd.

Mary Curtis MA, Chartered FCIPD, MIoD

Mary Curtis joined the Board as a Non-Executive Director on 12 June 2008. Mrs Curtis is a fellow of the Chartered Institute of Personnel & Development and is a Director of a privately owned consultancy business, Calmera Business Consultancy. She formerly worked in London before moving to Jersey in the roles of Offshore Island Regional Human Resources Manager at Deloitte & Touche and then Director of Human Resources at Mourant.

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 FICWCI, MBIFM, ACIOB

Stephen Marie became a Non-Executive Director of the Company in 2002. Mr Marie is the Managing Director of ComProp (CI) Ltd, a Channel Island commercial property development company and has previously been involved, at both senior executive and director levels, in the property industry for a number of years. He is a fellow of the Institute of Clerks of Works and Construction Inspectorate of Great Britain Inc., a member of the Institute of Facilities Management and an associate of the Chartered Institute of Building.

Helier Smith BA (Hons), FCA, CDir, MIWater

Helier Smith was appointed to the Board as Finance Director in October 2003 after joining the Company in 2002. He was previously employed by KPMG in the UK and Jersey where he worked for eleven years in the manufacturing, distribution and finance sectors. Mr Smith qualified as a Chartered Director in 2010.

Peter Yates BSc, FCA

Peter Yates was appointed to the Board in May 2009. 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 over 31 years.

Chairman's Statement

I am pleased to report that your Company generated profits before tax of £4,151,000, which was just ahead of last year. Comparison with our performance in 2009 is not straightforward due to a number of 'one off' costs and gains last year. When these are excluded our performance was in line with our budget and reflected the benefits of our efforts to reduce costs on a sustainable basis for the benefit of customers and shareholders alike.

Turnover of £14,652,000 was slightly lower than 2009 due to a reduced level of rechargeable works reflecting lower levels of development in the Island. Our customers benefited from our decision to freeze tariffs for 2010, the 8th successive year price increases have been maintained below inflation.

Operating expenditure was reduced by some 5% to £9,594,000, which was in part due to a one off impairment charge of £422,000 last year although the successful execution of our decision to outsource our mains and service laying operation is having a positive effect on overall costs.

The Company continued to invest in its infrastructure spending £3,460,000 on capital expenditure, including £1,200,000 on the introduction and rollout of the universal metering scheme which we anticipate will take approximately five years and involve capital investment of approximately £6m. It is hoped that the reduced water consumption from universal metering will delay the need for further major investment, such as the extension of the Val de La Mare Reservoir, for as long as possible and of course metering is the fairest way for consumers to pay for water. We also continued to invest in the renewal of our distribution network.

During 2011 the Company will invest approximately £1.6 million in extending the life of the Val de la Mare Reservoir, which has historically suffered from the effects of 'alkali aggregate reaction' (AAR).

Looking to the future, it is clear that the universal metering programme will change the nature of the Company's income profile with a further transition away from fixed income turnover, based on unmeasured charges, towards more variable demand driven income. To protect against the effects of this variability, the Company will continue to work on improving efficiency and streamlining the business so as to be able to maintain rates of capital investment and continue to provide a suitable return to investors, whilst at the same time meeting the needs of customers.

Your Board is pleased to propose a final dividend on ordinary and 'A' ordinary shares of £2.24 bringing the total dividends for the year to £3.40 per share, an increase of 6.6%.

As part of our commitment to creating value for shareholders we introduced a dealing service for shareholders in 2010 which has improved liquidity in the Company's share capital and seen ordinary shares trading at up to £80 per share. To further improve liquidity and to increase the fixed capital of the Company it has been decided to propose a bonus issue of shares and a share split to shareholders at the forthcoming annual general meeting. If approved, a holder of one ordinary £1 share would end up with 20 ordinary shares but with a reduced nominal value of 50p.

At the forthcoming Annual General Meeting, we will also be proposing that the Company adopts a new set of Memorandum and Articles of Association to bring these important documents completely up to date and compliant with both the Companies (Jersey) Law 1991 and best practice.

Both Helier Smith and I are due to retire by rotation at the coming Annual General Meeting and will be offering ourselves for re-election. The Nomination Committee, which on this occasion was chaired by Tony Cooke, our Senior Independent Director, has considered these re-elections carefully and recommends them to shareholders.

Your Company generated profits before tax of £4,151,000 for the year.

I am pleased to report that the water produced by the Company continues to be of a very high standard with a compliance rate of 99.86%. This compliance level is slightly up on 2009 (99.84%). We remain concerned about the ongoing relatively high levels of nitrates in water resources. When rainfall levels are above average in the early months of the year, nitrate levels in all our surface water resources are greater than 50 mg/l. Whilst the Company has dispensations for 33% of samples taken for nitrates, this is a short-term measure. We continue to promote the need for the States Environment Department to implement an appropriate, sustainable and long-term solution to this ongoing diffuse pollution.

Finally it is traditional and entirely appropriate to pay tribute to the efforts of the staff who have worked even harder this year to deliver these results. They have responded positively to the many challenges faced by them delivering high quality water to Islanders on a sustainable basis and as efficiently as possible given the limited economies of scale available to us.

Kevin Keen
8 April 2011

Business Review

Financial Performance

- **Turnover**

  Turnover for 2010 was £14,652,000, compared to £14,728,000 in 2009.

  Water related income totalled £13,854,000, an increase of £88,000 on the 2009 figure of £13,766,000. This increase was achieved without any tariff increase in 2010.

  – Metered Water income

  Turnover from metered water sales totalled £7,465,000 compared to £6,874,000 in 2009. The increase of £591,000 being due to the addition of 337 new connections in the year and the conversion of 2,690 supplies from unmetered to metered. Metered water sales now account for 54% of all water related income (2009: 50%) and it is anticipated that this will increase rapidly over the next five years with the rollout of the meter installation programme.

  – Unmetered Water income

  Income from unmetered water sales for 2010 was £5,772,000 compared to £6,262,000 in 2009. The reduction of £490,000 being due to the policy of installing water meters on change of occupier and the rollout of the universal metering programme. Within the next four years it is expected that unmeasured water charges will account for less than 10% of turnover.

  – Non water related income

  Rechargeable works income arises from the installation of new water connections. In 2010, rechargeable works income totalled £475,000 (2009: £640,000). The reduction of £165,000 is entirely driven by the reduced number of new homes under construction in the year.

- **Operating expenditure**

  Operating expenditure for the year was £9,594,000 compared to £10,151,000 the previous year. The 5% reduction in costs amounting to £557,000 was due, in the main, to the following factors:

  – 2009 reorganisation

  In 2009, the Company undertook an internal reorganisation that resulted in the outsourcing of the Company's main laying and service laying functions and the reduction in the workforce by approximately 25%. The on-going efficiencies generated by the reorganisation amount to approximately £335,000 in 2010, broadly in line with expectation. This saving has resulted in the net positive variance over 2009 of £186,000.

  – 2009 asset impairment provision

  In 2009, the Company wrote down the carrying value of its standby water quality improvement plant in the Le Mourier catchment area resulting in a charge to the profit and loss of £422,000. There was no such charge in 2010.

  – Water resource licence fees

  Under the Water Resources (Jersey) Law 2007, the States of Jersey have the power to levy water abstraction licence fees on the Company. The fee was first chargeable for the year ended 31 December 2010 and totalled £99,000 (2009: £Nil).

  After taking the above factors into account, operating expenditure was broadly in line with that of the previous year with the balancing variance coming mainly from the savings in insurance costs of £60,000, countered by costs associated with the planned recruitment of additional staff in the engineering, metering and finance departments.

- **Operating profit**

  Operating profit for 2010 was £5,058,000 (2009: £4,577,000), an increase of 10% on 2009.

- **Profit on disposal of fixed assets**

  During the year the Company sold one area of land and various pieces of plant and equipment generating net proceeds of £169,000 and a profit on disposal of £93,000. This is in contrast to 2009 when the sale of a number of pieces of land generated profits of £638,000.

- **Interest costs and income**

  The low base rate throughout 2010 meant that interest charges remained low. The low interest rates in the year coupled with lower average cash balances also meant that interest earned on cash balances reduced by £27,000 to £10,000.

- **Income tax**

  The income tax charge for 2010 was £830,000, an increase of 6% on the 2009 charge of £786,000.

  The variance is due to a reduction in the current income tax charge for the Company of £29,000 countered by an increase in the deferred tax charge of £73,000.

Business Review - continued

- **Equity dividends**

  The Directors are proposing a final dividend for 2010 of £2.24 per share bringing the total equity dividend for 2010 to £3.40 per share (2009: £3.19 excluding the special dividend); an increase of 6.6%.

	2010 £'000	2009 £'000
Dividends paid		
Final dividend for the previous year	1,034	937
Special dividend for the previous year	1,101	-
Interim dividend for the current year	560	507
	£2,695	£1,444
Dividends proposed		
Final dividend for the current year	1,082	1,034
Special dividend	-	1,101
	£1,082	£2,135

- **Total recognised gains for the year**

  Total recognised gains during 2010 amounted to £4,719,000 (2009: £2,615,000). The increase being mainly due to the recognition of the unrealised profit of £1,314,000 (2009: £Nil) on the revaluation of freehold property reclassified as investment property in 2010 and on the gain recognised on the defined benefit pension scheme of £84,000 (2009: Loss of £471,000). In addition, in 2009 there was a reversal of a deferred tax timing difference resulting in a charge of £213,000, there was no such charge in 2010.

- **Cash flow**

  There was a net cash outflow before financing and the use of liquid resources of £1,139,000 (2009: £1,457,000). The difference of £318,000 is due to an increase in net operating cash inflows of £1,614,000, arising mainly from the effects of the reorganisation in 2009 countered by the additional cash outflow in 2010 of £1,251,000 on equity dividends (including the special dividend of £1,101,000). The balance of the variance was due to differences in the net cash flows arising from financing costs, net capital investment and taxes paid in the year.

  Net debt at the end of 2010 stood at £18,630,000, an increase of £1,139,000 on the 2009 balance of £17,491,000, consistent with the net cash outflow for the year.


Handois water treatment works

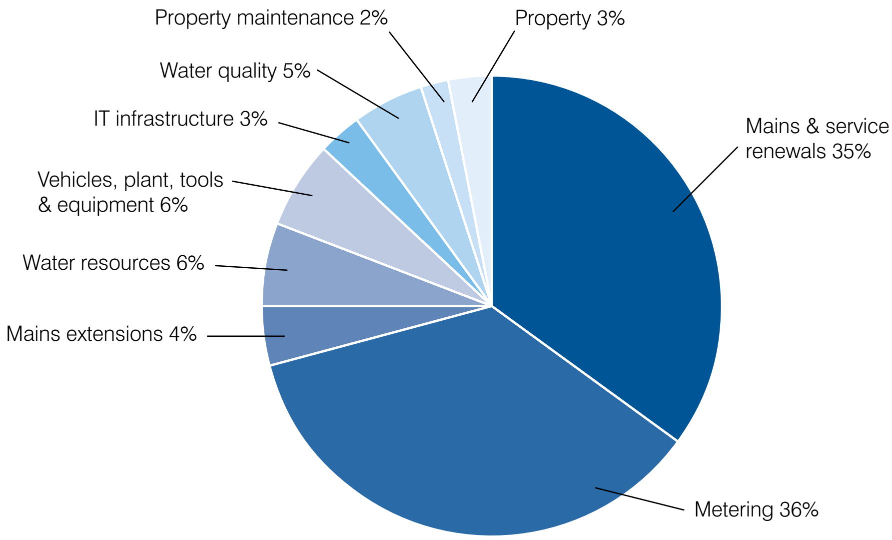
Business Review - continued

Financial Performance

- **Capital expenditure**

  Capital expenditure for 2010 totalled £3,460,000 (2009: £3,309,000). An analysis of expenditure by type is provided in the table below.

Capital expenditure by type



- **Investment properties**

  During the year, the Board reviewed the domestic property owned by the Company and determined that two properties, with a net book value of £21,000, would cease to be used within the business and would be reclassified as investment properties. The reclassification of these properties and subsequent revaluation (following the Statement of Standard Accounting Practice 19) generated a revaluation gain of £1,314,000 (2009: £Nil) recognised in the Statement of Total Recognised Gains & Losses.

- **Loans and borrowing**

  Total borrowing at the end of 2010 was unchanged at £20,282,000.

		2010	2009
		£'000	£'000
Bank loans	- falling due within one year	5,250	3,650
	- falling due between one and two years	-	5,250
	- falling due after two years but less than five years	9,650	6,000
		£14,900	£14,900
Preference share capital		5,382	5,382
Total borrowing		£20,282	£20,282

Subsequent to the year end, the Company renewed the loan maturing in 2011 for a further 10 years.

Business Review - continued

- **Defined benefit pension scheme**

  In 2010, the Company paid an additional £1,000,000 (2009: £Nil) contribution into the Defined Benefit Pension Scheme in order to help reduce the scheme deficit. This was in addition to regular contributions of £671,000 (2009: £926,000).

  As of 31 December 2010, there was a net surplus on the scheme of £388,000, compared with a net deficit of £854,000 in 2009. The improvement in the scheme's position in 2010 is attributed to the combined effects of the employer contributions referred to above and actuarial gains in the year of £106,000 (2009: losses of £855,000) both countered by the on-going revenue costs of maintaining the scheme totalling £241,000 (2009: net credit of £164,000) and a deferred tax charge of £311,000 (2009: £51,000).

Connections, Metering and Charges

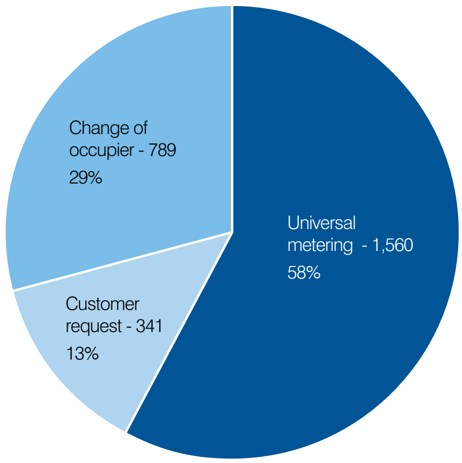
During 2010, the Company installed water meters on 2,690 existing connections and started charging them on the basis of volume consumed. By the end of 2010 the total number of metered connections stood at 16,248 representing 45% (36% in 2009) of the total.

Following the publication of the Company's Water Resource Management Plan, in May the Company started its five year programme of metering all mains water supplies in the Island and, in 2010, fitted 1,560 meters in the first 8 months of this programme. By the end of 2011, it is expected that over 50% of water connections will be metered, which is a major milestone for the project.


Val de la Mare Reservoir

The results of the metering programme are already being seen. As well as reducing customer demand for water, one of the main aims behind the metering programme is to identify and reduce leakage on customer supply pipes, a major constituent of overall leakage. In one area that was universally metered in 2010, water consumption has reduced by approximately 25% as a result of reduced leakage and changes in customer demand. Whilst reductions at these levels are not expected across the Island, they do confirm that the metering policy does play a key role in reducing leakage and managing demand.

2010 meter installations



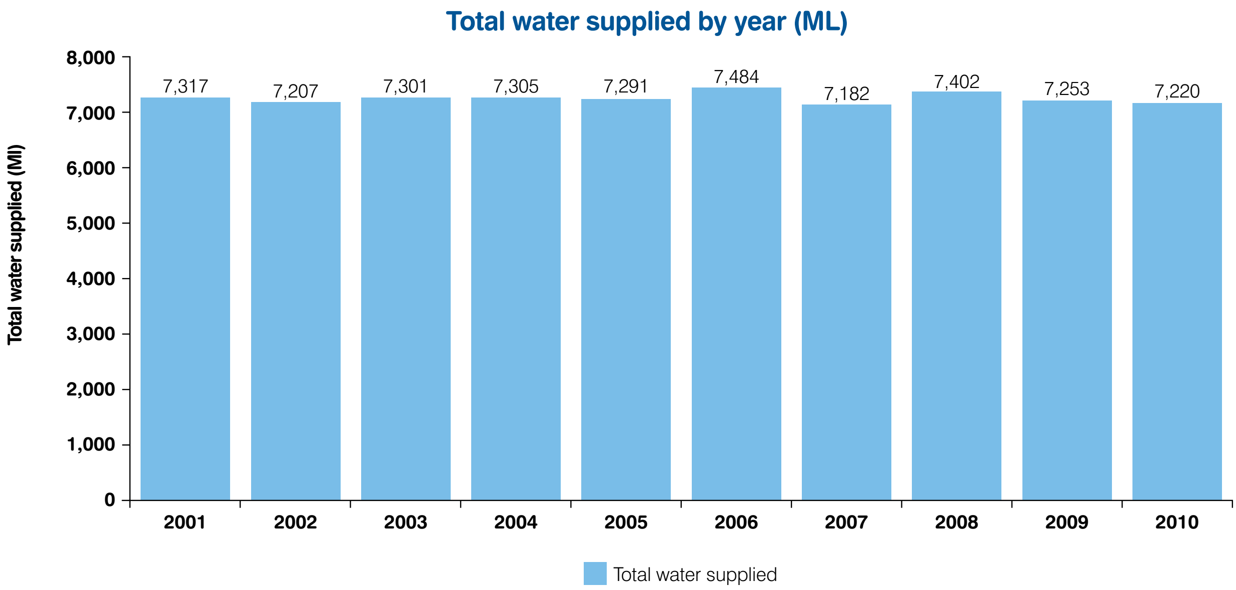
During the year, 337 new water connections were installed; 319 domestic and 18 commercial.

There were no increases in water charges for either metered or unmetered customers in 2010. The Company has recently announced that there shall be no increase in tariffs for metered customers in 2011 and that unmetered tariffs shall increase by 1.5% with effect from 1 April 2011.

Water Supply and Demand

The demand for water in 2010 was 7,220 million litres, which is 0.5% lower than that recorded in 2009 and despite the effects of an additional 337 water connections in the year. The reduction in demand is in part due to the relatively high rainfall for 2010 and partly due to the results of demand management measures implemented by the Company. In the past ten years there has been an increase of 17% in the number of connections to the water network but annual demand for water has remained consistent over the period.

Business Review - continued



Rainfall during 2010 proved to be a series of extremes; February, August and November saw levels significantly in excess of the average whilst March, April, May and July were much drier than normal. With reservoirs starting the year 94% full and with plentiful rainfall spread throughout the year reservoir levels remained healthy and there was no need to consider preparation of the desalination plant for operation.

In January 2010, the Company published its Water Resource Management Plan (WRMP) which estimates water availability and demand during the next 25 years. The WRMP sets out the measures that the Company plans to undertake in respect of water resources and demand management to ensure maintenance of a secure water supply during this period. The WRMP will be reviewed and updated every 5 years, when the opportunity will be taken to review changes in rainfall predictions (due to climate change) and water demand, taking into account the effects of measures implemented such as universal metering.

In 2010, the Company concluded its review of the availability of additional water resources suitable for extraction from the ground water in the St Ouen's Bay aquifer. The review identified that additional volumes of water could be available in the northern part of the aquifer. However, the cost of obtaining this water was relatively high as the project would require extending the raw water pipeline system to reach the proposed borehole sites and then drilling a number of new boreholes. Whilst there is the potential for this scheme to go ahead in the future, the Company will concentrate its efforts on more cost effective solutions in the short term, securing water savings through further demand management measures including mains renewals, pressure reduction and metering.

The WRMP also includes longer-term proposals to increase the capacity of Val de la Mare Reservoir. No firm timescale has been made on this large project and it will be dependent on the effects of measures being implemented in the next 5 years. In order to prolong the life of the dam, prepare for any possible extension works and comply with modern seismic performance requirements, work will be undertaken in 2011 to line the upstream face of the dam with a plastic water-proof membrane.

The 50 year old dam at Val de la Mare Reservoir is a gravity mass concrete dam, parts of which have historically suffered from the effects of 'alkali aggregate reaction' (AAR). This is a phenomenon which has become evident in many concrete structures around the world, where aggregate high in silica reacts with the cement. The condition of the dam is safe and much work on monitoring the effects of AAR has been undertaken during the past 30 years to ensure this position is maintained. The new membrane will help to remove moisture from the structure of the dam, reducing the effect of AAR and prolonging the life of the dam. Advances in dam maintenance and protection technologies have meant that these types of plastic membrane are now commonplace in dams all over the world.

Business Review - continued

Water Quality

The quality of water supplied by the Company in 2010 was of a very high standard with an overall compliance rate of 99.86% with water quality requirements of the Water (Jersey) Law 1972, slightly up on 2009 (99.84%).

The bacteriological compliance of water leaving the treatment works was 100% (2009: 100%) and there were no herbicides or pesticides detected in the treated water supplied.

During 2010, the average concentration of nitrates in the water supplied by the Company was 42.1mg/l, well below the statutory limit of 50mg/l. However, on 23 occasions in 2010 (2009: 23 occasions) the concentrations in supply exceeded 50mg/l, with the highest reaching 56.7mg/l (2009: 59.8mg/l). The results were well within the limits set in the five year dispensation from the Water (Jersey) Law 1972 approved by the Minister for Planning & Environment in 2008. The dispensation for nitrates allows 30% of samples to exceed the statutory 50 mg/l limit but not to exceed 70 mg/l. There are no known risks to health with bacteriologically safe water for nitrates below 100 mg/l.

The concentration of nitrates in the surface waters are determined by the season, rainfall patterns and the timing and rate of application of agricultural fertilisers. The water resources available to the Company are almost wholly derived from these surface waters. Whilst the Company takes active steps to reduce the concentration of nitrates in treated water by extensive blending and careful selection of sources, the underlying level of nitrates is outside of its control.

Until such time as there are material reductions in the concentrations of nitrates in the raw water resources, the Company will be reliant on the dispensations from the limits set out in the law. The Company believes that the only viable long term solution to the problem is through the implementation, by the States of Jersey, of water catchment management areas which will help to reduce the levels of diffuse nitrate pollution in catchment areas and improve the quality of the water available for abstraction.

Further details on water quality are produced in the Company's 2010 Water Quality Report.

Mains Network

The work associated with the maintenance, repair, renewal and installation of water mains was entirely undertaken by an external contractor for the first time in 2010. The working method has proved to be successful, with increased efficiency resulting in cost savings over previous in-house working methods.

During 2010, 1.7 km of new water mains were laid, with just over 1km of this total being laid to supply water to new housing developments.

In 2010, the Company renewed or relined 2.7km of old cast iron and galvanised iron water mains and pipes (2009: 1.8km). The majority of these mains are located within the St Helier area, which is the oldest part of the water supply network.

When renewing or relining treated water mains the Company also takes the opportunity to renew all service pipes and stop valves, which incorporate carriers for water meters. Doing so helps to eliminate lead service pipes from the network, improves water quality, reduces service pipe leakage and will facilitate the subsequent installations of meters as part of the universal metering process.

In 2010, as part of the mains rehabilitation process, the Company undertook a trial of new mains relining technology. The process which involves spraying a structural plastic lining along the length of the main was thought to have the potential to speed up the rehabilitation process and reduce costs. In total, the Company spray lined just over 1km of main during 2010. Experience from the project indicates that the technology is best suited to long runs of main with few connections. Where mains were shorter in length and had many service connections (as they are throughout St Helier) the benefits of the process over the wholesale replacement of the main were offset by the additional work caused by the number of connections.

Water Quality Laboratory

Business Review - continued

Treatment and Processing

Work on the first phase of automatic control and optimisation of the treatment process plant at Handois and Augrès water treatment works was completed in 2010. This provides the means for smoother and optimised operation of the treatment processes and reduces the manual input previously required to set and adjust water production outputs. The second phase of the work is programmed to be undertaken in 2011 and will concentrate on optimisation and automatic control of water levels within the treated water service reservoirs.

A new sodium carbonate handling and batch processing system was installed at Handois water treatment works. The system is identical in design to the unit installed at Augrès water treatment works in 2009. This allows easier handling of this bulk dry powder material, improved mixing and batching for its use. Sodium carbonate is used to correct the water pH post treatment.


Handois water treatment works

Community and Environment

During 2010, the Company provided the venue for the Grass Roots music festival at the base of the Val de La Mare Reservoir for the second time. At the festival the Company sold its branded reusable water bottles raising funds for the charity Water-aid whilst raising awareness of the need for water conservation and the environmentally beneficial nature of consuming tap water rather than bottled water.

Both Val de La Mare Reservoir and Queen's Valley Reservoir remain popular venues for the population of the island. Jersey Water maintains them to a high standard, protecting the diverse ecology present at both reservoirs and promoting their use for complementary activities. The Company licences the reservoirs for use by the Jersey Fresh Water Angling Association, stocking them with brown trout.

In 2009, the Company announced the establishment of the David Norman Bursary Award, aimed at part funding students from Jersey interested in studying a degree level course in a subject relevant to the supply of water. In 2010, the Company awarded its second bursary. Bursary students are given paid employment with the Company during holidays in order that they may gain work experience and also to enable them to develop an understanding of the workings of a water company and water conservation.

The Company is also an active supporter of the Jersey Employers Network on Disability (JEND) and supports various employment initiatives in Jersey designed to help people gain experience and secure employment, including Workwise, Jersey Employment Trust and Project Trident. In recognition of our support in the community the Company gained a Platinum Development Award from Skills Jersey in 2010.

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 is 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 is 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 each 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 2010	**9**	**2**	**1**	**1**
Tony Cooke	9	2		1
Mary Curtis	9		1	1
Carl Hinault	8	1		1
Kevin Keen	9 (Chairman)		1	1 (Chairman)
Stephen Marie	9		1 (Chairman)	1
Peter Yates	9	2 (Chairman)		1
Helier Smith	9			
Howard Snowden	9			

Corporate Governance - continued

Director independence

The Board considers all Non-Executive Directors to be independent in character and judgement. However, Carl Hinault has been a Board member for more than ten years and does not therefore meet the criteria of independence set down in the Combined Code. Accordingly, the Board has determined that Tony Cooke, Mary Curtis, Stephen Marie and Peter Yates 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, or where the number of Directors is not a multiple of three, the number nearest to but not exceeding one third, retire by rotation (based upon length of service) and, where eligible, seek re-election each year. Directors appointed to fill a casual vacancy must seek formal appointment by the Shareholders at the next Annual General Meeting. Biographical notes of all Directors are included on page 3.

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.


Queen's Valley Reservoir

Audit Committee

The Audit Committee is made up of Peter Yates (Chairman), Tony Cooke and Carl Hinault. The auditors, PricewaterhouseCoopers CI 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 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 regularly assesses the need for an internal audit function and has determined that the establishment of such a function is, at the present time, not cost effective.

Corporate Governance - continued

Remuneration Committee

The Remuneration Committee is made up of Stephen Marie (Chairman), Mary Curtis and Kevin Keen. The Executive Directors, Howard Snowden and Helier Smith may also attend the meeting by invitation. No Director plays any role in the determination of their own remuneration.

The terms of reference of the Remuneration Committee allow it to meet as and when necessary to:

- Review the remuneration of senior salaried staff.
- Review and determine the level of remuneration of Executive Directors.

Nomination Committee

The Nomination Committee comprises Kevin Keen (Chairman), Tony Cooke, Mary Curtis, Carl Hinault, Stephen Marie and Peter Yates. 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 a 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.

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 operational risk register detailing and risk grading 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 are adequate.

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.

Corporate Governance - continued

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Jersey Company law requires the Directors to prepare financial statements for each financial period in accordance with any generally accepted accounting principles. The financial statements of the Company are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors should:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- specify which generally accepted accounting principles have been adopted in their preparation; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Desalination Plant

Directors' Report

The Directors of the Company present the financial statements for the year ended 31 December 2010.

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 20. A review of the Company's business during the year and an indication of the likely future development of the business are provided in the business review on pages 5 to 11.

Dividends

Ordinary and 'A' ordinary shares				
Amounts are shown net of 20% tax	**2010**	2009	**2010**	2009
	£ per share	£ per share	**£'000**	£'000
Interim dividend	**1.16**	1.05	**560**	507
Proposed final dividend	**2.24**	2.14	**1,082**	1,034
Special dividend	**-**	2.28	**-**	1,101
	£3.40	£5.47	**£1,642**	£2,642

Preference shares

In 2010 the Company paid dividends on preference shares totalling £381,000 (2009: £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 were Directors of the Company throughout the year ended 31 December 2010.

In accordance with the provisions of Article 74 of the Company's Articles of Association, Mr Kevin Keen and Mr Helier Smith will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

As described on page 13, the Board 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 Senior Independent Director. Following this review, the Chairman has confirmed that the Directors standing for re-election at the Annual General Meeting continue to perform effectively and demonstrate commitment to their roles.

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 2010 are:

	Tony Cooke	Mary Curtis	Carl Hinault	Kevin Keen	Stephen Marie	Helier Smith	Howard Snowden	Peter Yates
Ordinary shares	104	-	100	200	100	146	-	-
Preference shares	-	-	-	3,972	-	3,285	95	-

There have been no subsequent changes in Directors' interests up to the date of approval of the financial statements.

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 their activities as Directors & Officers of 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 8 April 2011.

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	4%								
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%	
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%				3%				
HJB Smith					6%				
UBS Jersey Nominees Limited			24%			11%		3%	
The States of Jersey	50%	100%							100%

Auditors

A resolution to re-appoint PricewaterhouseCoopers CI LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Helier Smith
Company Secretary
8 April 2011

Independent Auditors' Report

to the members of The Jersey New Waterworks Company Limited

We have audited the financial statements of The Jersey New Waterworks Company Limited for the year ended 31 December 2010 which comprise the balance sheet as of 31 December 2010, the profit and loss account, the statement of total recognised gains and losses, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 15 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Opinion on other matters

In our opinion the information given in the Directors' Report for the financial year for which financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit.

Mark James
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants

Jersey, Channel Islands

8 April 2011

Balance Sheet

31 December 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Fixed assets	2		**64,085**		61,170
Current assets					
Stock and work in progress		**698**		957	
Debtors	3	**4,702**		4,942	
Bank and cash		**1,652**		2,791	
		7,052		8,690	
Creditors – Amounts falling due within one year					
Creditors and accruals	4	**(2,720)**		(2,667)	
Bank loans	6	**(5,250)**		(3,650)	
Income tax		**(210)**		(96)	
		(8,180)		(6,413)	
Net current (liabilities) / assets			**(1,128)**		2,277
Total assets less current liabilities			**62,957**		63,447
Creditors – Amounts falling due after more than one year					
Bank loans	6	**(9,650)**		(11,250)	
Non-equity preference shares	9b	**(5,382)**		(5,382)	
			(15,032)		(16,632)
Provisions for liabilities and charges					
Deferred taxation	7		**(5,356)**		(5,028)
Net assets excluding pension liability			**42,569**		41,787
Pension asset / (liability)	8		**388**		(854)
Net assets			**£42,957**		£40,933
Equity capital and reserves					
Called up equity share capital	9a		**483**		483
Capital redemption reserve			**124**		124
			607		607
Share premium account			**678**		678
Reserves	10		**41,672**		39,648
Shareholders' funds	11		**£42,957**		£40,933

The financial statements on pages 19 to 35 were approved by the Board of Directors on 8 April 2011 and were signed on its behalf by:

Kevin Keen
Chairman

Profit and Loss Account

For the year ended 31 December 2010

	Note	2010		2009	
		£'000	£'000	£'000	£'000
Turnover					
Water supply charges	12	13,854		13,766	
Rechargeable works income		475		640	
Other income		323		322	
			14,652		14,728
Cost of sales					
Pumping expenses		(645)		(748)	
Operation of reservoirs and works		(2,406)		(2,489)	
Distribution and analysis of water		(1,716)		(1,728)	
Desalination station expenses		(212)		(234)	
Miscellaneous		(326)		(375)	
		(5,305)		(5,574)	
Administration					
Administration expenses	13	(2,464)		(2,271)	
Insurances		(247)		(307)	
		(2,711)		(2,578)	
Depreciation					
Completed works	2	(1,578)		(1,577)	
Provision for impairment	2	-		(422)	
		(1,578)		(1,999)	
Expenditure			(9,594)		(10,151)
Operating profit			5,058		4,577
Profit on disposal of fixed assets			93		638
Interest					
- payable	14	(654)		(646)	
- receivable		10		37	
Non-equity dividends	15	(381)		(381)	
Other finance income / (expense)	8	25		(140)	
			(1,000)		(1,130)
Profit before taxation			4,151		4,085
Jersey income tax	5		(830)		(786)
Profit for the financial year			£3,321		£3,299
Earnings per ordinary share of £1	17		£6.88		£6.83

There is no material difference between the reported profit for 2010 and 2009 and the profit prepared on the historical cost basis.

The results for the current and prior year all relate to continuing operations.

Statement of Total Recognised Gains and Losses

For the year ended 31 December 2010

	Note	**2010**	2009
		£'000	£'000
Profit for the year		**3,321**	3,299
Gain / (loss) arising on pension liabilities	8	**84**	(471)
Gain arising on revaluation of investment property	2	**1,314**	-
Reversal of other deferred tax timing differences	7	**-**	(213)
Total recognised gains and losses for the year		**£4,719**	£2,615

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Net cash inflow from operating activities	18		**5,756**		4,142
Returns on investments and servicing of finance					
Interest received		**10**		114	
Interest paid		**(664)**		(640)	
Non-equity dividends paid		**(381)**		(381)	
Net cash outflow from returns on investments and servicing of finance			**(1,035)**		(907)
Taxation					
Jersey income tax paid			**(128)**		(501)
Capital expenditure					
Purchase of fixed assets		**(3,206)**		(3,455)	
Disposal of fixed assets		**169**		708	
			(3,037)		(2,747)
Equity dividends paid			**(2,695)**		(1,444)
Net cash outflow before use of liquid resources and financing			**(1,139)**		(1,457)
Management of liquid resources					
Net cash withdrawn from fixed deposit			**-**		2,000
(Decrease) / increase in cash	19		**£(1,139)**		£ 543

Reconciliation of net cash flow to movement in net debt

	Note	2010 £'000	2009 £'000
(Decrease) / increase in cash		**(1,139)**	543
Net cash withdrawn from fixed deposit		**-**	(2,000)
Movement in net debt	19	**(1,139)**	(1,457)
Net debt brought forward	19	**(17,491)**	(16,034)
Net debt carried forward	19	**£(18,630)**	£(17,491)

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 as modified for the revaluation of investment properties and in accordance with United Kingdom accounting standards.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and a summary of the financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Business Review Section on pages 5 to 11 and in notes 6 and 19. The Company has considerable financial resources, a wide and varied customer base within Jersey, steady demand for its products and services and a stable and well established treatment and distribution network. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore selected the going concern basis in preparing the financial statements.

Turnover

Turnover represents the total value of water charges together with minor contracts and rental income. Income from minor contracts is recognised within turnover upon completion of the contracted works. Income arising on minor contracts to be provided in the future is treated as deferred income.

Stocks of water

In accordance with normal industry practice, no value is placed on stocks of water held within reservoirs, treatment works or the mains network.

Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

Water charges

Water is billed either as a fixed rate (in advance) or as a metered charge (in arrears). 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 - Ductile Iron	80 years
- Others	50 years
Buildings	30-100 years
Impounding reservoirs & dams	60-100 years
Pumping plant	10-40 years
Reinforced concrete structures	100 years
Water Meters	10 years
Motor vehicles	5-8 years
Mobile plant and tools	3-10 years
Reverse osmosis membranes	10 years

Investment property

Certain of the Company's properties originally acquired for business purposes, or otherwise used within the business, are no longer so used and are now held for investment purposes. These properties are treated as investment properties and accounted for in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties, and are included in the balance sheet at open market value. The surplus or deficit on revaluation is taken to the revaluation reserve. No depreciation is provided in respect of freehold investment property.

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 projected unit cost method of calculation.

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

Cash at Bank and liquid resources

Included within liquid resources in the cash flow statement are cash balances held on fixed deposit for a term of one month or greater. These items are included within Bank and cash in the balance sheet.

Notes to the Financial Statements - continued

2 Fixed assets

	Property and completed works	Freehold investment property	Uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
Brought forward	83,730		105	2,136	**85,971**
Additions	3,095		106	259	**3,460**
Disposals	(57)			(392)	**(449)**
Transfers	75	21	(96)	-	**-**
Surplus on revaluation	-	1,314	-	-	**1,314**
Carried forward	**£86,843**	**£1,335**	**£115**	**£2,003**	**£90,296**
Depreciation					
Brought forward	(23,201)	-	-	(1,600)	**(24,801)**
Charge for the year	(1,578)	-	-	(242)	**(1,820)**
Disposals	28	-	-	382	**410**
Carried forward	**£(24,751)**	**£ -**	**£ -**	**£(1,460)**	**£(26,211)**
Net book value					
Brought forward	**£60,529**	**£ -**	**£105**	**£536**	**£61,170**
Carried forward	**£62,092**	**£1,335**	**£115**	**£543**	**£64,085**

Of the £1,820,000 depreciation charge for the year, £242,000 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 2010 capital commitments contracted for amounted to £NIL (2009: £50,000).

Provision for impairment

In 2002, the Company constructed a standby water quality improvement plant to enhance the quality of raw water collected from the Le Mourier catchment area through the use of reverse osmosis and ultra-filtration. Whilst the plant remains operational, changes in the Company's water capture, transfer and treatment processes since 2002 have reduced the likelihood of the use of the standby plant in the future. As a result of the consequent impairment review a charge for impairment of £422,000 was recognised in 2009, writing off the remaining net book value of the plant.

Market value of freehold investment properties

In 2010, the Company reclassified two freehold residential properties that are no longer held for use within the business as investment properties. The properties, which had a combined net book value of £21,000, were revalued as at 31 December 2010 at £1,335,000.

The freehold investment properties were valued by an external valuer, CB Richard Ellis Limited, on the basis of open market value in accordance with the requirements of the RICS Appraisal and Valuation Standards.

Notes to the Financial Statements - continued

3 Debtors

	2010 £'000	2009 £'000
Trade debtors	**3,538**	3,836
Prepayments	**376**	394
Accrued income and other debtors	**788**	712
	£4,702	£4,942

4 Creditors and accruals

	2010 £'000	2009 £'000
Trade creditors	**698**	509
Other creditors	**422**	340
Contract retentions	**-**	8
Accruals and deferred income	**1,600**	1,810
	£2,720	£2,667

5 Jersey income tax

	2010 £'000	2009 £'000
Current tax		
Income tax on the profit for the year	**500**	531
Under provision for previous years	**2**	-
Total current tax	**502**	531
Deferred tax		
Charge for the year	**328**	255
Total deferred tax	**328**	255
Total tax charge for the year	**£830**	£786

Notes to the Financial Statements - continued

Factors affecting tax charge for year

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

	2010 £'000	2009 £'000
Profit before tax	£4,151	£4,085
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	830	817
Tax at 20% on:		
Capital allowances for period in excess of depreciation	(164)	(175)
Capital expenditure, deductible for tax purposes	(223)	(143)
Profit on sale of fixed assets	(19)	(128)
Dividends on non-equity shares - Non deductible	76	76
Provision for impairment of fixed assets	-	84
Current tax charge for year	£500	£531

6 Bank loans

	Repayment Dates	2010 £'000	2009 £'000
Facilities drawn down			
HSBC Bank plc	2010	-	3,650
HSBC Bank plc	2011	5,250	5,250
HSBC Bank plc	2013	6,000	6,000
HSBC Bank plc	2015	3,650	-
		£14,900	£14,900
Loans falling due within one year		5,250	3,650
Loans falling due between one and two years		-	5,250
Loans falling due after two years but less than five years		9,650	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.

Subsequent to the year end, the facility for £5,250,000 due for repayment in 2011 was renewed for a further period of ten years and is now due for repayment in 2021.

Notes to the Financial Statements - continued

7 Deferred taxation

	2010 £'000	2009 £'000
Accelerated capital allowances	**5,356**	5,028
Net liability	**£5,356**	£5,028
Brought forward	**5,028**	4,560
Amounts charged in the profit and loss account	**328**	255
Amounts charged in the statement of total recognised gains and losses	**-**	213
At 31 December	**£5,356**	£5,028

8 Pensions

The Company operates two formal pension schemes; a defined contribution scheme and a defined benefit scheme. There are also certain past employees whose pension or pension supplements, which are of a defined benefit nature, have not been funded by the Company's present or previous pension agreements (the 'unfunded scheme'). Where applicable, the liability of the Company in respect of the unfunded scheme is included within the disclosure below relating to the defined benefit section. The defined 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.

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 2010 totalled £53,000 (2009: £54,000).

Defined benefit section and unfunded scheme

The full FRS17 actuarial valuation as at 31 December 2010 shows an improvement from the 2009 deficit of £854,000 to a surplus of £388,000 in 2010.

The major assumptions used by the actuary were:

	2010	2009
Rate of increase in salaries	**4.69%**	4.94%
Rate of increase in pensions accrued after 1 January 1999	**3.39%**	3.50%
Discount rate	**5.47%**	5.80%
Expected return on plan assets	**5.78%**	6.18%
Inflation assumption	**3.69%**	3.94%
Life expectancy assumptions		
Current pensioners at 65 - Male	**86**	86
Current pensioners at 65 - Female	**88**	88
Future pensioners at 65 - Male	**87**	87
Future pensioners at 65 - Female	**89**	89

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.

Notes to the Financial Statements - continued

	2010 £'000	2009 £'000
Reconciliation of the present value of scheme liabilities		
Opening scheme liabilities	**15,383**	13,508
Current service cost	**249**	230
Employee contributions	**92**	113
Interest cost	**887**	828
Actuarial losses	**534**	1,769
Past service costs	**17**	248
Gains on curtailment	**-**	(782)
Benefits paid	**(864)**	(531)
Closing scheme liabilities	**£16,298**	£15,383
Analysis of funded and wholly unfunded scheme liabilities		
Funded scheme	**16,191**	15,263
Wholly unfunded scheme	**107**	120
Total present value of scheme liabilities	**£16,298**	£15,383
Reconciliation of the fair value of scheme assets		
Opening fair value of scheme assets	**14,316**	12,188
Expected return	**912**	688
Employer contributions	**1,671**	926
Employee contributions	**92**	113
Actuarial gains	**640**	914
Benefits paid	**(848)**	(513)
Closing fair value of scheme assets	**£16,783**	£14,316
Actual return on scheme assets	**£1,552**	£1,602
Analysis of amounts shown in the balance sheet		
Fair value of plan assets	**16,783**	14,316
Present value scheme liabilities	**(16,298)**	(15,383)
Surplus / (deficit)	**485**	(1,067)
Related deferred tax (liability) / asset	**(97)**	213
Net surplus / (deficit)	**£388**	£(854)

Notes to the Financial Statements - continued

	2010 £'000	2009 £'000
Analysis of amounts recognised in the profit and loss account		
Current service cost	**(249)**	(230)
Expected return on pension plan assets	**912**	688
Interest on pension plan liabilities	**(887)**	(828)
Past service cost	**(17)**	(248)
Curtailments	**-**	782
Total	**£(241)**	£164

Current service costs, past service cost and curtailments 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.

	2010 £'000	2009 £'000
Analysis of amounts recognised in the statement of total recognised gains and losses		
Actual return less expected return on pension scheme assets	**640**	914
Experience gains / (losses) arising on scheme liabilities	**90**	(310)
Changes in assumptions underlying the present value of scheme liabilities	**(624)**	(1,459)
Actuarial gain / (loss) recognised in the statement of total recognised gains and losses	**106**	(855)
Current tax relief	**288**	435
Movement in deferred tax relating to net asset / liability	**(310)**	(51)
Gain / (loss) recognised in the statement of total recognised gains and losses	**£84**	£(471)
Cumulative amounts recognised in the statement of total recognised gains and losses	**£(3,153)**	£(3,237)

Analysis of scheme assets	**2010 % of total fair value of scheme assets**	2009 % of total fair value of scheme assets
Equities	**43%**	46%
Property	**8%**	8%
Corporate bonds	**42%**	43%
Cash and receivables	**7%**	3%
	100%	100%

Notes to the Financial Statements - continued

History of experience gains and losses

	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Present value of scheme assets	16,783	14,316	12,188	14,191	12,514
Present value of scheme liabilities	(16,298)	(15,383)	(13,508)	(13,966)	(15,043)
Gross scheme surplus / (deficit)	£485	£(1,067)	£(1,320)	£225	£(2,529)
Experience gains / (losses) on scheme liabilities					
Amount	90	(310)	185	241	290
Difference between the expected and actual return on scheme assets					
Amount	640	914	(3,013)	(288)	(22)

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 £671,000 (2009: £926,000) and special contributions of £1,000,000 (2009: £Nil).

Following the results of the latest actuarial valuation as at 1 January 2009, the contribution rate for 2009, 2010 and 2011 was set at 9.9% of Pensionable Salaries plus £445,000 per annum, of which £445,000 represents contributions to reduce the scheme deficit.

9 Share capital

a) Equity share capital

	2010	2009
	£'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

		2010 £'000	2009 £'000
Authorised			
20,000	cumulative preference shares of £5	**100**	100
20,000	cumulative second preference shares of £5	**100**	100
100,000	cumulative third preference shares of £5	**500**	500
100,645	cumulative fourth preference shares of £5	**503**	503
900,000	cumulative fifth preference shares of £5	**4,500**	4,500
		£5,703	£5,703
Issued and fully paid			
17,261	5% cumulative preference shares of £5	**86**	86
17,402	3.5% cumulative second preference shares of £5	**87**	87
23,509	3% cumulative third preference shares of £5	**118**	118
16,036	3.75% cumulative third preference shares of £5	**80**	80
11,400	5% cumulative third preference shares of £5	**57**	57
90,877	2% cumulative fourth preference shares of £5	**454**	454
900,000	10% cumulative fifth preference shares of £5	**4,500**	4,500
		£5,382	£5,382

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

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

10 Reserves

	Revaluation reserve £'000	Retained profit £'000	Total £'000
Brought forward	-	39,648	39,648
Profit for the financial year	-	3,321	3,321
Surplus on revaluation of investment properties in year	1,314	-	1,314
Equity dividends	-	(2,695)	(2,695)
Gain relating to pension plan recognised in the statement of total recognised gains and losses	-	84	84
Carried forward	£1,314	£40,358	£41,672

Notes to the Financial Statements - continued

11 Reconciliation of movement in equity shareholders' funds

	2010	2009
	£'000	£'000
Profit for the year	**3,321**	3,299
Equity dividends	**(2,695)**	(1,444)
Retained profit for the year	**626**	1,855
Gain / (loss) arising on pension plan	**84**	(471)
Reversal of other deferred tax timing differences	**-**	(213)
Surplus on revaluation of investment properties in year	**1,314**	-
Opening equity shareholders' funds	**40,933**	39,762
Closing equity shareholders' funds	**£42,957**	£40,933

12 Water supply charges

	2010	2009
	£'000	£'000
Measured water charges	**7,465**	6,874
Unmeasured water charges	**5,772**	6,262
Service charges and other charges for water	**617**	630
	£13,854	£13,766

13 Administration expenses

	2010	2009
	£'000	£'000
Included in administration expenses are the following:		
Reorganisation costs	**-**	(633)
Gains on pension curtailment (note 8)	**-**	782
Net gain on reorganisation	**-**	149
Directors' fees (note 20)	**(80)**	(105)
Auditors' fees - Statutory audit	**(40)**	(34)
- Other services (Tax compliance)	**(2)**	(4)
- Other services (Pension scheme audit)	**(9)**	(8)

14 Interest payable

	2010	2009
	£'000	£'000
On loans and overdrafts from banks	**£654**	£646

Notes to the Financial Statements - continued

15 Non-equity dividends

	2010 Paid £'000	2010 Payable £'000	2010 Charge for the year £'000	2009 Paid £'000	2009 Payable £'000	2009 Charge for the year £'000
5% cumulative preference shares	**2**	**2**	**4**	2	2	4
3.5% cumulative second preference shares	**2**	**1**	**3**	2	1	3
3% cumulative third preference shares	**3**	**-**	**3**	3	-	3
3.75% cumulative third preference shares	**2**	**-**	**2**	2	-	2
5% cumulative third preference shares	**2**	**-**	**2**	2	-	2
2% cumulative fourth preference shares	**7**	**-**	**7**	7	-	7
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

16 Equity dividends

Ordinary and 'A' ordinary shares	**2010**	2009	**2010 £'000**	2009 £'000
Dividends paid				
Final dividend for the previous year	**£2.14**	£1.94	**1,034**	937
Special dividend for the previous year	**£2.28**	-	**1,101**	-
Interim dividend for the current year	**£1.16**	£1.05	**560**	507
	£5.58	£2.99	**£2,695**	£1,444
Dividends proposed				
Final dividend for the current year	**£2.24**	£2.14	**1,082**	1,034
Special dividend for the current year	**-**	£2.28	**-**	1,101
	£2.24	£4.42	**£1,082**	£2,135

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

17 Earnings per ordinary share

The calculation of earnings per ordinary share of £1 is based on earnings of £3,321,000 (2009: £3,299,000), being the profit available for distribution to equity shareholders and 483,000 ordinary and 'A' ordinary shares of £1 in issue.

Notes to the Financial Statements - continued

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

	2010 £'000	2009 £'000
Operating profit	**5,058**	4,577
Depreciation	**1,820**	1,913
Provision for impairment	**-**	422
Change in order to bring pension charges onto a contribution basis	**(1,422)**	(1,248)
Decrease in stock and work in progress	**259**	153
Decrease / (increase) in debtors	**222**	(391)
Decrease in creditors	**(181)**	(1,284)
Net cash inflow from operating activities	**£5,756**	£4,142

19 Analysis of changes in net debt

	At 1 January 2010 £'000	Cash Flows £'000	Other Changes £'000	At 31 December 2010 £'000
Total bank and cash per balance sheet	2,791	(1,139)	-	**1,652**
Debt due within one year	(3,650)	-	(1,600)	**(5,250)**
Debt due after one year	(16,632)	-	1,600	**(15,032)**
Total	**£(17,491)**	**£(1,139)**	**£-**	**£(18,630)**

20 Directors' emoluments

	Salary £'000	Fee £'000	Benefits (excluding pension contributions) £'000	Total Emoluments 2010 £'000	Total Emoluments 2009 £'000
Executives					
Howard Snowden[1]	117	-	9	126	124
Helier Smith[2]	108	-	4	112	110
Non-Executives					
Kevin Keen	-	20	-	20	17
Tony Cooke	-	12	-	12	12
Mary Curtis	-	12	-	12	12
Carl Hinault	-	12	-	12	12
Stephen Marie	-	12	-	12	12
David Norman	-	-	-	-	9
Peter Yates	-	12	-	12	7

[1] For the year ended 31 December 2010 the Company's contribution in respect of Howard Snowden's pension was £10,403.

[2] For the year ended 31 December 2010 the Company's contribution in respect of Helier Smith's pension was £10,440.

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. With effect from 1 January 2010, neither Mr Snowden nor Mr Smith receives separate fees for their services as Directors, their remuneration being deemed part of their salary. During 2010, a discretionary executive director bonus scheme was established for Mr Snowden and Mr Smith.

Notes to the Financial Statements - continued

21 Related party transactions

The Company has identified the following material related party transactions:

Counterparty	Value of goods & services supplied by Jersey Water		Value of goods & services purchased by Jersey Water		Amount due to Jersey Water		Amount due by Jersey Water	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
The States of Jersey	**2,196**	1,846	**69**	66	**463**	525	**1**	1
Jersey Electricity Plc	**82**	78	**806**	834	**16**	28	**61**	74
JT Group Limited	**20**	7	**52**	57	**2**	3	**4**	4
Jersey Post International Limited	**8**	8	**77**	73	**2**	2	**-**	1

The States of Jersey is the Company's majority and controlling shareholder. Jersey Electricity Plc is majority owned and controlled by the States of Jersey. JT Group Limited and Jersey Post International Limited are both wholly owned by the States of Jersey. All transactions are undertaken on an arm's length basis.

In addition to the transactions included above with the States of Jersey, the Company made payments of income tax, social security, GST, water resource licence fees and other statutory payments.

The Company leases the site of the La Rosiere Desalination Plant from the States of Jersey on a 99 year lease ending in 2067. Under the terms of the lease, the rental, which for 2010 was £25,000 (2009: £25,000) increases every five years in line with the movement on the Jersey Retail Price Index.

22 Post balance sheet events

Subsequent to the year end the Company entered into two contracts totalling £1.6 million for the lining of the upstream face of the dam at Val de La Mare with a water proof membrane in 2011.

23 Ultimate controlling party

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

Five Year Summary

	Units	2010	2009	2008[1]	2007[1]	2006
Balance sheet						
Equity shareholders' funds	£'000	42,957	40,933	39,762	38,569	35,306
Net debt	£'000	18,630	17,491	16,034	18,023	20,009
Profit and loss account						
Turnover	£'000	14,652	14,728	14,378	13,817	13,492
Operating profit	£'000	5,058	4,577	4,472	4,498	3,865
Profit before tax	£'000	4,151	4,085	4,034	3,526	3,130
Profit for the financial year	£'000	3,321	3,299	4,030	3,253	2,703
Equity dividends paid[2]	£'000	1,594	1,444	1,256	1,124	1,070
Financial statistics & ratios						
Capital expenditure	£'000	3,460	3,309	2,980	2,546	2,970
Net cash inflow / (outflow)	£'000	(1,139)	543	(11)	1,986	550
Earnings per share	£	6.88	6.83	8.34	6.73	5.60
Dividend cover[2]	Times	2.1	2.3	3.2	2.9	2.52
Interest cover	Times	5.0	5.1	4.1	3.7	3.55
Gearing[3]	%	47	50	51	53	57
Operational statistics						
Total water supplied	Ml	7,220	7,253	7,402	7,182	7,484
Maximum daily demand	Ml	25.8	25.7	26.2	25	29
Annual rainfall	mm	982	843	1,042	915	782
New mains laid	km	1.7	3.1	4.6	5.6	6.5
Mains re-laid / relined	km	2.7	1.8	2.8	2.0	2.1
New connections	No	337	412	508	453	1,001
Live unmeasured supplies	'000	21	23.8	25.2	26.1	26.6
Live metered connections	'000	16.2	13.2	11.2	10.6	9.8
Employees	No	84	80	107	107	107
Water quality						
% Compliance with water quality parameters		99.86%	99.84%	99.97%	99.86%	99.97%

[1] *Relevant figures have been restated to show the effect of the prior year adjustment made in 2009*

[2] *Equity dividends and the calculation of dividend cover exclude the special dividend paid in 2010*

[3] *Gearing = Debt (including preference share capital) / equity shareholders' funds*

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