

Chairman's Statement

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

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

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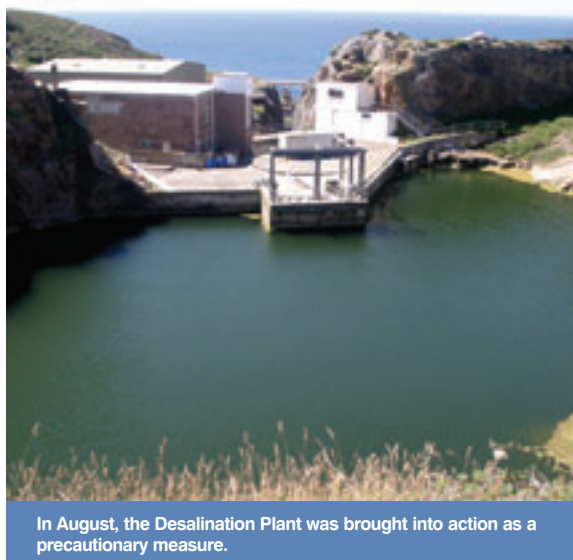
As you will see from our Water Quality Report for 2006, the water we produced continued to be of a very high standard, meeting Jersey regulatory requirements, achieving 99.97% compliance, slightly above the England and Wales average.

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

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

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

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



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

Chairman's Statement (continued)

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

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



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

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

David Norman
Chairman

28 March 2007