

Chairman's statement

I am delighted to be able to report to shareholders that, despite modest tariff increases in 2007, we have achieved a profit before tax of £3.5 million, an increase of nearly 13% on 2006 (as restated) and well ahead of budget.

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

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

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

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



Queen's Valley Reservoir

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

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

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

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

Chairman's statement (continued)



Val de la Mare Reservoir

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

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

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

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

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

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

David Norman
Chairman

4 April 2008