

# Business Review

## Financial Performance

### • Turnover

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

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

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

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

### • Operating costs

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

### • Profit on disposal of fixed assets

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

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

### • Interest costs

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

### • Income tax

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

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## Business Review (continued)

### • Equity dividends

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

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

### • Defined benefit pension scheme

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

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

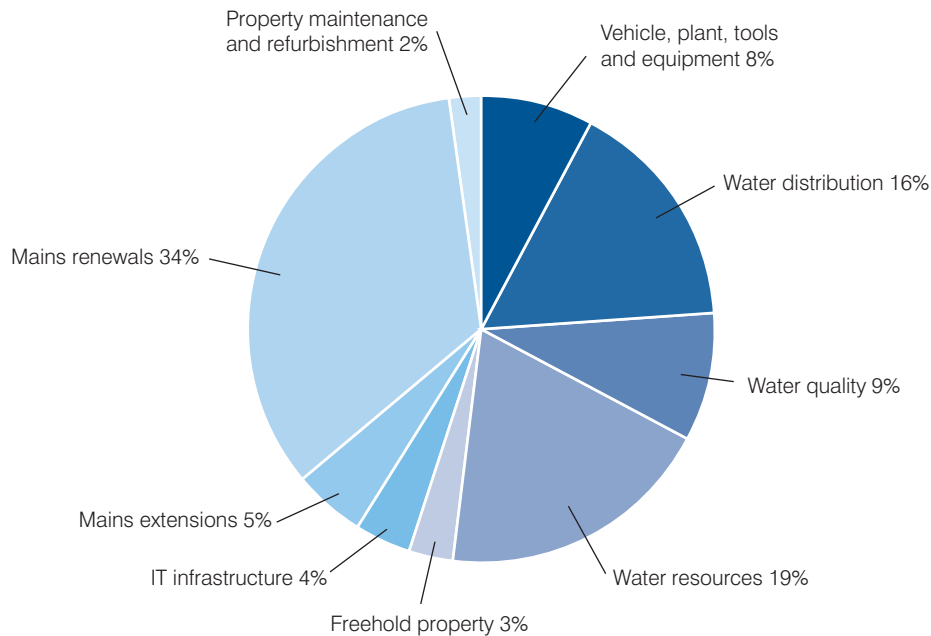
The FRS 17 valuation at 2007 shows a net surplus of £180,000 compared to a deficit of £2,023,000 (as restated) in 2006. The main reasons for change are employer contributions paid and payable into the scheme of £1,651,000 and actuarial gains of £1,448,000. The actuarial gains being largely driven by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

### • Cash flow

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

## Business Review (continued)

**Capital expenditure by type**



### • Capital expenditure

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

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

### Connections, metering and charges

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

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

## Business Review (continued)

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

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

### Water Supply and Demand

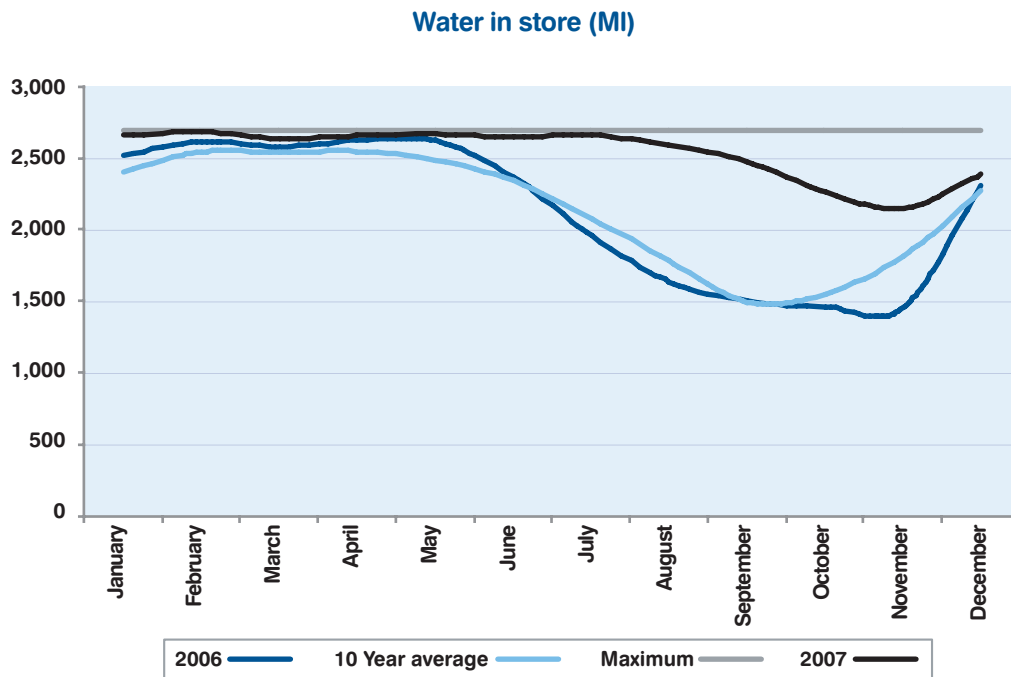
From a water resource view point 2007 was an excellent year. The wet end to 2006 meant that the Company started 2007 with virtually full reservoirs and then enjoyed 60% above average rainfall in the first quarter, which is an important period for water resources.

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

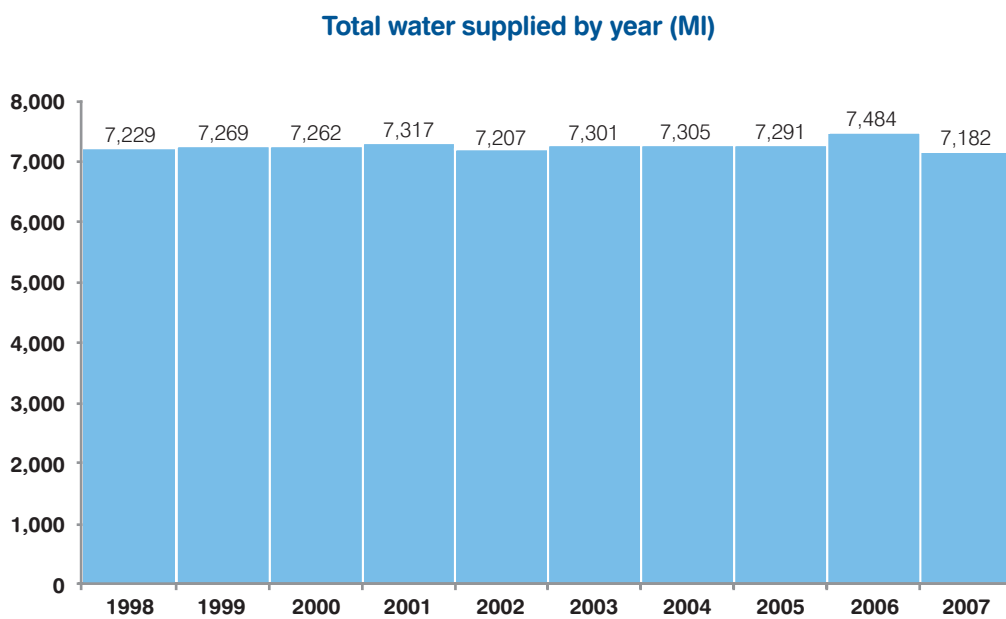


Grands Vaux reservoir

## Business Review (continued)



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



## Business Review (continued)

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

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



Mains renewal in Green Road, St Clement.

### Water Quality

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

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

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

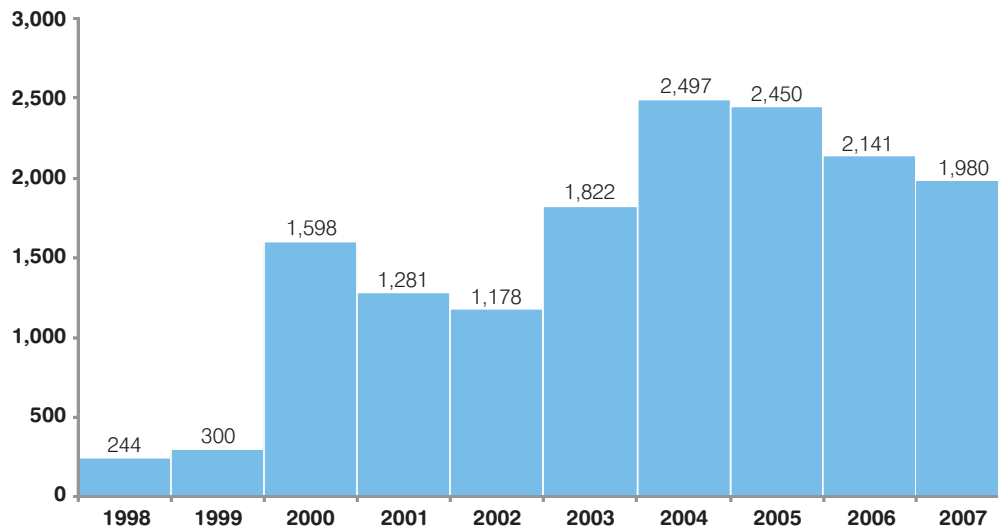
### Mains Network

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

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

## Business Review (continued)

**Mains renewals by year (Metres)**



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

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

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

### Treatment and Processing

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

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

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

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

### Company staff and management

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