

Chairman's Statement

Shareholder return

In April 2004, The Finance & Economics Committee of the States of Jersey (the 'States'), the Company's majority shareholder, announced a strategic review of water services provision in Jersey. This followed the approach, in January 2004, by The Jersey Electricity Company Limited ('JEC') who were considering making an offer for your Company.

The review was completed during 2004 and, as I reported to shareholders in my letter dated 7 April 2005, the States announced on 6 April 2005 that they did not wish to sell their shareholding and are fully supportive of your Board and its plans for the future of the Company.

Due to the significant investment that the Company has made extending and improving the water supply infrastructure for the benefit of our customers and the Island, our shareholders have received little or no return on their substantial investment in the Company for many years. I indicated in last year's report that with the levels of the very heavy capital expenditure having reduced for the foreseeable future, there was scope to give more emphasis to shareholder value.

Now that the period of uncertainty referred to above has been concluded, the Directors have implemented their plan which includes a progressive results based dividend policy funded through positive cash flows which will of course be dependent on future income levels but which provides shareholders with a significantly increased return.

The policy shall be for the Company to distribute to ordinary and A ordinary shareholders dividends broadly equal to one third of normal operating cash flows (assuming the annual operation of the desalination plant) adjusted for finance costs, tax and preference dividends. This equates to a total proposed equity dividend for 2004 of £1,000,000 (net). Interim dividends, which are usually declared in September will approximate to 40% of the previous year's total dividend.

Your Board is very conscious of the need to carefully balance the Company's duties to customers and shareholders alike and has implemented a plan that will not only support an increased return for shareholders, but will allow the Company to continue improving and extending the water supply system with an anticipated average budgeted spend of £2.5 million per year over the next five years. The Board has adopted a 5 year planning cycle in line with UK industry standards.

For 2005 we have implemented an increase of 4% in our unmeasured tariffs and in line with the Company's policy of encouraging customers to move to metered supplies, we have not increased metered tariffs.

Our general policy on future tariff increases remains unchanged and we intend to continue to seek revenue increases at or marginally below RPI.



Queen's Valley Reservoir

Chairman's Statement continued

Review of the year's financial performance

Turnover for the year at £12.4 million was up 3.5% compared to 2003. Reductions in rechargeable works and other income were countered by a 5.6% increase in water supply charges mainly due to our 3.5% tariff increase in 2004. Metered water sales recovered after being adversely affected in 2003 by the water restrictions that year and we have also benefited in 2004 from an increased awareness of the obligation of non metered customers to pay for the use of hosepipes.

Total expenditure before interest rose by £235,586 (2.6%) to £9.2 million with the unexpected costs of dealing with the approach from the JEC more than offset by the costs saved in not running the desalination plant during the year.

During the year further disposals of property assets including Le Mourier Farm were completed, producing one-off profits of £520,469.

Interest payable rose to £828,947 for the year as a result of increases in the underlying base rate. Other finance costs relate to the FRS 17 charge for our pension scheme and benefited from improvements in the expected income streams from the scheme's investments.

Profits at the operating level increased by £179,529 (5.9%) to £3.2 million and after the £520,469 profit on sale of fixed assets and interest and other finance costs, we achieved a profit before tax of £2.8 million compared to £2.4 million in 2003.

Capital expenditure at £2.6 million was £0.9 million behind budget due mainly to timing differences and cost savings and significantly lower than the £6.3 million spent in 2003. This higher profit and lower capital expenditure resulted in a net cash inflow for the year of £542,184, reducing net debt to £14.9 million.

During the year the Company paid contributions of £1.2 million to its defined benefit and unfunded pension schemes. This helped reduce the net pension liability from £3.6 million to £3.1 million.

Further to my comments above and adopting the new dividend policy, your Directors are recommending a final dividend of 255.1 pence per Ordinary and A Ordinary Share (gross), which together with the interim dividend of 3.7 pence per share (gross), makes the total dividend of 258.8 pence per share (gross) for the year.

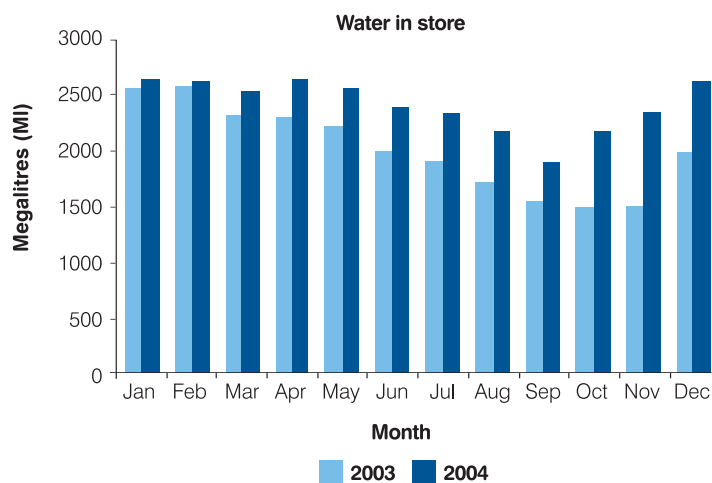


Val de la Mare Reservoir

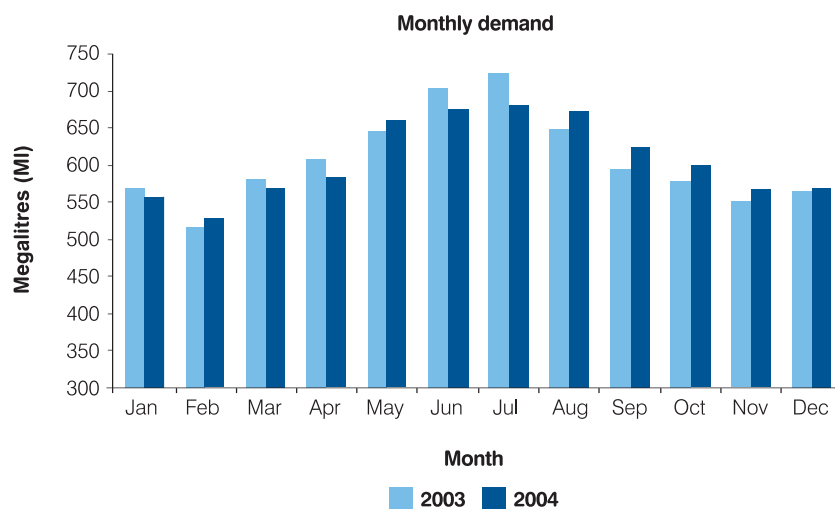
Chairman's Statement *continued*

Water resources

After the severe drought experienced in 2003, we were pleased to see the water levels in our reservoirs fully recovered by the end of January 2004. Rainfall during the year was mixed, but with July, August and October well above the long-term average. Reservoir water levels for the whole of 2004 remained above the 10 year average level obviating the need to operate the desalination plant.



Total water consumption for the year was 7,305 MI, virtually the same as recorded in 2003 when formal restrictions on non-essential use of water were applied from July to October. The reason for this can be attributed to two main factors; firstly the unsettled summer which resulted in lower than normal demand and secondly the installation of a number of pressure reducing valves at strategic positions as the new gravity fed Les Platons Service Reservoir distribution system came into service. Overall consumption has now remained static for the last 6 years.



During the year the Company submitted supporting evidence to the States Scrutiny Panel reviewing the draft Water Resources (Jersey) Law being proposed by the Environment & Public Services Committee (E&PSC). The Company has for many years advocated the need for legislation to protect Jersey's water resources, which may become scarcer with changing weather patterns.

Chairman's Statement continued

Water quality

From 1 January 2004, the amendment to the Water (Jersey) Law 1972, which defines water quality criteria, became effective. The law amendment sets out Maximum Allowable Concentrations (MAC) for physical, bacteriological and chemical parameters. The parameters and MACs are identical to the Water Supply (Water Quality) Regulations 2000 for England & Wales, which the Company had applied as Best Practice since their introduction.

A dispensation under the law for nitrate levels has been granted by the E&PSC for 5 years and allows up to a maximum of 33% of samples for nitrate to be above 50 mg/l, but not greater than 70 mg/l. In 2004, 5% of the samples taken were above 50mg/l the highest being 51.8 mg/l.

Shareholders are reminded that the Company has no control over the water catchment areas and the diffuse pollution of water resources from nitrate which is why a dispensation is likely to remain essential. Whilst nitrate levels can be reduced at critical times by dilution with nitrate-free water produced by the desalination plant, this is very expensive and the Company continues to advocate action by the States under the Water Pollution (Jersey) Law 2000 to reduce nitrates in the Island's water resources.



Les Platons Service Reservoir

As announced in February 2005, I am pleased to report that 99.80% of treated water supplied by the Company in 2004 complied with the Maximum Allowable Concentrations as set out in the amendment to the Water (Jersey) Law 1972. We were, however, extremely disappointed with the discovery of cyanazine pollution at Grands Vaux at the end of 2004 which adversely affected an excellent set of results. In order to resolve the problem quickly it was decided to completely empty the reservoir, despite assurances from our UK based technical advisor that there was no health risk to consumers. A similar pollution incident during more critical summer months could have far more serious consequences than just the cost involved. Full details of the quality of water supplied in 2004 are shown in our Water Quality Report.

The Company's reservoirs and infrastructure

The new, gravity fed, high level distribution system served by the Les Platons Service Reservoir was completed and brought into commission in stages during the year. This work involved the transfer of booster pumped distribution areas to the high-level gravity system and enabled the majority of the booster pumping stations to be taken out of service. The system increases the treated water storage capacity of the network by 9MI (a 100% increase) and reduces the energy required to move water around the island. A number of pressure-reducing valves situated at strategic points in the distribution system were installed to reduce and regulate pressures in the lower level areas. The relatively small high level areas of Trinity and St John which are at a similar elevation to the service reservoir are supplied by a new small booster pumping station at the service reservoir. We now supply approximately 90% of the total number of connections through the gravity fed distribution system and further extension of the system, to supply high-level areas in the east of the Island, is planned in the future.

The Company's reservoirs are subject to the Reservoirs (Jersey) Law 1996. The law requires them to be operated, maintained and inspected to ensure their safety. During the year Val de la Mare Reservoir and Grands Vaux Reservoir were given a time-related inspection by an Independent Qualified Engineer. The inspection showed no abnormalities.

Chairman's Statement *continued*

During the year, the old pumping plant at Val de la Mare Reservoir Pumping Station was replaced with higher capacity equipment, together with associated electrical control gear, variable speed drives and a diesel-driven standby generator set. The new pumps will allow increased rates of water transfer from Val de la Mare Reservoir to the treatment works.

The Wash Water Recovery Plant at Handois WTW was commissioned during the year. Whilst the formal take-over tests were completed in January, due to a number of technical issues the longer-term (100 day) Performance Tests have been delayed until 2005, to allow the plant to be tested on higher flow rates when the demand for water increases in the spring.

The expansion of the Operational Supervisory & Data Acquisition (SCADA) system continued during the year allowing a number of raw water pumping stations to be controlled and monitored remotely from a central location. This work is due to be completed in 2005.

Modifications to the chlorination and pH correction systems at Augrès WTW were completed during the year. An in-line electrically operated mixer was installed in the filtered water main by means of an under-pressure connection. This has resulted in improved mixing characteristics, more effective use of treatment chemicals and better control of treated water quality.

Some 7 km of water mains extensions were completed during 2004 and 812 new dwelling units connected to our supply system. As was planned our mains renewal programme was increased in the year with 2.5 km of old water mains replaced. We intend to continue with this target in future years.

The diversion of both a trunk water main and service main was undertaken in Union Street, St Helier at the same time as E&PSC were installing a new surface water sewer; such operations clearly demonstrate the very high density of underground services in St Helier. Our future mains renewal programme is predominantly within the Parish of St Helier, since this is the oldest part of our distribution network. As I mentioned in last year's report, the renewal of old water mains inevitably causes disruption to roadusers and residents; the Company is pro-active in pre-planning and advising residents and road users of future works and remains committed to minimising disruption.

Good progress has been made during the year in converting old manual read water meters to the Electronic Encoded (EE) type meters. These new type of meters can be read electronically and the data is transferred directly into the billing system software, bringing about major savings in meter reading time.



Work undertaken in Union Street

Chairman's Statement continued

Rebranding

On 8 November 2004, with a view to updating its public profile the Company adopted Jersey Water as its trading name, took on a new livery and published its first website (www.jerseywater.je). The website being designed to act as a point of reference for customers, shareholders and the general public in all aspects of the Company's business.

Board of Directors

Carlyle Hinault and myself, David Norman, both retire by rotation in accordance with Article 74(b) and are seeking re-election.

The Company staff and management

I am sure that shareholders would wish to join me in complimenting the professionalism of our staff in what has been a time of anxiety and uncertainty for many of them. They have continued to carry out their many and varied duties in a way to be envied by other employers as well as implementing new technology and systems which will continue to bring changes to work practices and allow the Company to realise improvements in efficiency in delivering our service to customers.

David Norman
Chairman

11 April 2005

