

JERSEY NEW WATERWORKS COMPANY LIMITED 2014 ANNUAL GENERAL MEETING VOTING INSTRUCTIONS

1. Purpose of Report

To consider the resolutions put forward for Jersey New Waterworks Company Limited (JNWWC) Annual General Meeting (AGM) on Thursday 15 May 2014.

2. Background

JNWWC is a public company with its Ordinary shares being traded, relatively infrequently, (the current price being in the region of £5.10). The States of Jersey is the majority shareholder owning 100% of 'A' Ordinary shares, 50% of the issued Ordinary shares and a substantial holding of Preference Shares. This gives the States of Jersey 83% of voting rights.

The Directors of the company have proposed 6 Ordinary Resolutions to be considered at the AGM Meeting, these are outlined in the Notes in the Form of Appointment of Proxy (Appendix A). The AGM will be held on Thursday 15 May 2014.

3. Resolutions

The following resolutions have been put forward for consideration at the AGM.

3.1 **Ordinary Resolution 1 -To receive the Financial Statements and the reports of the Directors and Auditors of The Jersey New Waterworks Company Limited for the year end 31 December 2013**

In accordance with Article 105, the board shall prepare annual accounts in respect of each financial period of the company, which shall be audited and laid before the members at the AGM next ensuing.

The following paragraphs summarise the key financial matters that are included the company's Financial Statements: -

Turnover for 2013 was £14,916,000 (2012: £14,609,000), water related turnover increased by 2.1% and totalled £14,166,000 (2012: £13,841,000).

Metered income in 2013 was £10,890,000 (2012: £9,497,000), an increase of 15% on 2012. The change in metered income is attributable to an increase in overall demand for water of 0.4%, the addition of 3,700 metered properties, 406 new connections and a 2% tariff increase. Metered water sales accounted for 77% of water related turnover compared to 69% in 2012.

Unmeasured water income totalled £2,686,000, compared to £3,774,000 in 2012. The reduction of £1,088,000 corresponded with the transfer of customers to metered billing. Unmeasured charges now account for just 19% of water related turnover (2012: 27%).

Operating expenditure for the year was £10,116,000 (2012: £9,849,000). This 2.7% increase was due to the following factors: -

- Increased Electricity charges (Materials, consumables, hired in services and other costs) of £263,000 (6.9%)
- Increased Directors fees of £21,000
- Planned increases in staff costs of a net £15,000 (0.4%)
- The above were offset by lower in depreciation charges of £35,000 for the year.

The operating profit for the year before exceptional items was £4,800,000 (2012: £4,760,000), an increase of 0.8% from the prior year. In 2012 a one off £130,000 of charitable contributions associated with the Company's 130th Anniversary Fund was paid and reported as an exceptional cost.

During the year the Company disposed of two small areas of land, generating a profit on the sale of £179,000 (2012: £598,000) and proceeds of £186,000 (2012: £714,000).

There was an 11% reduction in net finance costs in 2013. The charge reduced by £81,000 to £661,000 as a result of the combined effects of lower interest payable on debt and an increase in the net finance income arising from the Company's pension scheme.

After the deduction of finance costs, the Company generated a Profit before tax of £4,318,000, a reduction of £168,000 or 3.7% on the prior year. The reduction was principally due to lower profits on the sale of fixed assets offset by lower exceptional items (relating to the 130th Anniversary celebrations in 2012), lower net finance costs and better underlying operating performance.

The total recognised gains for the year amounts to £3,694,000 (2012: £3,372,000). The main reason for the increase on the prior year is due to lower profits during 2013, offset by a gain arising on the defined benefit pension scheme of £427,000 (2012: loss of £231,000).

A loss of £171,000 arose in the year relating to the Directors' internal valuation for the revaluation of investment property (2012: a loss of £94,000). The freehold investment properties were valued in 2013 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.

The Company's capital programme continued in 2013 with the investment in capital works totalling £2,878,000 (2012: £2,905,000). The majority of the capital expenditure was spent on metering, £994,000, and mains renewals, £882,000, in line with the Company's focus on these areas to reduce leakage and the discretionary use of water.

Loans and borrowings as at 31 December 2013 remained unchanged at £20,282,000, which was made up of bank loans and non-equity preference shares. During the year, the Company renewed loans totalling £6,000,000 with HSBC Plc. for a term of ten years.

The States of Jersey continues to provide guarantees for the 3 loans with HSBC Bank Plc up to a maximum of £16,200,000. Currently £14,900,000 is drawn down against this facility; the amount remains unchanged compared to 2012. Cash at the bank increased from £2,653,000 in 2012 to £4,598,000 in 2013.

Earnings per Ordinary share of £0.36 (2012: £0.38) is based on earnings of £3,438,000 (2012: £3,697,000), being the profit available for distribution to equity shareholders and 9,660,000 (2012: 9,660,000) Ordinary and 'A' Ordinary shares of £0.50 in issue.

The opinion provided in the Auditors' Report, signed by PricewaterhouseCoopers CI LLP, is that the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its financial performance and its cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Appendix B provides a summary of the key performance Indicators.

3.2 Ordinary Resolution 2 - To Declare Dividends

In accordance with Article 92 the Board has recommended the payment of a final net dividend of 12.516p per share on the Ordinary and 'A' Ordinary shares of the Company. The dividend will be paid (net of tax) by the Company on 19 May 2014 to all shareholders on the register of members on 7 May 2014.

The States of Jersey hold 50% of the Ordinary shares and 100% of the 'A' Ordinary shares.

The proposed final dividend for this year is 12.516p per share, a 3.5% increase from the previous year where a final dividend of 12.09p was declared and paid. During the year an interim dividend of 6.426p per share was paid (2012: 6.30p). Dividends paid and proposed in respect of 2013 totalled 18.942p per share, an overall increase of 3% on 2012. The dividend due to the States of Jersey is favourably ahead of the planned

2014 budget; although the final out-turn against plan is dependent on the interim dividend declared in November 2014.

3.3 Ordinary Resolutions 3 – 4 - To Re-elect two directors of the Company

In order to ensure 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.

Except where a Director is appointed to fill a casual vacancy, all Directors are appointed by the Shareholders at the AGM. In accordance with the provisions of Article 49, one third of the Directors, or where the number of Directors is not a multiple of three, the number nearest to one third, retire by rotation (based upon length of service) and where eligible, seek re-election each year. No Director may serve a term of longer than three years without seeking re-election.

The Company has adopted a policy of requiring Non-Executive Directors who have served on the Board for nine years or more to retire from the Board and seek re-election on an annual basis. Directors appointed to fill a casual vacancy must seek formal appointment by the shareholders at the next AGM.

In accordance with the provisions of Article 49 of the Company's Articles of Association, Mr Kevin Keen and Mr Helier Smith have served three years since being re-elected and accordingly are resigning by rotation and will offer themselves for re-election.

The Board considers that each of the Directors standing for re-election continues to make an effective and valuable contribution and that they demonstrate commitment to their respective roles.

Mr Stephen Marie is retiring at the AGM after serving on the Board for twelve years and is not offering himself for re-election. It is acknowledged that the Minister would like to thank Mr Stephen Marie for his services to the Company.

3.4 Re-elect Mr Kevin Keen as a Director of the Company

Kevin Keen was appointed to the Board in May 2007 as a Non-Executive Director. Mr Keen is currently Chief Executive of Jersey Post Group. Prior to that he held leadership positions in a number of well-known local companies.

Mr Keen is Chairman of the Board, chairs the Nomination Committee and is a member of the Remuneration Committee.

Mr Keen, as Chairman of the Company, was considered independent on appointment and, in accordance with the UK Corporate Governance Code 2012, is not subject to the independence test thereafter.

3.5 Re-elect Mr Helier Smith as a Director of the Company

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. He became a Fellow of the Chartered Management Institute in 2012.

Under Article 44, unless otherwise determined by an ordinary resolution of the Company, the number of Directors shall not be less than four nor greater than eight. After Mr Stephen Marie's retirement and the two re-appointments of Director, this will bring the number of Directors to seven.

3.6 Ordinary Resolution 5 - To approve the Directors fees for 2014 of £25,000 for the Chairman and £18,000 for the Non-Executives Directors

In accordance with Article 53, the shareholders are being requested to approve the payment of fees to the Chairman and Non-Executive Directors. No increase is proposed for the Chairman and Non-Executive Directors' fees.

The Remuneration Committee comprises 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 Directors play any role in the determination of their own remuneration. The Remuneration Committee met three times during the year. The Committee also reviews and determines the levels of remuneration for Executive Directors and Senior Management.

3.7 Ordinary Resolution 6 - To re-appoint PricewaterhouseCoopers CI LLP as Auditors of the Company at a fee to be agreed by the Directors.

In accordance with Article 106.1 of the Company's articles, a resolution is proposed to re-appoint PricewaterhouseCoopers CI LLP as the auditors at the forthcoming AGM.

For the year to 31 December 2013, the Auditors were remunerated £46,000 for the statutory audit of Jersey New Waterworks Company Limited. A further £11,000 was paid in relation to the Pension scheme audit and Tax compliance services.

Under Article 106.3 of the Company's articles the remuneration of any auditor appointed by the Company shall be fixed by the Company at the AGM at which such appointment shall be made or in such manner as such meeting may determine. In this resolution it is proposed that the Directors be authorised to set the remuneration of the auditors.

4. Recommendation

The Treasurer of the States and Greffier of the States are instructed to vote, by proxy, in favour of the resolutions outlined above.

5. Reason for Decision

To fulfil the States' role as shareholder of the Jersey New Water Works Company Limited by exercising voting rights at the AGM.

6. Resource Implications

The financial implications are as detailed in the report.

Report author : <i>Head of Shareholder Relations</i>	Document date : 14 April 2014
Quality Assurance / Review : <i>Business Manager</i>	File name and path: L:\Treasury\Sections\Corporate Finance\Ministerial Decisions\DSs, WRs and SDs\2014-0033 - JNWW\WR - JNWCL AGM voting instructions - DS.doc
MD sponsor : <i>Head of Shareholder Relations</i>	



Form of Appointment of Proxy for the Annual General Meeting on 15 May 2014.

To be held in the Beauport Room, Hotel de France, St Helier, Jersey at 10.00am.

PLEASE COMPLETE THIS FORM IN BLOCK CAPITALS

I/We	(Name in which shares are registered)
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of	(Address)
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being a shareholder of The Jersey New Waterworks Company Limited ('the Company') with holdings as shown in the boxes below, hereby appoint:

- the Chairman of the meeting (see note 4 overleaf)

or	(Name and address of proxy)
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as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 10.00am on 15 May 2014 and at any adjournments thereof.

	Number of shares held by you
Ordinary	
'A' Ordinary	
Preference	

Please indicate with a cross in the space below how you wish your votes to be cast on the resolutions. Receipt of the Form of Proxy duly signed, but without specified directions, will authorise your proxy to vote or abstain at his/her discretion.

Ordinary Resolutions	For	Against	Vote Withheld*
1. To receive the financial statements and reports of the directors and auditors thereon for the year ended 31 December 2013.			
2. To declare a final net dividend of 12.516 pence per share on the ordinary and 'A' ordinary shares of the Company.			
3. To re-elect Mr Kevin Keen (who retires by rotation in accordance with the Articles of Association of the Company) as a director of the Company.			
4. To re-elect Mr Helier Smith (who retires by rotation in accordance with the Articles of Association of the Company) as a director of the Company.			
5. To approve the Directors' fees for 2014 of £25,000 for the Chairman and £18,000 for the Non-Executive Directors (2013: £25,000 and £18,000 respectively).			
6. To re-appoint PricewaterhouseCoopers CI LLP as auditors of the Company at a fee to be agreed by the directors.			

* Please refer to Note 5 overleaf.

PLEASE READ THE NOTES ON REVERSE CAREFULLY.

Signature	Date
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NOTES

Proxies

1. To be effective this form must be lodged at the registered office of the Company, Mulcaster House, Westmount Road, St Helier, Jersey, Channel Islands, JE1 1DG, not later than 48 hours before the time of the meeting together, if appropriate, with the power of attorney or other authority under which it is signed or a notarially certified copy of such power or authority.
2. In the case of a corporation, this proxy appointment should be given under its common seal, or, should be signed on its behalf by an attorney or officer so authorised and the words 'authorised signatory' added under the signature.
3. In the case of joint holders the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other holders. For this purpose seniority is determined by the order in which the names stand in the register of members in respect of a joint holding.
4. If you wish to appoint a person other than the Chairman of the meeting as your proxy, please delete the words 'the Chairman of the meeting' and insert, in block capitals, the name of such other person and initial the alteration.
5. Shareholders have the option to abstain from voting on one or more resolutions by selecting the 'Vote Withheld' option. It should be noted that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.
6. A proxy need not be a member of the Company.
7. Any alteration made to this Form of Proxy should be initialled.

Corporations acting by representatives at meetings

1. Any corporation which is a shareholder of the Company may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which they represent as that corporation could exercise if it were an individual shareholder of the Company.
2. A certified copy of the resolution of the corporation authorising such a person to act as its representative must be deposited at the registered office of the Company not later than 48 hours before the time of the meeting or any adjournment thereof.

Summary of Key Performance Indicators

FIVE YEAR SUMMARY

	Units	2013	2012	2011	2010	2009
Balance sheet						
Equity shareholders' funds	£'000	48,289	46,384	44,756	42,957	40,933
Net debt	£'000	15,684	17,629	18,885	18,630	17,491
Profit and loss account						
Turnover	£'000	14,916	14,609	14,811	14,652	14,728
Operating profit (before exceptional items)	£'000	4,800	4,760	4,858	5,058	4,577
Profit before tax	£'000	4,318	4,486	4,961	4,151	4,085
Profit for the financial year	£'000	3,438	3,697	4,581	3,321	3,299
Equity dividends paid ¹	£'000	1,789	1,744	1,671	1,594	1,444
Financial statistics & ratios						
Capital expenditure	£'000	2,878	2,905	5,574	3,460	3,309
Net cash (outflow) / inflow	£'000	(1,555)	1,257	(252)	(1,139)	543
Earnings per share ²	£	0.36	0.38	0.47	0.34	0.34
Dividend cover ¹	Times	1.9	2.1	2.7	2.1	2.3
Interest cover	Times	5.6	5.7	6.2	5.0	5.1
Gearing ³	%	42	44	45	47	50
Operational statistics						
Total water supplied	MI	7,047	7,015	7,152	7,220	7,253
Maximum daily demand	MI	24.8	23.4	24.7	25.8	25.7
Annual rainfall	mm	939	1,089	773	982	843
New mains laid	km	1.5	1.5	2.0	1.7	3.1
Mains re-laid / relined	km	2.5	2.1	4.0	2.7	1.8
New connections	No	406	349	492	337	412
Live unmeasured supplies	'000	10	13	18	21	23.8
Live metered connections	'000	28	24	20	16.2	13.2
Employees	No	80	79	83	84	80
Water quality						
% Compliance with water quality parameters		99.84%	99.99%	99.81%	99.86%	99.84%

¹ Equity dividends and the calculation of dividend cover exclude the special dividend paid in 2010

² Comparatives have been restated to reflect the bonus dividend and share subdivision in 2011

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