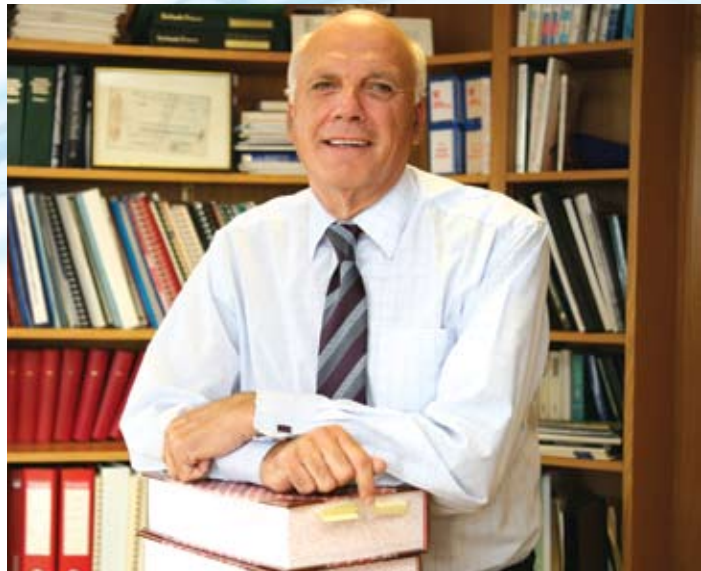


Electricity is essential to modern living and the quality of life enjoyed in this Island. In addition to meeting the Island's demand for heat, light and power at affordable prices Guernsey Electricity provides one of the safest, most efficient and reliable supply systems in the world. The Company is always working to ensure that future supplies are safeguarded as well as taking steps to protect the environment and to improve our service to customers.

Chairman's Statement

The environmental measures already taken by the Company are playing a major role in enabling the Island to meet its environmental commitments to reduce carbon dioxide, sulphur dioxide and nitrogen oxides and tackle climate change. We are very aware, within the Company that, if unchecked, the increasing levels of these emissions in the atmosphere could lead to irreversible damage to the global environment. In the coming financial year we are looking forward to the finalisation of the Island's Energy Policy which will give us a framework and targets to enable us to further develop our environmental policy. We hope to consolidate our position as an Island leader on sustainable growth and the environment. Sustainability is at the heart of the way we wish to do business and this means delivering not just economic profitability, but environmental performance and social wellbeing. Only when these three elements are balanced together is the business truly sustainable. Our hope is that our continuing commitment and investment will materially assist in developing a low carbon Island.

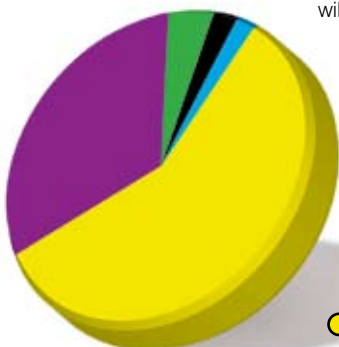
The year has seen ongoing turmoil and volatility in the world's energy sector and we need to continually work to safeguard our position in Guernsey. We need the



benefits of diversity of supply and we can already access competitively priced and very low carbon power through our submarine cable link to Europe. We are also hoping that we will be able to utilise the tidal power that exists in abundance in the waters off our coast and we have worked with our neighbours in Jersey to pool our local power plants. Our on-Island capacity to generate using heavy fuel oil remains and will do so for the foreseeable future.

Our cash balance with States Treasury reduced by £3.3 million last year and is expected to reduce even more substantially in the current trading period. The Board has some concern that using this balance for current financing could result

Origin of Guernsey's Electricity 2007/08



● Nuclear 59% ● Oil 31% ● Renewables 5% ● Coal 3% ● Gas 2%

The world's first commercial marine current turbine is carefully manoeuvred into position in Strangford Lough, Northern Ireland.

Dawn of a new generation: We are closely monitoring the installation and development of the world's first commercial-scale Marine Current Turbine.

in insufficient funding being in place as intended for the next major tranche of capital investment, when this becomes due.

We continue to examine all our cost and income sources to improve the cash position, including the recovery of non-controllable costs as set out in the final price control decision (February 2007) by the Office of Utility Regulation.

After last year's surprising decline in consumption, we are this year reporting an increase of 4.2%, reflecting the high number of recent building developments in the Island and also increasing demand from existing customers. Our historic average over the past 20 years is 2.75%.

A sizeable proportion of the power we import through the submarine cable link is carbon free and I am very pleased to report that this percentage is up to 70% compared to 55% in the previous twelve months. We are mandated at present to choose the least cost option.

Turning to our financial performance, we started the year with a 14.82% tariff increase on 1 April 2007. During the year, however, there were significant increases in global energy prices with the cost of oil reaching all time highs over the winter. This resulted in a substantial operating loss of £1,027,000 although, after interest, pension finance income, an exceptional item, tax provision and dividends are included, I am pleased to report an overall profit after tax of £987,000.

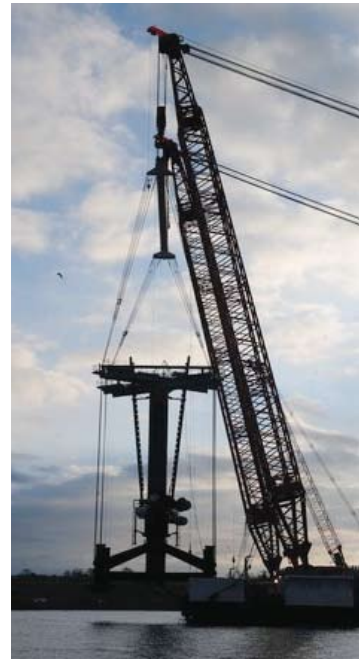
A dividend of £86,000 was paid in the year and in accordance with guidelines the directors will propose a dividend of £326,000 for approval by the shareholder at the 2008 annual general meeting.

The exceptional item was a further recovery of £121,646 from the liquidators of the Bank of Credit and Commerce International (BCCI). In total 98.9% of the original £5,350,000 investment has now been recovered.

We adopt Financial Reporting Standard 17 (FRS17) when accounting for pensions, but we await a full triennial actuarial valuation by the actuaries, BWCI, which will be available in the summer.

The Managing Director's Report which follows this Statement gives some detail about our operational performance; however, I would like to give the headlines here as they confirm the high and continually improving performance that is demanded:

- Customer Service Standards – a near perfect record, with only five failures out of 20,968 instances of delivering service
- Health and Safety – an excellent performance resulting in the Company being awarded an International Safety Award by the British Safety Council
- Supply Reliability – no island wide power failures, with customer minutes lost averaging 37 minutes over the year, less than half the present UK average
- Automatic Metering (AMR) – keeping to schedule with over 12,000 meters fitted at 31 March 2008



When fully operational, a marine current turbine of this type is capable of producing enough clean, green energy to power 1,000 homes.



Testing, testing: An official switch-on ceremony will take place this summer once the extensive commissioning phase is complete of the marine current turbine in Strangford Lough, Northern Ireland.

Our business is one which requires a high asset base and we therefore need to be continually reinvesting to ensure a secure and reliable supply and also the best possible service to customers. Our total capital spend during the year was £6.76million. I reported last year that we had just begun work on installing two new heavy fuel oil storage tanks. I can now proudly report that this £1.4million project was finished on time (September 2007) and below budget. We can now store 17,000 tonnes of heavy fuel oil as against 12,000 tonnes previously. This further secures our on-Island generation capability. Another large project to secure supplies was started in the year. This project, budgeted for £2.2 million, is to install a new substation at Le Murier in St Sampsons and should be complete by the summer of 2008. This project will significantly improve the security of supply.

The Board is committed to the highest standards of corporate governance and I am confident that in the future this will be maintained and improved upon. Richard Tee and Jim Shaw, two of our five non executives, decided to retire during the year and I thank them for their contributions. I am also very pleased to announce two excellent replacements in David Farrimond and Martyn Mann. David was appointed on 27 September 2007 and is a Chartered Accountant and ex managing partner in KPMG's local office. Martyn was appointed on 12 March 2008 and is the Chief Executive of Polar Instruments Limited. The Board's two main committees, Audit & Risk and Remuneration & Nominations, continue to meet regularly with the Chairmen of each reporting to the next Board meeting. We have a Board with the right blend of skills to take the Company forward with confidence.



The current Board strategy is for us to remain focussed on the provision of a secure, resilient supply of electricity and services ancillary to, or connected with, the energy sector. We have, however, a tradition of having two non-core activities that I am pleased to report go from strength to strength. They not only provide good service to the community but also contribute significantly to our profit. Our Retail and Commercial Contracting businesses posted another best ever performance with a turnover of £3,785,000 (last year £3,380,000). It has been an excellent year for both of these businesses and credit should go to their dedicated managers and staff.

Our staff are central to all our ambitions and because we cannot readily recruit staff with many of the skills that we require, we give priority to training and development. The success of this strategy is shown by the fact that in a diverse workforce of 233 staff, many with highly specialised skills, only two require a housing licence. As usual, I therefore wish to finish my report by thanking all the staff for another year of contribution and commitment.

Ken Gregson Chairman

A £1.4million project to install two new heavy fuel oil storage tanks was completed on time and below budget. We can now store 17,000 tonnes of heavy fuel oil as against 12,000 tonnes previously, further securing our on-Island generation capability.