

California Water Service Group

Investing for Life



The Stockholder

California Water Service Group (NYSE: CWT) is the second largest investor-owned water utility in the United States, providing high-quality water utility services to approximately 2 million people in 100 communities through six subsidiaries: California Water Service Company (Cal Water), Hawaii Water Service Company, Inc. (Hawaii Water), New Mexico Water Service Company (New Mexico Water), Washington Water Service Company (Washington Water), CWS Utility Services (CWSUS), and HWS Utility Services, L.L.C. (HWSUS). Cal Water, Hawaii Water, New Mexico Water, and Washington Water provide regulated water utility services, while CWSUS and HWSUS conduct the Company's non-regulated business, which includes providing billing, water quality testing, and water system operations and management services to cities and other companies.

It was a good year.



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To Our Stockholders



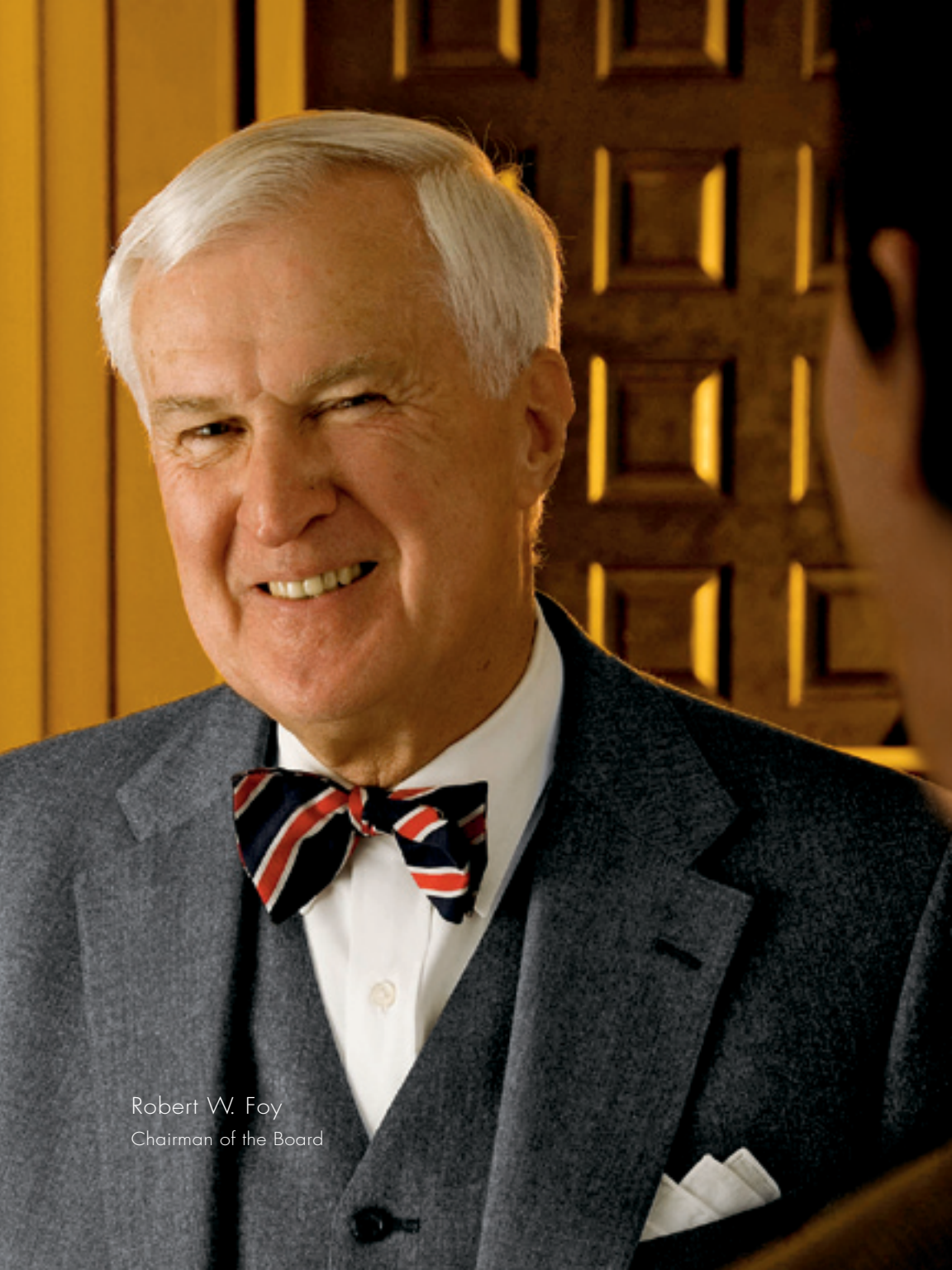
Investing for life. It's what we do when we invest in our water systems. It's what you do when you invest in California Water Service Group (NYSE: CWT).

The pipelines that connect us to the 2 million people we serve are tangible, but the intangible connection that links our customers, our employees, and our stockholders is no less real. In a fire, a homeowner relies on the firefighter who connects the hose to our hydrant. That firefighter relies on our employees, who ensure that the hydrant operates as it should. Our employees, in turn, rely on our stockholders, who make the investments that enable us to maintain and upgrade the water system that supplies that hydrant.

So what rewards do we reap by investing for life?



Peter C. Nelson
President and Chief Executive Officer



Robert W. Foy
Chairman of the Board

Our nearly 900 employees take satisfaction in knowing that they provide life's key ingredient to families in four states. Customers use our water to grow food, stay clean and healthy, protect their communities from fire, and produce a range of goods, from concrete to ink to denim. It is clear that our employees couldn't do the important work they do without the investment of our stockholders, and beyond the pride they may take in being part of providing something so essential, our stockholders have reaped consistent financial gains. In 2007, we reached several significant milestones.

2007 Financial Results

- › *We recorded net income of \$31.2 million and earnings per share of \$1.50, compared to net income of \$25.6 million and earnings per share of \$1.34 for 2006.*
- › *Our revenues increased by 10% to \$367.1 million.*
- › *We increased our dividend for the 40th consecutive year.*
- › *We paid a dividend for the 252nd consecutive quarter.*
- › *Our investment in net utility plant exceeded the \$1 billion mark.*
- › *10 financial analysts are now covering our company, an indication of the interest we are generating on Wall Street.*

Update on Our Strategy

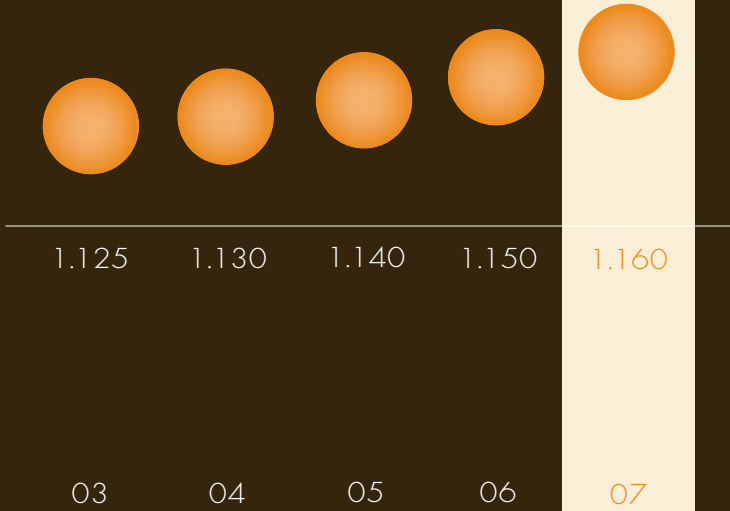
One of the reasons we deliver consistent results to stockholders is that we don't take a "flavor of the month" approach to setting strategy. Last year, we discussed our four-pronged strategy: our focus on regulatory affairs, disciplined growth, customer service, and prudent fiscal management. In 2007, we were steadfast in our efforts to deliver results in these four key areas.

Regulatory Affairs

Perhaps most significant in 2007 was the continued progress made in implementing the California Public Utilities Commission's Water Action Plan (Plan), a document that sets the direction for policy-making and reflects best regulatory practices throughout the country.

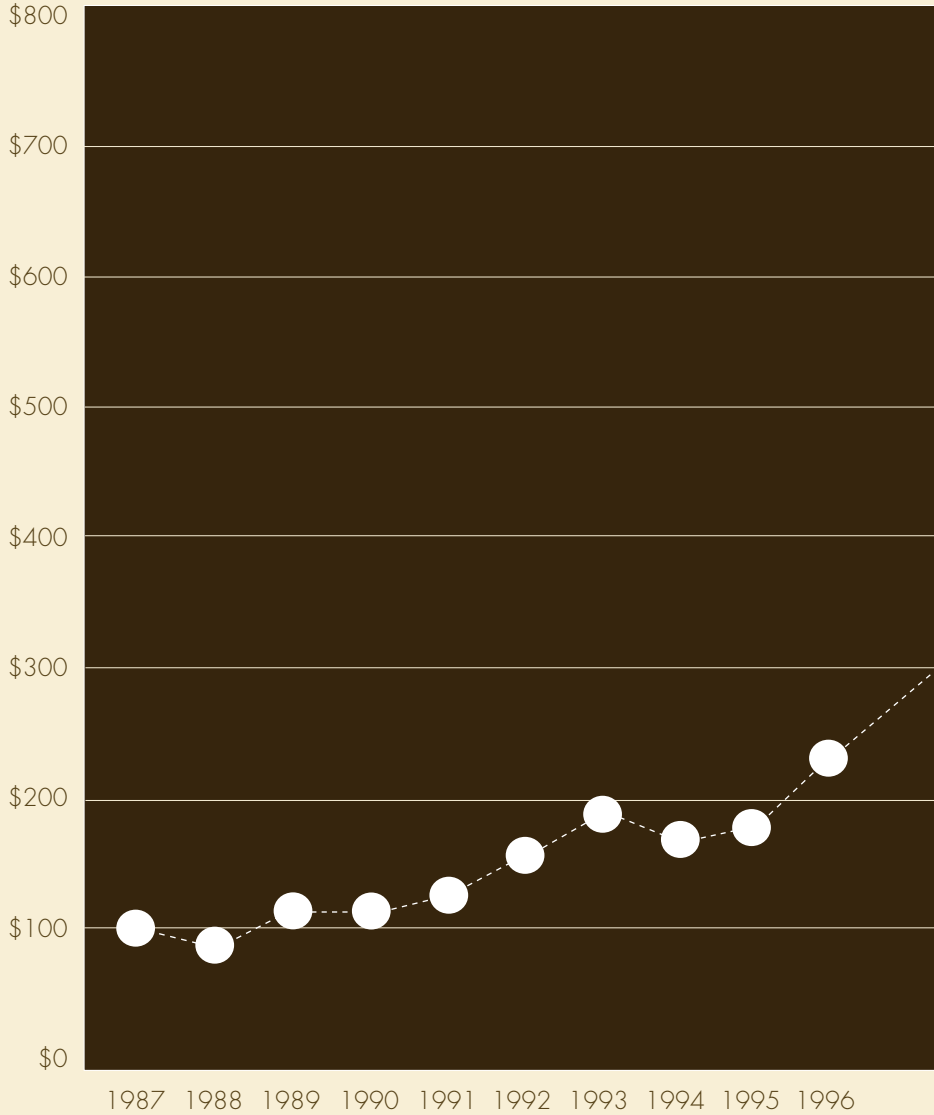
Several 2007 decisions by the California Public Utilities Commission (Commission) put Plan principles into action. The Commission's Rate Case Plan, adopted in May, allowed

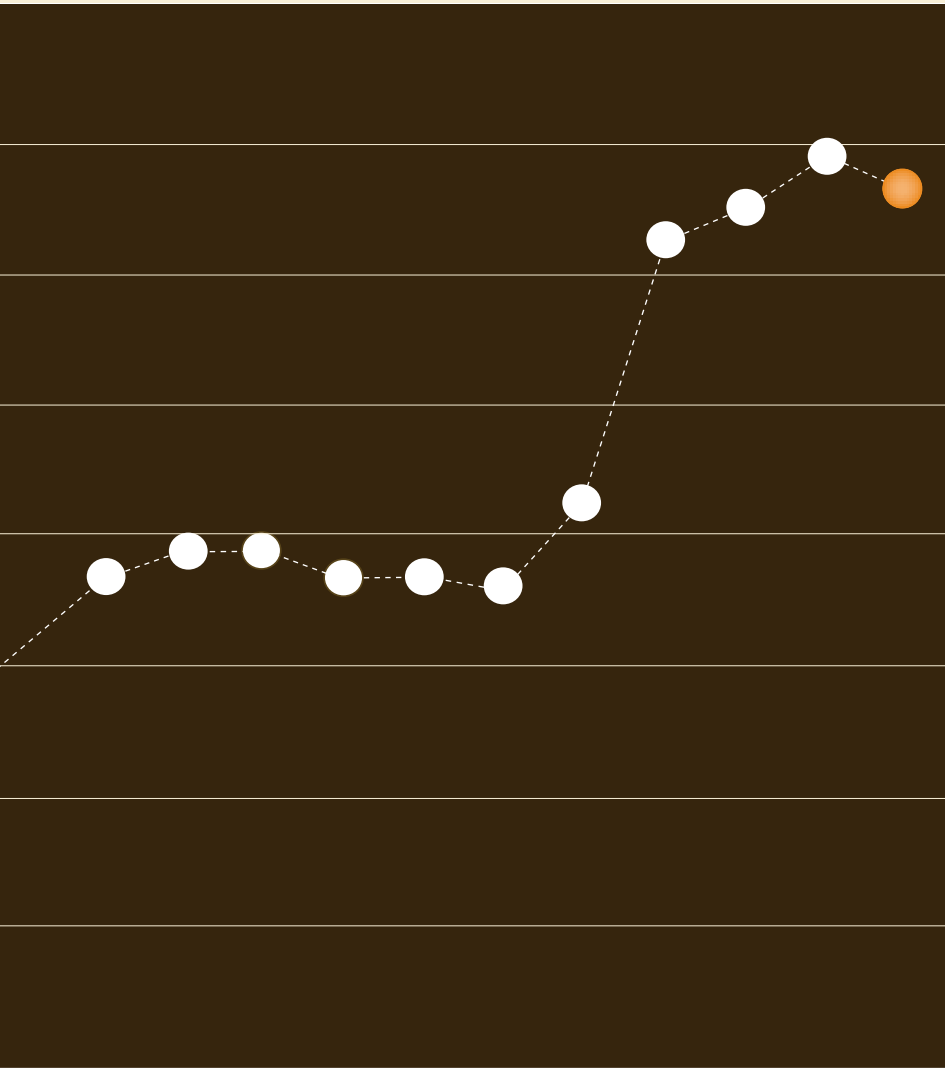
Five-Year Dividend Growth



CWT 20-Year Total Return on Investment

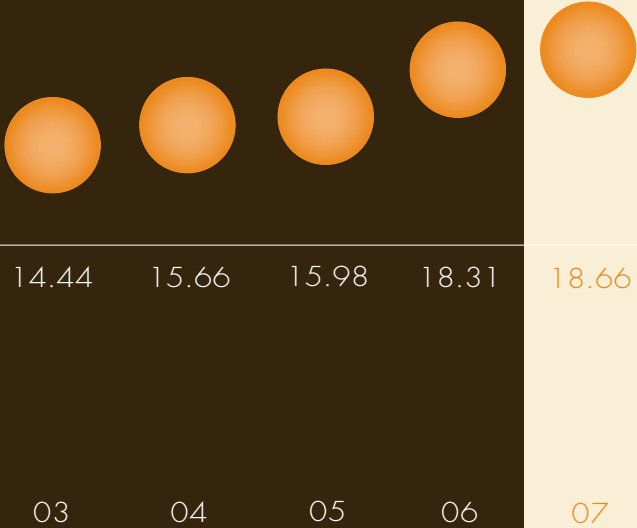
(On stock purchased December 31, 1987, with dividends reinvested)





1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007

Five-Year
Book Value



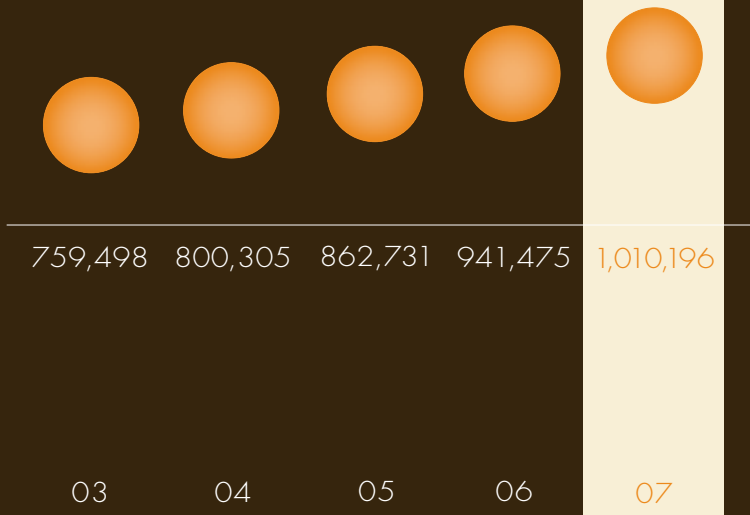
large, multi-district water utilities like California Water Service Company (Cal Water) to request recovery of increases in headquarters costs all at one time, rather than staggering collection of cost increases to coincide with each district's three-year General Rate Case cycle. This is significant because it reduces the time it takes to recover administrative expenses such as health care and benefits costs. As a result, we filed for recovery of all headquarters costs, including increased health care and benefits costs, as part of our 2007 General Rate Case. Based upon the Commission's schedule, we expect this decision to be issued in the third quarter of 2008.

In addition, the Commission issued a decision in the first phase of a proceeding on water conservation in February 2008. It contains three positive ratemaking components: 1) a Water Revenue Adjustment Mechanism (WRAM) that decouples water sales and revenues and mitigates the variations in revenues resulting from changes in customer water usage; 2) an increasing block rate structure for residential

customers, resulting in higher rates for higher water usage; and 3) a Modified-Cost Balancing Account that tracks and recovers differences in costs resulting from water supply mix and price changes. We believe these changes will enhance our ability to help customers conserve our most precious natural resource.

Going forward, we will continue to work cooperatively with the Commission to implement the Water Action Plan and pursue innovative regulatory treatment that will benefit customers and stockholders. This effort will be led by Thomas F. Smegal, appointed Vice President of Regulatory Matters and Corporate Relations, effective March 2008. A professional engineer with undergraduate degrees in history and civil engineering from Stanford University and graduate work in water and energy resources at UC Berkeley, Tom brings significant experience to the position, including work at the Commission as a Utilities Engineer and Regulatory Analyst and at Cal Water as Manager of Rates. His predecessor, Francis S. (Stan) Ferraro,

Five-Year
Net Utility Plant
(Dollars in thousands)



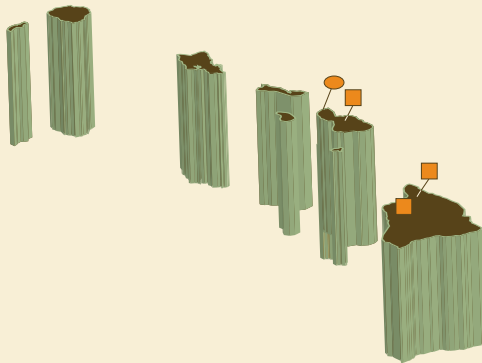
was named Vice President, Corporate Development, a reflection of the company's commitment to pursuing suitable growth opportunities.

Disciplined Approach to Growth

Stan will lead our Business Development team in its pursuit of acquisitions that add to stockholder value and benefit our customers and communities. Our efforts paid off in 2007, as we added several new water systems. In Washington, we acquired five small systems with 461 customer connections, and entered into operations and maintenance contracts with 11 system owners.

We've been growing in the Aloha State as well. We currently have applications pending before the Hawaii Public Utilities Commission on our acquisition of a wastewater system serving 800 connections in the community of Pukalani on Maui, and approximately 11,000 water and wastewater connections on the Kona coast of the Big Island.

Hawaii Operations & Customer Centers



Kaanapali • Pukalani • Waimea • Waikoloa

2006 500*

2007 700*

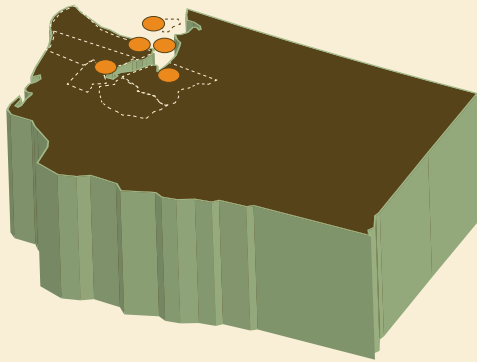
Regulated Customer Connections

■ Locations of pending regulated & non-regulated acquisitions.

● Service area includes Kaanapali on Maui.

* Includes several large resorts and condominium complexes.
Does not include pending acquisitions.

Washington Operations & Customer Centers



Olympia (S.W. Regional Office) • Gig Harbor (N.W. Regional Office)
Sequim • Issaquah • Orcas Island

2006 15,400

2007 15,800

Regulated Customer Connections

----- Service areas located in the counties of
Clallam, Jefferson, Kitsap, Mason, Pierce, King, San Juan, and Thurston.

Additionally, in December, we formed a non-regulated subsidiary, HWS Utility Services, L.L.C., in order to acquire the non-regulated operations and maintenance contracts from Waimea-based Island Utility Services on the island of Hawaii, which we expect to close in April 2008. We selected Terry S. Tamble, formerly manager of one of our largest districts in California, to assume leadership of Hawaii Water Service Company as General Manager, effective February 2008.

Service and Quality

Our work with regulatory agencies and efforts to grow would be fruitless without our reputation for providing excellent customer service and high-quality water. In 2007, we continued our Continuous Improvement approach to the business, which involves every single employee in developing and implementing projects that improve service or increase efficiency. We also began offering a no-fee credit card payment option to customers and arranged for Home Service USA to provide an expanded and enhanced Extended Service

California Districts



Antelope Valley • Bakersfield • Bear Gulch • Chico • Dixon •
Dominguez • East Los Angeles • Hawthorne • Hermosa-Redondo •
Kern River Valley • King City • Livermore • Los Altos •
Marysville • Mid-Peninsula • Oroville • Palos Verdes •
Redwood Valley • Salinas • Selma • South San Francisco •
Stockton • Visalia • Westlake • Willows

2006 460,900

2007 463,600

Regulated Customer Connections

California Districts & Communities

2007

2006

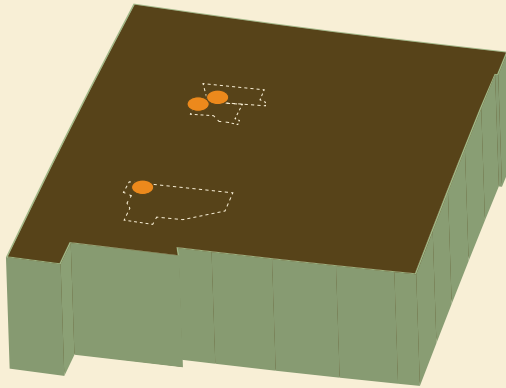
Antelope Valley • Fremont Valley, Lake Hughes, Lancaster & Leona Valley	1,400	1,400
Bakersfield	65,400	64,900
Bear Gulch • Atherton, Woodside, Portola Valley & portions of Menlo Park	18,000	18,000
Chico • Hamilton City	27,300	26,900
Dixon	2,900	2,900
Dominguez • Carson and portions of Compton, Harbor City, Long Beach, Los Angeles County & Torrance	33,700	33,700
East Los Angeles • City of Commerce	27,800	27,800
Hawthorne	6,200	6,200
Hermosa-Redondo • Hermosa Beach, Redondo Beach & part of Torrance	26,300	26,200
Kern River Valley • Bodfish, Kernville, Lakeland, Mountain Shadows, Onyx, Squirrel Valley, South Lake & Wofford Heights	4,300	4,300
King City	2,500	2,400
Livermore	18,200	18,200
Los Altos • Portions of Cupertino, Los Altos Hills, Mountain View & Sunnyvale	18,600	18,600
Marysville	3,800	3,800
Mid-Peninsula • San Mateo & San Carlos	36,100	36,100
Oroville	3,600	3,600
Palos Verdes • Palos Verdes Estates, Rancho Palos Verdes, Rolling Hills & Rolling Hills Estates	24,000	24,000
Redwood Valley • Lucerne & portions of Duncans Mills, Guerneville, Dillon Beach, Noel Heights & Santa Rosa	2,000	2,000
Salinas	28,000	27,800
Selma	6,100	6,100
South San Francisco • Colma & Broadmoor	16,800	16,800
Stockton	42,200	42,100
Visalia	38,900	37,800
Westlake • Westlake Village & a portion of Thousand Oaks	7,100	7,000
Willows	2,400	2,300

Protection program, an optional program that protects residential customers if the water service line between the meter and the home breaks. Behind the scenes, we provided intensive training to all of our customer service representatives, upgraded our data center, and completed an evaluation of the security of customer data. With the California Public Utilities Commission's support, we now have the opportunity to be even more proactive about supporting customer efforts to use water efficiently. In the coming year and beyond, we intend to help our customers manage their water bills and support them in their efforts to ensure enough water for future generations.

Prudent Fiscal Management

Clearly, each of these four strategic areas is interrelated, and all contribute to our financial strength. In 2007, we were effective at controlling expenses and managing operating costs. We also streamlined and improved our internal controls to ensure compliance with all accounting and corporate

New Mexico
Operations & Customer Centers



Elephant Butte • Belen • Cedar Crest

2006 7,100

2007 7,500

Regulated Customer Connections

----- Service areas located in the counties of Sierra,
Valencia, and Bernalillo.

governance rules and regulations. Most importantly, we continued to invest diligently in our infrastructure. In 2007, company-funded capital expenditures were \$77 million; in 2008, we expect capital expenditures to exceed \$85 million. By building our financial strength, we provide value to stockholders; by providing value to stockholders, we attract the capital needed to maintain and upgrade our infrastructure; and by maintaining and upgrading our infrastructure, we reliably provide life's key ingredient to our customers and communities. For California Water Service Group and our stockholders, investing for life has its rewards.

Director Update

At the March 2008 meeting, the Board elected Edwin A. Guiles as Director. Ed brings a wealth of utility business leadership experience to the table, having begun his distinguished career in the energy industry 36 years ago. He currently serves as Executive Vice President of Corporate Development for San Diego-based Sempra Energy, and he previously served as

Chairman and CEO of Sempra Energy Utilities, San Diego Gas & Electric, and Southern California Gas Company. We know he will be an asset to our team and we welcome him to California Water Service Group.

In closing, it is with great sadness that we report the passing of recently retired Director David N. Kennedy, former director of the California Department of Water Resources. He was a great man, an outstanding board member, and an expert in his field, and we will miss him greatly. We dedicate this report to his memory.

On behalf of the entire Board, we thank you for your continued investment in California Water Service Group and wish you the very best in 2008.



Peter C. Nelson
President and Chief Executive Officer



Robert W. Foy
Chairman of the Board

Eight-Year Financial Review

(Dollars in thousands, except common share data)

	2007	2006
Summary of Operations		
Operating revenue	\$ 367,082	\$ 334,717
Operating expenses	322,912	294,411
Interest expense, other income and expenses, net	13,011	14,726
Net income	\$ 31,159	\$ 25,580

Common Share Data

Earnings per share - diluted	\$ 1.50	\$ 1.34
Dividend declared	1.160	1.150
Dividend payout ratio	77%	86%
Book value	\$ 18.66	\$ 18.31
Market price at year-end	37.02	40.40
Common shares outstanding at year-end (in thousands)	20,666	20,657
Return on average common stockholders' equity	8.1%	8.2%
Long-term debt interest coverage	3.70	3.17

Balance Sheet Data

Net utility plant	\$1,010,196	\$941,475
Utility plant expenditures	101,343	112,279
Total assets	1,184,499	1,165,019
Long-term debt including current portion	291,921	293,592
Capitalization ratios:		
Common stockholders' equity	56.9%	56.0%
Preferred stock	0.5%	0.5%
Long-term debt	42.6%	43.5%

Other Data

Water production (million gallons)	141,238	132,414
Customers at year-end, including Hawthorne	487,600	483,893
New customers added	3,662	4,892
Revenue per customer	\$753	\$692
Utility plant per customer	2,968	2,778
Employees at year-end	891	869

	2005	2004	2003	2002	2001	2000
	\$320,728	\$315,567	\$277,128	\$263,151	\$246,820	\$244,806
	278,903	273,488	244,167	230,301	218,963	211,035
	14,602	16,053	13,544	13,777	12,892	13,808
	\$ 27,223	\$ 26,026	\$ 19,417	\$ 19,073	\$ 14,965	\$ 19,963
	\$ 1.47	\$ 1.46	\$ 1.21	\$ 1.25	\$ 0.97	\$ 1.31
	1.140	1.130	1.125	1.120	1.115	1.100
	78%	77%	93%	90%	115%	84%
	\$ 15.98	\$ 15.66	\$ 14.44	\$ 13.12	\$ 12.95	\$ 13.13
	38.23	37.65	27.40	23.65	25.75	27.00
	18,390	18,367	16,932	15,182	15,182	15,146
	9.3%	9.8%	9.1%	9.7%	7.6%	10.1%
	3.61	3.38	2.78	2.73	2.64	3.31
	\$862,731	\$800,305	\$759,498	\$696,988	\$624,342	\$582,782
	94,517	68,573	74,253	88,361	62,049	37,161
	996,945	942,853	873,035	798,478	710,214	666,605
	275,275	275,921	273,130	251,365	207,981	189,979
	51.4%	50.8%	47.0%	44.0%	48.8%	51.1%
	0.6%	0.6%	0.7%	0.7%	0.9%	0.9%
	48.0%	48.6%	52.3%	55.3%	50.3%	48.0%
	129,453	139,039	131,680	132,225	126,626	127,645
	479,001	473,155	466,422	458,988	450,427	444,346
	5,846	6,733	7,434	8,561	6,081	5,219
	\$670	\$667	\$594	\$579	\$552	\$554
	2,578	2,418	2,313	2,182	2,020	1,916
	840	837	813	802	783	797

Board of Directors

Peter C. Nelson
President and Chief Executive Officer



Linda R. Meier
Member of the National Board of the
Institute of International Education



Douglas M. Brown
Former Treasurer, State of New Mexico



Richard P. Magnuson
Private Venture Capital Investor



Robert W. Foy
Chairman of the Board



George A. Vera
Vice President and Chief Financial Officer,
The David and Lucile Packard Foundation



Bonnie G. Hill
President of B. Hill Enterprises, L.L.C.



Edward D. Harris, Jr., M.D.
Professor of Medicine, Emeritus,
Stanford University Medical Center



Officers

California Water Service Company

Robert W. Foy 1,2,3

Chairman of the Board

Peter C. Nelson 1,2,3

President and Chief Executive Officer

Paul G. Ekstrom

Vice President, Customer Service
and Information Technology

Francis S. Ferraro 2, 4

Vice President, Corporate Development*

Robert R. Guzzetta 2

Vice President, Operations

Martin A. Kropelnicki 1, 2, 3

Vice President, Chief Financial Officer
and Treasurer

Christine L. McFarlane 3

Vice President, Human Resources

Michael J. Rossi

Vice President, Engineering
and Water Quality

Thomas F. Smegal 4

Vice President, Regulatory Matters
and Corporate Relations*

Calvin L. Breed 1, 3

Controller, Assistant Secretary
and Assistant Treasurer

Lynne P. McGhee 1, 2, 3

Corporate Secretary and
Associate Corporate Counsel

Washington Water Service Company

Michael P. Ireland

President

**Effective March 1, 2008*

1 Holds the same position with California Water Service Group.

2 Also an officer of CWS Utility Services.

3 Also an officer of Washington Water Service Company, New Mexico Water Service Company, and Hawaii Water Service Company, Inc.

4 Holds the same position with New Mexico Water Service Company and Hawaii Water Service Company, Inc.

Stock Transfer, Dividend Disbursing, and Reinvestment Agent
American Stock Transfer & Trust Company
57 Maiden Lane
New York, NY 10038
(800) 937-5449

To Transfer Stock

A change of ownership of shares (such as when stock is sold or gifted or when owners are deleted from or added to stock certificates) requires a transfer of stock. To transfer stock, the owner must complete the assignment on the back of the certificate and sign it exactly as his or her name appears on the front. This signature must be guaranteed by an eligible guarantor institution (banks, stock brokers, savings and loan associations, and credit unions with membership in approved signature medallion programs) pursuant to SEC Rule 17Ad-15. A notary's acknowledgement is not acceptable. This certificate should then be sent to American Stock Transfer & Trust Company by registered or certified mail with complete transfer instructions. Alternatively, effective January 1, 2008, California Water Service Group is participating in the Direct Registration System, which allows electronic share transactions between the stockholder's broker or dealer and American Stock Transfer & Trust Company.

Bond Registrar

US Bank Trust, N.A.
One California Street
San Francisco, CA 94111-5402
(415) 273-4580

Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, May 27, 2008 at 9:30 a.m. at the company's Executive Office, located at 1720 North First Street in San Jose, California. Details of the business to be transacted during the meeting will be contained in the proxy material, which will be mailed to stockholders on or about April 11, 2008.

Dividend Dates For 2008

Quarter	Declaration	Record Date	Payment Date
First	January 23	February 4	February 15
Second	April 23	May 5	May 16
Third	July 23	August 4	August 16
Fourth	October 22	November 3	November 14

Annual Report For 2007 On Form 10-K

A copy of the company's report for 2007 filed with the Securities and Exchange Commission (SEC) on Form 10-K will be available in April 2008 and can be obtained by any stockholder at no charge upon written request to the address below. The company's filings with the SEC can be viewed via the link to the SEC's EDGAR system on the company's web site.

Executive Office and Stockholder Information

California Water Service Group
Attn: Stockholder Relations
1720 North First Street
San Jose, CA 95112-4598
(408) 367-8200 or (800) 750-8200
www.calwatergroup.com

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NYSE: CWT

