

The Jersey New Waterworks Company Limited

Preliminary announcement for the year ended 31 December 2014



This preliminary announcement sets out a summary of the performance and financial position of The Jersey New Waterworks Company Limited for the year ended 31 December 2014. The information in this announcement does not constitute the financial statements of the Company but is derived from the full financial statements of the Company for the years ended 31 December 2014 and 2013.

Financial statements of the Company for the year ended 31 December 2013 have been delivered to the Jersey Registrar of Companies. The financial statements of the Company for the year ended 31 December 2014 were approved by the Board of Directors on 26 February 2015 and will be delivered to the Jersey Registrar of Companies in April 2015.

The audit reports of the financial statements of the Company for both years ended 31 December 2014 and 31 December 2013 have been signed and were unqualified.

This preliminary announcement was approved by the Board of Directors on 26 February 2015.

Introduction from the Chairman

It gives me great pleasure to report that 2014 was another very good year for Jersey Water during which we met substantially all of our operational objectives for the year.

Financially, the outturn for 2014 was also positive with the company meeting all of its financial targets for the year. Jersey Water is reporting an increase in profit before tax of 6%, which is principally the result of improved operating performance and lower finance costs, offset slightly by the absence in 2014 of profits on asset disposals.

The Company saw its best ever set of water quality results in 2014 and overall compliance with water quality regulations stood at 99.99%. Underpinning this were over 12,000 individual tests for water quality of which just one was outside of the regulatory parameter.

Our metering programme is now in its fifth year and nearing completion with 83% of connections now metered. We have seen a reduction of 6% in leakage in the year and demand for water remaining at levels significantly lower than before the metering programme started.

Continuing the trend from 2012 and 2013, rainfall levels continued to exceed historic averages (particularly during the winter months), resulting in healthy reservoir levels throughout the year.

Our capital expenditure in 2014 was primarily focussed on managing demand and ensuring water efficiency through our metering and mains renewals programmes (we fitted 2,800 meters and renewed 3.5km of water mains), and on maintaining water quality and availability. In spite of high levels of rainfall in recent years, we remain alert to the possibility that these patterns could change resulting in prolonged dry periods. In 2014 we announced plans to renew much of the existing desalination plant over the winter of 2015/16 which will increase its capacity from 6MI/day to 10.8MI/day. The new plant, which will cost £6 million, will also offer a 36% improvement in energy efficiency. Given the Island is dependent on surface water for its public water supply, with only 120 days of useable storage capacity in its reservoirs, the sea water desalination plant remains an essential part of the Island's critical infrastructure.

Peter Yates, Chairman

Financial Summary

■ Turnover

Jersey Water's turnover in 2014 increased by 1.8% to £15,184k (2013: £14,916k). Income from the sale of water was £14,342k compared to £14,166k in 2013.

Metered income in 2014 was £12,140k (2013: £10,890k), an increase of 11.5% on 2013. The change in metered income is attributable to an increase in overall demand for water of 0.5%, increasing numbers of metered properties (2,800 during the year), 403 new connections and a 1% tariff increase. Metered water sales accounted for 85% of water related turnover compared with 77% in 2013.

Unmeasured water income totalled £1,639k, compared to £2,686k in 2013. The reduction of £1,047k corresponds with the transfer of customers to metered billing. Unmeasured charges now account for just 11% of water related turnover (2012: 19%).

Turnover in relation to rechargeable works was £484k (2013: £320k). Rechargeable works relate mainly to the installation of new water connections. The increase of £164k has arisen from the upturn in the construction industry with an increase in the number of larger new connections to the network in the year. Each job is individually priced and the nature of the specific works undertaken during 2014 meant a higher average price than in 2013.

■ Operating expenditure

Operating costs in 2014 were £10,213k, an increase of £97k compared with £10,116k in 2013. The increase is attributable to higher materials, chemicals and hired in services expenditure offset by some efficiency savings and unplanned vacant employee positions.

■ Operating profit before exceptional items

Operating profit for 2014 was £4,971k (2013: £4,800k), 3.6% higher than the previous year.

■ Profit on disposal of fixed assets

There was less fixed asset disposal activity in 2014, with the company generating a profit of £1k on the sale of a small parcel of land, compared to profits of £179k in 2013.

■ **Net finance costs**

There was a 40% reduction in net finance costs in 2014. The charge reduced by £264k to £397k as a result of the combined effects of lower interest payable on debt and an increase in the notional net finance income arising from the Company's pension scheme.

■ **Profit before taxation**

In 2014, Jersey Water's profit before tax was £4,575k compared to £4,318k in 2013. The increase of 6.0% was principally due to lower net finance costs, increased water revenue and rechargeable works offsetting the increase in operating costs and the decrease in profit on disposal of fixed assets.

■ **Income tax**

The charge for tax for 2014 totals £919k compared with £880k in 2013. The increase of £39k comprises an increase in the current year's income tax charge of £93k, which was primarily due to the improved financial performance in the year with a £28k decrease in the deferred tax charge. The 2013 charge also included £26k in relation to 2012 profits – no such additional charge has occurred in the current year.

■ **Equity dividends**

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 13.000 pence per share (2013: 12.516 pence). This brings the total paid and proposed dividend for 2014 to 19.555 pence per share, an increase of 3.2% on the previous year's dividend of 18.942 pence.

	2014	2013
	£'000	£'000
Dividends declared and paid		
Previous year - Final dividend	1,209	1,168
Current year - Interim Dividend	<u>633</u>	<u>621</u>
	£1,842	£1,789
Dividends proposed		
Current year - Final dividend	£1,256	£1,209

■ **Cash flow**

There was a net cash inflow during the year of £4,736k, in contrast to the outflow of £1,555k in 2013. The main reasons for the variance are the settlement of £3,500k from a fixed deposit,

a reduction in outflows from returns on investments and servicing of finance of £192k, offset by a net increase in capital expenditure cash flows of £308k and a decrease on net cash in flows from operating activities of £486k. The Company ended the year with cash balances totalling £5,834k (2013: £4,598k), a sum of which the Company has earmarked for the upgrade of the desalination plant.

■ **Capital expenditure**

In 2014, capital expenditure totalled £2,880k, a small increase of £2k on the prior year amount of £2,878k.

The majority of the capital allocation for the year was spent on metering, £703k, and mains renewals, £902k, in line with our focus on these areas to reduce leakage and the discretionary use of water.

■ **Investment properties**

In 2014, the Company undertook an internal valuation of its investment properties. The valuation concluded that the market value of the investment property at the year end remained unchanged at £1,070k. This compares with a decrease in value of £171k recorded the Statement of Total Recognised Gains and Losses in 2013.

■ **Loans and borrowing**

Loans and borrowing at 31 December 2014 remained unchanged at £20,282k (2013: £20,282k). In February following the year end £3,650k of this borrowing was refinanced for a further period of ten years. Net debt reduced to £14,448k (2013: £15,684k) as a result of an increase in cash balances of £1,236k.

■ **Defined benefit pension scheme**

As at 31 December 2014, there was a net deficit on the combined FRS17 valuations of the Company's defined benefit plans of £981k, compared with a net surplus of £227k in 2013. The decrease in value is mainly due to market driven changes in discount rate, investment return and longevity assumptions leading to an overall actuarial loss of £1,797k (2013: gain of £534k) despite investment returns exceeding expectations by £2,048k (2013: £1,316k).

Summary profit and loss account

For the year ended 31 December 2014

	2014	2013
	£'000	£'000
Turnover	15,184	14,916
Operating expenditure	<u>(10,213)</u>	<u>(10,116)</u>
Operating profit before exceptional items	4,971	4,800
Profit on disposal of fixed assets	1	179
Net finance charges	<u>(397)</u>	<u>(661)</u>
Profit before taxation	4,575	4,318
Jersey income tax	<u>(919)</u>	<u>(880)</u>
Profit for the financial year	<u>£3,656</u>	<u>£3,438</u>
Earnings per ordinary share of £0.5	<u>£0.38</u>	<u>£0.36</u>

Statement of total recognised gains & losses

For the year ended 31 December 2014

	2014	2013
	£'000	£'000
Profit for the year	3,656	3,438
(Loss) / Gain arising on pension liabilities	(1,438)	427
Loss arising on revaluation of investment property	<u>-</u>	<u>(171)</u>
Total recognised gains and losses for the year	<u>£2,218</u>	<u>£3,694</u>

Summary balance sheet

31 December 2014

	Note	2014		2013	
		£'000	£'000	£'000	£'000
Fixed assets			68,893		68,222
Current assets		9,536		8,708	
Creditors – Amounts falling due within one year		<u>(6,221)</u>		<u>(2,762)</u>	
Net current assets			<u>3,315</u>		<u>5,946</u>
Total assets less current liabilities			72,208		74,168
Creditors – Amounts falling due after more than one year					
Bank loans		(11,250)		(14,900)	
Non-equity preference shares		<u>(5,382)</u>		<u>(5,382)</u>	
			(16,632)		(20,282)
Provisions for liabilities and charges					
Deferred taxation			<u>(5,930)</u>		<u>(5,824)</u>
Net assets excluding pension liability			49,646		48,062
Pension (liability) / asset			<u>(981)</u>		<u>227</u>
Net assets			<u>£48,665</u>		<u>£48,289</u>
Equity capital and reserves					
Equity share capital			4,830		4,830
Reserves			<u>43,835</u>		<u>43,459</u>
Shareholders' funds	3		<u>£48,665</u>		<u>£48,289</u>

Summary cash flow statement

For the year ended 31 December 2014

	2014		2013	
	£'000	£'000	£'000	£'000
Net cash inflow from operating activities		7,493		7,979
Returns on investments and servicing of finance				
Interest received	20		10	
Interest paid	(371)		(554)	
Non-equity dividends paid	<u>(381)</u>		<u>(381)</u>	
Net cash outflow from returns on investments and servicing of finance		(732)		(925)
Taxation				
Jersey income tax paid		(675)		(620)
Capital expenditure				
Purchase of fixed assets	(3,009)		(2,886)	
Disposal of fixed assets	<u>1</u>		<u>186</u>	
		(3,008)		(2,700)
Equity dividends paid		<u>(1,842)</u>		<u>(1,789)</u>
Cash inflow before the use of liquid resources		1,236		1,945
Management of liquid resources				
Fixed term deposit		<u>3,500</u>		<u>(3,500)</u>
Increase / (Decrease) in cash		<u>£4,736</u>		<u>£(1,555)</u>

Reconciliation of net cash flow to movement in net debt

	2014	2013
	£'000	£'000
Increase / (Decrease) in cash	4,736	(1,555)
Liquid resources movement	<u>(3,500)</u>	<u>3,500</u>
Movement in net debt	1,236	1,945
Net debt brought forward	<u>(15,684)</u>	<u>(17,629)</u>
Net debt carried forward	<u>£(14,448)</u>	<u>£(15,684)</u>

Reconciliation of operating profit to net cash flow from operating activities

	2014	2013
	£'000	£'000
Operating profit after exceptional items	4,971	4,800
Depreciation	2,209	2,210
Change in order to bring pension charges onto a contribution basis	48	(4)
Decrease in stock and work in progress	79	67
Decrease in debtors	382	1,053
Decrease in creditors	<u>(196)</u>	<u>(147)</u>
Net cash inflow from operating activities	<u>£7,493</u>	<u>£7,979</u>

Notes

1. Basis of accounting

The full financial statements of the Company, upon which the disclosure in this preliminary announcement is derived, are prepared under the historical cost convention as modified for the revaluation of investment properties and in accordance with United Kingdom Accounting Standards.

2. Going concern

The Company has a wide and varied customer base within Jersey, steady demand for its products and services, and a stable and well established treatment and distribution network. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore selected the going concern basis of accounting in preparing the full financial statements from which disclosure in this preliminary announcement has been extracted.

3. Reconciliation of movement in equity shareholder's funds

	Equity share capital £'000	Revaluation reserve £'000	Retained profit £'000	Total £'000
Brought forward	4,830	1,049	42,410	48,289
Profit for the financial year	-	-	3,656	3,656
Equity dividends	-	-	(1,842)	(1,842)
Loss relating to pension plan recognised in the statement of total recognised gains and losses	-	-	(1,438)	(1,438)
Carried forward	<u>£4,830</u>	<u>£1,049</u>	<u>£42,786</u>	<u>£48,665</u>