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 2015. 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 2015 and 2014.

Financial statements of the Company for the year ended 31 December 2014 have been delivered to the Jersey Registrar of Companies. The financial statements of the Company for the year ended 31 December 2015 were approved by the Board of Directors on 18 March 2016 and will be delivered to the Jersey Registrar of Companies in May 2016.

The audit reports of the financial statements of the Company for both years ended 31 December 2015 and 31 December 2014 have been signed and were unqualified.

This preliminary announcement was approved by the Board of Directors on 18 March 2016.

## Introduction from the Chairman

Jersey Water has experienced a particularly busy and productive year in 2015, meeting several key milestones in investment projects designed to enhance water quality and safeguard water resources, extend and renew the mains network, and bring more customers onto metered water.

All this activity has resulted in a slight decrease in profit before tax compared to 2014, falling £166k (4%) to £4,076k. An increase of 1.2% in turnover for the year was offset by a planned 3% increase in operating costs of £319k and finance charges of £44k. The increase in operating costs is largely attributable to additional pumping costs from managing water resources during the upgrade of our desalination plant, the introduction of new treatment processes and market driven pension cost increases.

The £6m programme to refurbish and extend the desalination facility, which started in 2014, has continued apace in 2015 and is on track for completion within budget in summer 2016. Despite experiencing an unusually wet summer in 2015, which helped lift reservoir levels to above average levels for the latter part of the year, Jersey Water remains conscious that the unpredictability of rainfall patterns raises the possibility that the Island could be subject to prolonged dry spells. The desalination upgrade will improve water availability during such periods, increasing the Company's desalination capacity from 6Ml/day to 10.8Ml/day with a 36% improvement in energy efficiency.

One major 2015 landmark in the Company's bid to reduce waste and manage demand has been the substantial completion of the universal metering project. The final stage is to transfer the remaining 10% of already metered properties to paying for water on a measured basis. Many customers now on metered water have reported improved awareness of their consumption and lower bills.

Our mains renewal programme remains a key part of our efforts to minimise waste, and during the year we renewed 2.5km of mains. Unfortunately, 2015 also saw an increase in leakage on the network, attributable to a small number of significant leaks in the outskirts of St Helier. Activity in 2016 will therefore continue to focus on the project to separate the network into District Metered Areas (DMAs), to allow for easier identification, location and rectification of leaks.

The Company remains focussed on ensuring the provision of safe, high quality water for the Island. I am therefore delighted to report that the Company maintained its outstanding record for water quality in 2015, with overall compliance with water quality regulations remaining at 99.99% based on 14,000 individual water quality tests. Of particular note, for the second consecutive year nitrates in the treated water supply remained within the regulatory limit of 50mg/l and well below the 65mg/l permitted by the dispensations granted by the States of Jersey. Although nitrate levels in raw water sources were significantly higher that the regulatory limit for the period January to May 2015, the Company was able to take advantage of the full reservoirs to blend and dilute water sources to ensure water supplied to customers was below the regulatory limit. Despite the success of this approach, the underlying issue of tackling the causes of diffuse nitrate pollution in raw water remains. With the Company's nitrate dispensation due to expire at the end of 2016, the Company is looking forward to working closely with the Environment Department to find identify tangible measures to manage this and other risks to water quality.

*Peter Yates, Chairman*

## Financial Summary

This is the first year the Company has presented its results under the new accounting standards known as FRS 102. The last financial statements were prepared under the old UK accounting standards. The date of transition was 1 January 2014. The new standard replaces previous UK Financial Reporting Standards and has resulted in certain changes in disclosure, differences in accounting treatment and changes in the naming convention of certain items within the financial statements. A summary of changes in accounting policies and presentation as a result of changes in accounting policies and procedures can be found in note 3 to this announcement.

### Turnover

Jersey Water's turnover in 2015 increased by 1.24% to £15,373k (2013: £15,184k). Income from the sale of water was £14,447k compared to £14,342k in 2013.

Metered water income in 2015 has seen an increase of 3.4% on 2014 figures, rising from £12,140k in 2014 to £12,552k in 2015. The change in metered income is attributable to the continuation of the universal metering programme, which is now substantially complete; an increase in the number of metered properties thanks to 506 new connections; and a 1.75% tariff increase. Metered water sales accounted for 87% of water related turnover, up from 85% in 2014.

Unmeasured water income for the year was £1,258k, compared to £1,638 in 2014, a decrease of 30% on prior year. The reduction in unmeasured income is driven by the transfer of customers to metered billing. Unmeasured charges now account for just 9% of water, down from 11% in 2014.

Turnover in relation to rechargeable works rose this year to £533k compared to £484k in 2014. Rechargeable works relate mainly to the installation of new water connections. The increase of £49k has been prompted by the continued recovery of the Island's construction industry, giving rise to 25% more connections compared to prior year.

### Operating expenditure

Operating costs in 2015 were £10,532k, an increase of £319k compared with £10,213k in 2014. The increase is attributable to additional water quality and compliance costs, increased electricity usage, higher pension costs and increases in hired in services expenditure.

### Operating profit before exceptional items

Operating profit for 2015 was £4,841k (2014: £4,971k), 2.6% lower than the previous year.

### Net finance costs

Finance costs have increased by 13% to £393k (2014:£349k). The £44k increase is attributable to an increase in the notional net finance expense of £37k (2014: £3k income) on the pension fund and a small decrease in interest receivable on cash of £4k.

### Profit before taxation

In 2015, Jersey Water's profit before tax was £4,076k compared to £4,242k in 2014. Overall, increases in water revenue and rechargeable works were offset by higher operating expenditure and interest charges resulting in a 3.9% decrease in profit before tax.

### Income tax

The charge for tax for 2015 totals £740k compared with £852k in 2014. The reduction of £112k comprises a decrease in the current year's income tax charge of £140k, which is primarily due to lower profit in the year, and a £28k increase in the deferred tax charge.

### Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of ● pence per share (2014: 13.000 pence). This brings the total paid and proposed dividend for 2015 to ● pence per share, an increase of ●% on the previous year's dividend of 19.555 pence.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Dividends declared and paid** | | |
| Previous year - Final dividend | 1,256 | 1,209 |
| Current year - Interim Dividend | 646 | 633 |
| | £1,902 | £1,842 |
| **Dividends proposed** | | |
| Current year - Final dividend | £● | £1,256 |

### Cash flow

There was a net cash outflow during the year of £2,383k, in contrast to an inflow of £4,736k in 2014. The main reasons for the variance are an increase of £3,371k in investing expenditure arising principally from the upgrade of the desalination plant, a decrease in cash received from financing activities as settlement of £3,500k from a fixed deposit was received in the prior year and a £184k decrease in cash generated from operating activities. The Company ended the year with cash balances totalling £3,451k (2014: £5,834k), a proportion of which the Company is allocated to the completion of the upgrade of the desalination plant and other capital expenditure.

- Capital expenditure

  In 2015, capital expenditure totalled £6,611k a £3,731k increase on the prior year amount of £2,880k. The increase is mainly attributable to the replacement of the desalination plant which accounts for £3,728k or 55% of the year's capital spend. Of the remaining capital allocation £2,883k for the year, £1,635k was invested in the network in line with our focus on reducing leakage and the discretionary use of water, and £709k was invested in additions and improvements to water treatment processes.

- Fixed assets

  At 31 December 2015 the Company held assets with net book value of £73,245k (2014: £68,893k). Of this amount £4,869k was held as uncompleted works (2014: £640k) of which £4,063k represents works to replace the desalination plant.

  In 2015, the Company reviewed the useful economic lives of certain tangible assets which led to the re-categorisation of certain fittings with net book value of £2,732k. This resulted in a £52k reduction in depreciation charge in the year. This was offset by a decrease in useful economic life of certain water meters increasing the depreciation charge on these assets by £44k.

- Investment properties

  In 2015, the Company undertook an internal valuation of its investment properties, basing its' assessment on the condition of the properties and market conditions.. The valuation concluded that the market value of the investment property at the year-end remained unchanged at £1,070k.

- Loans and borrowing

  Loans and borrowing at 31 December 2015 remained unchanged at £20,282k (2014: £20,282k). In February 2015, £3,650k of this borrowing was refinanced for a further period of ten years.

  In order to hedge against interest rate exposure on £5,250k of the borrowing due to mature in 2021, the Company holds an interest swap contract for the same nominal value and maturity. Under FRS 102 this derivative liability is stated at fair value at the reporting date on the statement of financial position at £311k with a gain in the fair value of £65k being recognised in other comprehensive income for the year (2014: £327 loss on recognition of the liability).

- Defined benefit pension scheme

  As at 31 December 2015, there was a net surplus on the combined FRS 102 valuation of the Company's defined benefit plan of £1,279k, compared with a net deficit of £1,226k in 2014. The increase in value is mainly due to market driven changes in discount rate and inflation assumptions reducing the value of future liabilities by £2,716k. This increase offsets the fall in investment returns on assets which are £2,864k lower than the prior year at £467k.

## Summary income statement

For the year ended 31 December 2015

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Turnover | 15,373 | 15,184 |
| Operating expenditure | (10,532) | (10,213) |
| Operating profit before exceptional items | 4,841 | 4,971 |
| Profit on disposal of fixed assets | 9 | 1 |
| Net interest expense | (393) | (349) |
| Non-equity dividends | (381) | (381) |
| Profit before taxation | 4,076 | 4,242 |
| Jersey income tax | (740) | (852) |
| Profit for the financial year | £3,336 | £3,390 |
| Earnings per ordinary share of £0.5 | £0.35 | £0.35 |

## Statement of comprehensive income

For the year ended 31 December 2015

| | 2015 | 2014 |
|---|---|---|
| | £'000 | £'000 |
| Profit for the year | 3,336 | 3,390 |
| Fair value movement on swap | 65 | (328) |
| Re-measurements on net defined benefit liability/asset | 2,716 | (1,465) |
| Total income tax on components of other comprehensive income | (555) | 358 |
| Other comprehensive income for the year net of tax | £2,226 | £1,435 |
| Total comprehensive income for the year | £5,562 | £1,955 |

## Statement of financial position
31 December 2015

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Fixed assets** | | 73,245 | | 68,893 |
| **Current assets** | 7,031 | | 9,536 | |
| **Creditors** – Amounts falling due within one year | (2,680) | | (6,221) | |
| **Net current assets / (liabilities)** | | 4,351 | | 3,315 |
| **Total assets less current liabilities** | | 77,596 | | 72,208 |
| **Creditors** – Amounts falling due after more than one year | | | | |
| Bank loans | (14,900) | | (11,250) | |
| Derivative financial liability | (286) | | (351) | |
| Non-equity preference shares | (5,382) | | (5,382) | |
| | | (20,568) | | (16,983) |
| **Provisions for liabilities and charges** | | | | |
| Deferred taxation | | (6,264) | | (5,616) |
| **Net assets excluding pension liability** | | 50,764 | | 49,609 |
| Pension (liability) / asset | | 1,279 | | (1,226) |
| **Net assets** | | £52,043 | | £48,383 |
| **Capital and reserves** | | | | |
| Equity share capital | | 4,830 | | 4,830 |
| Reserves | | 47,213 | | 43,553 |
| **Total equity** | | £52,043 | | £48,383 |

## Cash flow statement

For the year ended 31 December 2015

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| Net cash inflow from operating activities | 7,389 | 7,493 |
| Jersey income tax paid | (755) | (675) |
| Net cash generated from operating activities | 6,634 | 6,818 |
| Cash flow from investing activities | | |
| Purchase of fixed assets | (6,388) | (3,009) |
| Disposal of fixed assets | 9 | 1 |
| Net cash used in investing activities | (6,379) | (3008) |
| Cash flow from financing activities | | |
| Interest paid | (372) | (371) |
| Interest received | 15 | 20 |
| Term deposit | - | 3,500 |
| Non-equity dividends paid | (379) | (381) |
| Equity dividends paid | (1,902) | (1,842) |
| Net cash used in / generated from in financing activities | (2,638) | 926 |
| (Decrease) / increase in cash and cash equivalents | (2,383) | 4,736 |
| Cash and cash equivalents at the beginning of the year | 5,834 | 1,098 |
| Cash and cash equivalents at the end of the year | £3,451 | £5,834 |

## Statement of changes in equity

For the year ended 31 December 2015

| | Called-up share capital | Revaluation reserve | Cash flow hedge reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance as at 1 January 2014 | 4,830 | 1,049 | (19) | 42,410 | 48,270 |
| Profit for the reporting period | - | - | - | 3,390 | 3,390 |
| Other comprehensive income for the year | - | - | (262) | (1,173) | (1,435) |
| Total comprehensive income for the year | - | - | (262) | 2,217 | 1,955 |
| Equity dividends | - | - | - | (1,842) | (1,842) |
| Balance as at 31 December 2014 | £4,830 | £1,049 | £(281) | £42,785 | £48,383 |
| Balance as at 1 January 2015 | 4,830 | 1,049 | (281) | 42,785 | 48,383 |
| Profit for the reporting period | - | - | - | 3,336 | 3,336 |
| Other comprehensive income for the year | - | - | 52 | 2,174 | 2,226 |
| Total comprehensive income for the year | - | - | 52 | 5,513 | £5,562 |
| Equity dividends | - | - | - | (1,902) | (1,902) |
| Balance as at 31 December 2015 | £4,830 | £1,049 | £ (229) | £46,393 | £52,043 |

## 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 non-basic financial instruments at fair value through profit and loss. These statements are prepared and presented in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

### 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 financial statements from which disclosure in this preliminary announcement has been extracted.

### 3. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under the old UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. The principal effects have been

- recognition of the Company's interest rate swap in the statement of financial position as a derivative financial liability, designated as a cash flow hedge, and the corresponding recognition of changes in fair value of the swap in the statement of total comprehensive income
- changes to the presentation of the Company's defined benefit pension scheme interest expense, which has led to a portion of the return previously recognised in the income statement being recognised separately in the statement of comprehensive income (the net movement on the defined pension benefit liability has not changed).

A statement of changes in equity is now presented as a primary financial statement, and the format of the statement of cash flows has also changed, and it now reconciles to cash and cash equivalents, which includes short-term liquid deposits held on fixed terms of up to 3 months. In addition, there have changes to presentation of items in the balance sheet, including

- reclassification of certain fixed assets (principally software and software development costs) as intangible fixed assets. The depreciation on these intangible fixed assets is now described as 'amortisation' in the income statement
- presentation of deferred tax on the pension liability as a separate item from the pension liability itself.