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 2016. 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 2016 and 2015.

Financial statements of the Company for the year ended 31 December 2015 have been delivered to the Jersey Registrar of Companies. The financial statements of the Company for the year ended 31 December 2016 were approved by the Board of Directors on 16 March 2017 and will be delivered to the Jersey Registrar of Companies in May 2017.

The audit reports of the financial statements of the Company for both years ended 31 December 2016 and 31 December 2015 have been signed and were unqualified.

This preliminary announcement was approved by the Board of Directors on 16 March 2017.

Introduction from the Chairman

Jersey Water has had another successful year, despite a number of water quality and supply challenges. It is to the credit of the whole team at Jersey Water that the Company has been able to manage these challenges, all whilst maintaining high standards of customer service, continuing our ambitious water supply infrastructure investment programme and generating an increase in profit before tax of 4.4%.

An increase of 2.3% on prior year turnover was partially offset by a 1.6% increase in operating costs, but the resulting operating profit of £5,024k was a 3.8% increase on 2015. Profit before tax stands at £4,256k, £180k or 4.4% above the prior year, and underlines the Company's strong operating performance in the year.

Despite this, the Company has experienced a 4% fall in net assets, from £52,043k in 2015 to £49,978k in 2016, driven by the valuation of the Defined Benefit section of the Jersey Water Pension Plan. Due to market-driven changes to discount rates and inflation assumptions, the Company's obligations to the section's members moved from a net surplus of £1,279k in 2015 to a net deficit of £2,942k in 2016.

Ensuring the provision of high quality water remains at the centre of our business, and a total of £4,589k (2015: £6,611k) has been invested in capital projects, including laying 2km of replacement mains, installing 1.1km of new mains extensions and investing £439k in water quality improvement initiatives. Work also continued on the £6 million extension of our desalination plant, which will increase desalinated water output from 6.4Ml/day to 10.8Ml/day with a 36% energy saving. Unfortunately, owing to factors outside of Jersey Water's control, the project contractor has experienced delays resulting from technical problems, although installation is now complete and the plant is capable of producing desalinated water. Formal handover is subject to completion of testing and optimisation work, and Jersey Water is actively working with the contractor to ensure that the project is finalised as soon as practicably possible. Completion is scheduled before the end of Q2 2017.

As reported last year, the presence of a number of pesticides, including the discontinued fungicide oxadixyl, in surface water streams, as well as the ongoing diffuse pollution from nitrates, has continued to present a challenge during 2016. The Company recognises the need for a strategy to improve raw water quality, and therefore we welcome the Water Plan for Jersey and the Rural Economy Strategy both published by the States of Jersey during 2016, building on the work of the former Nitrate Working Group (now renamed the Action Group for Cleaner Water). In addition to supporting formal States measures, the Company continues to work closely with the farming community and pursue internal projects in order to mitigate the risks posed by agrochemicals in the future.

In spite of these challenges, the quality of the water supplied by the company in 2016 remained very high with an overall regulatory compliance rate of 99.99%, based on almost 20,000 individual tests for water quality. Heavy rainfall in the first half of the year and careful water blending from multiple raw water sources helped dilute raw water nitrates and nitrate levels in treated water remained within regulatory limits for the third successive year, meaning the Company did not have to rely on the dispensation under the Water (Jersey) Law 1972 which permits a small number of samples to exceed the 50mg/l regulatory limit. This dispensation has been extended until 2021 to coincide with the expected completion of the measures set out in the States of Jersey Water Plan.

We were saddened by the discovery in August of the remains of Adrian Lynch in Handois reservoir, following his disappearance in December 2015. We are grateful to the team who dealt with this traumatic and distressing incident with respect and compassion. Our thoughts remain with Adrian's family and loved ones.

2016 has seen a number of changes to your Board of Directors. As reported in the 2015 accounts, Mrs Liz Vince retired from her non-executive directorship on 31 March 2016, and the open recruitment process that followed resulted in two appointments: Ms Heather MacCallum, a former partner of KPMG Channel Islands, and Mr Daragh McDermott the current Corporate Services Director at Jersey Telecom. Both have joined the Company's Audit Committee, with Heather taking the role of Chair. The Board will also be proposing that our Chief Finance Officer, Natalie Passmore, joins the Board as Director. The Board will be recommending them for formal election by shareholders at the AGM, and I look forward to their continued and valued contribution to the Board during 2017.

Peter Yates, Chairman

Financial Summary

- Turnover

Jersey Water generated turnover for the year of £15,720k (2015: £15,373k), an increase of 2.26% on prior year driven by an increase of £498k or 3.4% in water sales income compared to 2015.

Measured water now accounts for 90% of water revenue in 2016 compared to 87% in 2015. In 2016 measured water income increased by £964k to £13,516k (2015: £12,552k), principally due to the continued transfer of unmeasured properties to measured water following the completion of the Island-wide metering programme, and bolstered by 374 new connections (2015: 506), a 2% tariff increase and higher than average water consumption. Unmeasured water income now only accounts for £825k or 6% of water revenue (2015: £1,258k and 9%).

Rechargeable works income, being income relating to installation of new water connections, has decreased by £105k to £428k (2015: £533k), primarily due to fewer large housing developments requiring connections compared to prior year (see above).

- Operating expenditure

Operating costs in 2016 increased 1.56% to £10,696k (2015: £10,532k), mainly driven by additional costs in pursuit of regulatory compliance and best practice across the business. These were associated with more extensive testing of raw water quality subsequent to the discovery of oxadixyl and other pesticides in the raw water supply. Other contributing factors were business systems security and resilience enhancements, and water specialists' costs. This was offset by savings in the cost of billing and power (despite additional pumping requirements' arising from the pesticide issue), and lower contractor costs resulting from fewer new service connections.

- Operating profit

Operating profit for 2016 was £5,024k (2015: £4,841k), 3.78% higher than the previous year.

- Revaluation of investment property

A formal valuation of Company's investment property carried out at 31 December 2016 concluded that the market value of the property held at £720k in 2015 had decreased in value by £45k to £675k. This impairment has been recognised in the income statement.

- Net finance costs

Finance costs have decreased by 22% or £88k to £305k (2015: £393k), largely attributable to interest income on pension fund assets exceeding the interest cost on the pension liabilities by £53k (2015: £37k expense) as a result of market changes.

- Profit before taxation

The higher operating profit has led to profit before tax of £4,256k, a 4.4% increase on the prior year of £4,076k.

- Income tax

In 2016 the charge for tax totals £922k in the income statement, a £182k increase on the prior year of £740k driven by higher operating profits, lower capital expenditure deductible for tax purposes, and an increase in the deferred tax charge related to accelerated capital allowances.

- Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 13.559 pence per share (2015: 13.260 pence). This brings the total paid and proposed dividend for 2016 to 20.345 pence per share, an increase of 2% on the previous year's dividend of 19.946 pence.

	2016 £'000	2015 £'000
Dividends declared and paid		
Previous year - Final dividend	1,281	1,256
Current year - Interim Dividend	655	646
	£1,936	£1,902
Dividends proposed		
Current year - Final dividend	£1,310	£1,281

- Cash flow

There was a net cash outflow during the year of £860k, which is £1,523k lower than the prior year outflow of £2,383k. The fall in outflow in investing activities of £1,818k, driven by lower capital expenditure, was offset by a decrease of £257k on net cash inflow from operating activities (2016: £6,378k, 2015: 6,634k). Movements and timing in trade receivables and payables account for much of the difference. Cash outflow from financing activities increased by £38k to £2,676k (2015: £2,638k) as a combination of lower interest receivable and higher dividends paid.

- Capital expenditure

In 2016, capital expenditure totalled £4,589k, a £2,022k decrease on the prior year amount of £6,611k. The desalination plant upgrade accounted for £1,959k or 43% of the year's capital spend in 2016 and £3,728k or 55% of the prior year's capital spend, with the project due to complete in 2017. Mains renewals and metering totalled £1,216k in line with our focus on reducing leakage.

- Fixed assets

At 31 December 2016 the Company held assets with a net book value of £75,430k (2015: £73,245k), and tangible assets make up 99% of the book value at £74,613k (2015: £71,989k). Of this amount £6,581k was held as uncompleted works (2015: £4,869k), of which £6,031k represents works to upgrade the desalination plant.

In 2016, the Company embarked on a replacement programme for certain water meter assets. As a result the useful economic lives water meters due for replacement were adjusted in accordance with the programme timeline. This increased the depreciation charge on these assets by £263k.

- Investment properties

At the year end, the Company held investment property with a market value of £675k (2015: £1,070k). The decrease in value is mostly due to a £350k reclassification of one property to tangible fixed assets due to change in use, plus a downward movement of £45k in value of the remaining investment properties following a formal valuation undertaken at the year end. The revaluation loss has been recognised in the income statement.

- Loans and borrowing

Loans and borrowing at 31 December 2016 remained unchanged at £20,282k (2015: £20,282k).

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 a fair value of £414k at the reporting date on the statement of financial position, with a loss in the fair value of £128k being recognised in other comprehensive income for the year (2015: £65k gain).

- Defined benefit pension scheme

As at 31 December 2016, there was a net deficit on the combined FRS 102 valuation of the Company's defined benefit plan of £2,942k (2015: surplus of £1,279k), resulting in a movement of £4,221k on the statement of financial position. The decrease in value is mainly due to experience losses of £355k and market driven changes in discount rate and inflation assumptions increasing the value of future liabilities by £5,835k; £1,956k of these losses is offset by better than expected investment performance in the year.

- Deferred tax liability

The deferred tax liability decreased in the year by £697k to £5,567k, principally as a result of a movement in value of the pension plan described above which created a reduction in tax liability of £844k (recognised in other comprehensive income). This was partially offset by increases in accelerated capital allowances.

Summary income statement

For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Turnover	15,720	15,373
Operating expenditure	(10,696)	(10,532)
Operating profit	5,024	4,841
Revaluation of investment property	(45)	-
(Loss)/profit on disposal of fixed assets	(37)	9
Net interest expense	(305)	(393)
Non-equity dividends	(381)	(381)
Profit before taxation	4,256	4,076
Jersey income tax	(922)	(740)
Profit for the financial year	£3,334	£3,336
Earnings per ordinary share of £0.5	£0.35	£0.35

Statement of comprehensive income

For the year ended 31 December 2016

	2016	2015
	£'000	£'000
Profit for the year	3,334	3,336
Fair value movement on swap	(128)	65
Re-measurements on net defined benefit liability/asset	(4,202)	2,716
Total income tax on components of other comprehensive income	867	(555)
Other comprehensive (loss)/income for the year net of tax	£(3,463)	£2,226
Total comprehensive (loss)/income for the year	£(129)	£5,562

Summary statement of financial position

31 December 2016

	2016		2015	
	£'000	£'000	£'000	£'000
Fixed assets		75,430		73,245
Current assets	6,654		7,031	
Creditors – Amounts falling due within one year	(2,900)		(2,680)	
Net current assets		3,754		4,351
Total assets less current liabilities		79,184		77,596
Creditors – Amounts falling due after more than one year				
Bank loans	(14,900)		(14,900)	
Derivative financial liability	(414)		(286)	
Non-equity preference shares	(5,382)		(5,382)	
		(20,696)		(20,568)
Provisions for liabilities and charges				
Deferred taxation		(5,568)		(6,264)
Net assets excluding pension liability		52,920		50,764
Pension (liability)/asset		(2,942)		1,279
Net assets		£49,978		£52,043
Capital and reserves				
Equity share capital		4,830		4,830
Reserves		45,148		47,213
Total equity		£49,978		£52,043

Cash flow statement

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Net cash generated from operating activities	7,025	7,389
Jersey income tax paid	(648)	(755)
Net cash generated from operating activities	6,377	6,634
Cash flow from investing activities		
Purchase of fixed assets	(4,595)	(6,388)
Disposal of fixed assets	34	9
Net cash used in investing activities	(4,561)	(6,379)
Cash flow from financing activities		
Interest paid	(364)	(372)
Interest received	5	15
Non-equity dividends paid	(381)	(379)
Equity dividends paid	(1,936)	(1,902)
Net cash used in financing activities	(2,676)	(2,638)
Decrease in cash and cash equivalents	(860)	(2,383)
Cash and cash equivalents at the beginning of the year	3,451	5,834
Cash and cash equivalents at the end of the year	£2,591	£3,451

Statement of changes in equity

For the year ended 31 December 2016

	Called-up equity share capital	Revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
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	5,510	£5,562
Equity dividends	-	-	-	(1,902)	(1,902)
Balance as at 31 December 2015	£4,830	£1,049	£(229)	£46,393	£52,043
Balance as at 1 January 2016	4,830	1,049	(229)	46,393	52,043
Profit for the reporting period	-	-	-	3,334	3,334
Other comprehensive loss for the year	-	-	(102)	(3,361)	(3,463)
Total comprehensive loss for the year	-	-	(102)	(27)	(129)
Equity dividends	-	-	-	(1,936)	(1,936)
Transfer between reserves	-	(374)	-	374	-
Balance as at 31 December 2016	£4,830	£675	£(331)	£44,804	£49,978

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.