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 2017. 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 2017 and 2016.

Financial statements of the Company for the year ended 31 December 2016 have been delivered to the Jersey Registrar of Companies. The financial statements of the Company for the year ended 31 December 2017 were approved by the Board of Directors on 15 March 2018 and will be delivered to the Jersey Registrar of Companies in May 2018.

The audit reports of the financial statements of the Company for both years ended 31 December 2017 and 31 December 2016 have been signed and were unqualified.

This preliminary announcement was approved by the Board of Directors on 15 March 2018.

Chairman's statement

Introduction from the Chairman

From a water supply perspective 2017 turned out to be unusual in many respects. We started the year with reservoir levels at their lowest since 2001 and saw an unusually dry start to the year. This had profound effects on raw water quality during the year; nitrate levels in water were at their lowest levels ever and we saw half the number of pesticide breaches in streams and reservoirs. The rest of the year was more in line with expectations, treated water quality remained consistently high and as a result of an exceptionally wet summer and early winter resources recovered from the 15 year low to the extent that we finished 2017 with nearly full reservoirs.

Financially Jersey Water also had a good year. Turnover for the year increased by 1.5% to £15,960k. Operating costs for the year increased by 3.9% to £11,108k. The additional expenditure of £412k was lower than budgeted and expected given our focus on managing water quality and other risks. Operating profit for the year totalled £4,852k (2016: £5,024k) and overall profit for the year was £3,296k, a small decrease of £38k or 1.1% on the previous year (2016: £3,334k).

Operationally, 2017 was a successful year. We saw consumption of water fall by 3.2%, principally due to a reduction in leakage of approximately 14% on the prior year. In 2017, we invested a total of £3,275k (2016: £4,589k) in our capital expenditure programme which included laying 2.1km of replacement mains, installing 1.9km of new mains extensions, investing £475k in water quality improvement and resource initiatives and adding 303 connections to the network. We continue to invest in our infrastructure and 2018 will see the development of a live distribution network model that will, over time, enable the use of technology to manage leakage, pressures and water quality throughout our 580km of pipework.

During 2017 the final commissioning works on the desalination plant were completed by the contractor. This upgrade begun in 2015 and has increased the capacity of the plant from 6.4Ml/day to 10.8Ml/day and whilst improving the energy efficiency by 36%. The remaining contractual performance tests, which will mark the completion of the project, are scheduled to take place during 2018.

Water quality during 2017 continued to be very good, with an overall compliance rate of 99.98% (2016: 99.99%). This was the fourth consecutive year during which nitrates in treated water remained within regulatory limits and we remained fully compliant with all of the regulatory parameters for pesticides, including oxadixyl.

We were very pleased to announce the agreement to purchase the water tankering business, De La Haye Plant Limited, towards the end of 2017. I can report that following regulatory approval, the purchase was successfully completed in February 2018. Whilst only a modest acquisition in terms of size, the business will provide an opportunity to expand the range of services provided by Jersey Water, increase our water supply resilience and add financial value.

Steady profit and an improvement in the Company's pension scheme funding position of £2,706k contributed to 7.6% or £3,823k growth in net assets to £53,805k (2016: £49,978k). This places the Company in a strong position as we plan further investment initiatives to maintain water quality, reduce leakage, extend the network, as well as ongoing maintenance of our systems, reservoirs, treatment works and mains network.

Mr Tony Cooke has indicated that at the AGM in May he will retire from the Board and not seek re-election. During his 10 years on the Board, many of which in the role of Senior Independent Director and member of the audit committee, Tony made a significant contribution to the development of the company. We have benefitted a great deal from his extensive knowledge and expertise in the water sector, his wide ranging commercial experience and sound advice.

In the last quarter of 2017 we started the formal process of recruiting for a Non-Executive Director with UK Water industry experience to succeed Tony. In May at our AGM, we will be recommending the election of Mike Pocock, who is currently Director of Asset Strategy at Affinity Water and is chartered civil engineer with over forty years' experience in the sector. He will make a fine addition to your Board and I look forward to welcoming him.

2017 was another very busy year across all departments as we pushed ahead in delivering our business plan, operational improvements and capital expenditure programme; all the while maintaining high standards of water quality and ensuring our customers continue to receive the great customer service that they have grown to expect. All of this could not have been achieved without the hard work and loyal commitment of the whole team at Jersey Water.

Peter Yates
15 March 2018

Financial summary

- Turnover

Jersey Water's turnover in 2017 increased by 1.5% to £15,960k (2016: £15,720k). Income from the sale of water was £15,171k compared to £14,945k in 2016.

Measured water totalled £14,084k representing 93% of water revenue in 2017, compared to 90% in 2016 (£13,516k). With the island-wide metering programme complete less than 200 accounts are billed on a rateable value basis. Unmeasured water income, principally those customers billed on an assessed volume basis now accounts for only £425k of water charges or 3% compared to £825k or 6% of water revenue in 2016. The overall increase in water revenue was a combination of 303 new connections to the network (2016: 374) and the at-inflation tariff increase of 2% in April.

Turnover in relation to rechargeable works was £473k, an increase of 11% on the prior year of £428k. Rechargeable works relate mainly to the installation of new water connections. Although there were a lower number of connections compared to 2016 the number of larger connections to the network increased.

- Operating expenditure

Operating costs increased by 3.9% or £412k to £11,108k during 2017 (2016: £10,696k). These increases were in line with expectations given the increased emphasis on water quality initiatives, regulatory compliance and best practice across the business, with pensions, cyber security and cost inflation being significant drivers of increased expenditure.

- Operating profit

The Company generated an operating profit of £4,852k, which is a 3% decrease or £172k lower than 2016 (£5,024k). The reduction was due to the increased operating costs discussed above which were partially offset by increases in turnover.

- Net finance costs

Net finance costs totalled £417k in 2017 which is a £112k increase on 2016 (2016: £305k). The increase is attributable to a net interest expense on pension obligations of £72k compared to net interest income in the prior year of £53k, the movement arising as a result of market driven changes.

- Profit before taxation

Profit before taxation for the year was £4,107k, which is £149k or 4% lower than 2016, driven principally by the reduction in operating profit.

- Income tax

Income tax for 2017 totals £811k in the income statement compared to £922k in the prior year. The decrease in tax charge is due to a combination of lower operating profits and higher capital expenditure deductible for tax purposes.

- Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 13.932 pence per share (2016: 13.559 pence). This brings the total paid and proposed dividend for 2017 to 20.854 pence per share, an increase of 2.5% on the previous year's dividend of 20.345 pence.

	2017 £'000	2016 £'000
Dividends declared and paid		
Previous year - Final dividend	1,310	1,281
Current year - Interim Dividend	668	655
	£1,978	£1,936
Dividends proposed		
Current year - Final dividend	£1,346	£1,310

- Cash flow

There was a net cash inflow of £1,061k in the year compared to a prior year outflow of £860k.

The higher cash inflow is a result of an increase of £695k in cash from operating activities (2017: £7,072k, 2016: £6,377k) arising from higher turnover, timing in trade receivables and payables accounts, partially offset by higher tax payment due with respect to the prior year. Net cash used in investing activities decreased by £1,253k (2017: £3,308k, 2016: £4,561k) due to reduction in capital expenditure following the desalination plant upgrade nearing completion and £39k increased inflow from the sale of fixed assets. Cash outflow from financing activities increased by £27k to £2,703k (2016: £2,676k) resulting from a combination of lower interest receivable and higher dividends paid.

Financial summary

- Capital expenditure

In 2017 the total capital expenditure decreased by £1,314k on the prior year to £3,275k (2016: £4,589k). The completion of the construction phase on the desalination plant has been the main contributor to this reduction with expenditure reducing from £1,959k to £862k. It is anticipated that the project will be completed in 2018 once the plant has undergone and passed the contractual performance testing and certain matters are rectified by the contractor. Of the remaining £2,413k spent in 2017 our focus on reducing leakage has seen £1,524k being spent on mains renewals and metering. Excluding expenditure on the desalination plant 78% of the capital expenditure in 2017 was spent on the replacement and upgrade of the Company's assets.

- Fixed assets

At 31 December 2017 the Company held assets with net book value of £76,439k (2016: £75,430k), and tangible assets make up 99% of the book value at £75,642k (2016: £74,613k). The completion of the commissioning and takeover tests on the desalination plant resulted in a transfer of £6,693k from uncompleted works to property and completed works (95% of the total transfers in the year). At the end of the year £92k of costs associated with the performance testing element of the desalination plant remains in uncompleted works.

In 2016, the Company embarked on a replacement programme for certain water meter assets. This project is anticipated to be completed in April 2018. As a result the useful economic lives of water meters due for replacement were adjusted in accordance with the programme timeline. The increased depreciation charge for the year is £79k (2016: £263k).

- Investment properties

At the year end, the Company held two investment properties, Reservoir House 1 and Reservoir House 2. The combined market value on these properties was £675k (2016: £675k).

- Loans and borrowing

Loans and borrowing at 31 December 2017 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 fair value at the reporting date on the statement of financial position at £270k with a gain in the fair value of £144k being recognised in other comprehensive income for the year (2016: £128k loss).

- Defined benefit pension scheme

Under FRS 102 the Company's defined benefit plan net liability reduced by £2,706k during the year, reducing the net deficit to £236k from £2,942k in 2016. The reduction in the size of the deficit is mainly due to gains from investment performance of £1,829k and market driven changes in assumptions decreasing the value of future liabilities by £853k.

- Deferred tax liability

The deferred tax liability increased in the year by £826k to £6,394k. The movement is a combination of an additional charge recognised in other comprehensive income of £627k arising from the reduction in value of the pension scheme deficit and a slight increase in the amount charged to the income statement arising from an increase in accelerated capital allowances during the year.

Summary financial statements

Summary income statement

For the year ended 31 December 2017

	2017	2016
	£'000	£'000
Turnover	15,960	15,720
Operating expenditure	(11,108)	(10,696)
Operating profit	4,852	5,024
Revaluation of investment property	-	(45)
Profit/(loss) on disposal of fixed assets	53	(37)
Net interest expense	(417)	(305)
Non-equity dividends	(381)	(381)
Profit before taxation	4,107	4,256
Jersey income tax	(811)	(922)
Profit for the financial year	£3,296	£3,334
Basic and diluted earnings per ordinary share of £0.50	£0.34	£0.35

Statement of comprehensive income

For the year ended 31 December 2017

	2017	2016
	£'000	£'000
Profit for the year	3,296	3,334
Fair value movement on swap	144	(128)
Annual re-measurements on net defined benefit liability	2,992	(4,202)
Total income tax on components of other comprehensive income	(627)	867
Other comprehensive income/(loss) for the year net of tax	£2,509	£(3,463)
Total comprehensive income/(loss) for the year	£5,805	£(129)

Summary financial statements

Summary statement of financial position

31 December 2017

	2017		2016	
	£'000	£'000	£'000	£'000
Fixed assets		76,439		75,430
Current assets	7,378		6,654	
Creditors – Amounts falling due within one year	(2,830)		(2,900)	
Net current assets		4,548		3,754
Total assets less current liabilities		80,987		79,184
Creditors – Amounts falling due after more than one year				
Bank loans	(14,900)		(14,900)	
Derivative financial liability	(270)		(414)	
Non-equity preference shares	(5,382)		(5,382)	
		(20,552)		(20,696)
Provisions for liabilities and charges				
Deferred taxation		(6,394)		(5,568)
Net assets excluding pension liability		54,041		52,920
Pension liability		(236)		(2,942)
Net assets		£53,805		£49,978
Capital and reserves				
Called up equity share capital		4,830		4,830
Reserves		48,975		45,148
Total equity		£53,805		£49,978

Summary financial statements

Cash flow statement

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Net cash inflow from operating activities	7,841	7,025
Jersey income tax paid	(769)	(648)
Net cash generated from operating activities	7,072	6,377
Cash flow from investing activities		
Purchase of fixed assets	(3,381)	(4,595)
Disposal of fixed assets	73	34
Net cash used in investing activities	(3,308)	(4,561)
Cash flow from financing activities		
Interest paid	(349)	(364)
Interest received	5	5
Non-equity dividends paid	(381)	(381)
Equity dividends paid	(1,978)	(1,936)
Net cash used in financing activities	(2,703)	(2,676)
Increase/(decrease) in cash and cash equivalents	1,061	(860)
Cash and cash equivalents at the beginning of the year	2,591	3,451
Cash and cash equivalents at the end of the year	£3,652	£2,591

Summary financial statements

Statement of changes in equity

For the year ended 31 December 2017

	Called-up equity share capital	Revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000
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 income 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
Balance as at 1 January 2017	4,830	675	(331)	44,804	49,978
Profit for the reporting period	-	-	-	3,296	3,296
Other comprehensive income for the year	-	-	116	2,393	2,509
Total comprehensive income for the year	-	-	116	5,689	5,805
Equity dividends	-	-	-	(1,978)	(1,978)
Transfer between reserves	-	-	-	-	-
Balance as at 31 December 2017	£4,830	£675	£(215)	£48,515	£53,805

Notes to the summary financial statements

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. Acquisition of De La Haye Plant Limited

On 16 February 2018 the Company purchased the entire issued share capital of De La Haye Plant Limited for £260k via its wholly owned subsidiary Handois Holdings Limited. De La Haye Plant Limited operates solely within Jersey providing tankered potable water, swimming pool filling and refilling and building site bulk water supply services. The Company intends to continue operating this business as a wholly owned subsidiary company under its existing trading name.