2018
Annual Report and Financial Statements

The Jersey New Waterworks Company Limited

Jersey Water

Contents

Board of Directors

Non-Executive

Chair
Peter Yates
BSc, FCA

Mary Curtis
MA, Chartered FCIPD, CDir

Tim Herbert
MA (Oxon)

Senior Independent Director
Stephen Kay
BSc (Eng), CdipAF, MICE, MCIWEM, MIWater

Heather MacCallum
BA,CA

Daragh McDermott
BBS, FCA, FCIS, GDL, CDir

Michael Pocock
BSc (Hons), MBA, CEng, MICE, MCIWEM (appointed 17 May 2018)

Executive

Chief Executive
Helier Smith
BA (Hons), FCA, CDir, MIWater, FCMI

Finance Director
Natalie Passmore
MA (Hons), ACA, CMgr MCMI, Dip IoD

Officers and Advisers

Company Secretary
Louisa McInnes
TEP

Independent Auditor

Deloitte LLP
Gaspé House
66-72 Esplanade
St Helier
Jersey, JE2 3QT

Registered Office

Mulcaster House
Westmount Road
St Helier
Jersey, JE1 1DG

Peter Yates *BSc, FCA*

Peter Yates was appointed to the Board in May 2009. Peter, a Chartered Accountant, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for over 31 years. He is a Non-Executive Director and Chair of the Audit Committee of Invesco Enhanced Income Fund Plc and a Non-Executive Director of Standard Bank Offshore Group Limited and Standard Bank Jersey Limited. The role includes being a member of the Standard Bank Offshore Risk Committee and he also acts as Chair of the Standard Bank Offshore Board Audit Committee.

Peter is Chair of the Board and chairs the Nomination Committee.

Mary Curtis *MA, Chartered FCIPD, CDir*

Mary Curtis joined the Board as a Non-Executive Director in June 2008. Mary is a Fellow of the Chartered Institute of Personnel & Development, a Chartered Director of the Institute of Directors and a Director of a privately owned consultancy business, Calmera Business Consultancy.She has held the role of Offshore Island Regional Human Resources Manager at Deloitte & Touche (now Deloitte LLP) and then Director of Human Resources at Mourant du Feu & Jeune (now Mourant). She is a Trustee for the Durrell Wildlife Conservation Trust.

Mary chairs the Remuneration Committee and is a member of the Nomination Committee.

Tim Herbert *MA (Oxon)*

Tim Herbert was appointed to the Board in January 2015 as a Non-Executive Director. Tim is a Jersey Advocate. He was a partner at Mourant for over 25 years including a term as Managing Partner and since July 2012 has been retained as a consultant to the firm. He had a broad commercial practice and now holds a number of other positions in the community.

Tim is a member of the Remuneration Committee and the Nomination Committee.

Stephen Kay *BSc (Eng), CdipAF, MICE, MCIWEM, MIWater*

Stephen Kay, a Chartered Engineer, joined the Board as a Non-Executive Director in April 2013. Stephen is a Non-Executive Director of South Staffordshire Water Plc and was previously Managing Director of Cambridge Water Plc. Until recently he was Chair of the Water UK Standards Board and Chair of the Water Regulations Advisory Scheme (WRAS). Stephen is a Trustee of the Water Companies' Pension Scheme.

Stephen is the Board's Senior Independent Director, a member of the Audit Committee and the Nomination Committee.

Heather MacCallum *BA, CA*

Heather MacCallum was appointed to the Board in October 2016 as a Non-Executive Director and Chair of the Audit Committee. Heather was a partner of KPMG, Channel Islands since 2001, retiring from the partnership on 30 September 2016. She was with KPMG's financial services practice in the Channel Islands for 20 years, gaining a broad range of experience from companies with a premium listing on the London Stock Exchange through to private investment vehicles. Heather became a Member of the Institute of Chartered Accountants of Scotland in November 1995. She is a Non-Executive Director of Kedge Capital Fund Management Limited and also Blackstone/GSO Loan Financing Limited.

Heather chairs the Audit Committee and is a member of the Nomination Committee.

Daragh McDermott *BBS, FCA, FCIS, GDL, CDir*

Daragh McDermott was appointed to the Board in October 2016 as a Non-Executive Director. Daragh is the Corporate Affairs Director of JT Group Limited, prior to which he qualified as a Chartered Accountant with KPMG, Ireland, and worked for PricewaterhouseCoopers, Management Consultants, London. Daragh is a Chartered Director and also holds a number of additional positions on the Island, which include being a Board Trustee for Autism Jersey and an independent member of the States of Jersey Audit Committee.

Daragh is a member of the Audit Committee and Nomination Committee.

Natalie Passmore *MA (Hons), ACA, CMgr MCMI, Dip IoD*

Natalie Passmore was appointed to the Board as Finance Director in May 2017 after joining the Company in 2010 where she held the position of Financial Controller and most recently Chief Financial Officer. She previously worked in a number of commercial roles in Jersey and overseas. Natalie is a Chartered Accountant, Chartered Manager and holds a Diploma in Company Direction from the Institute of Directors.

Natalie also serves as a director on Jersey Water's two subsidiary companies, Handois Holdings Limited and De La Haye Plant Limited.

Michael Pocock *BA (Hons), MBA, CEng, MICE, MCIWEM,*

Michael Pocock was appointed to the Board in May 2018 as a Non-Executive Director. Michael is a Chartered Civil Engineer with 44 years' experience in the water industry with Affinity Water and its predecessor company, Veolia, and Thames Water. In September 2018 Michael retired as an executive director of Affinity Water. Since then, Michael has been an independent management consultant offering expert advice to the UK water industry.

Michael is a member of the Remuneration Committee and the Nomination Committee.

Helier Smith *BA (Hons), FCA, CDir, MIWater, FCMI*

Helier Smith was appointed to the Board as Finance Director in October 2003 after joining the Company in 2002. Since April 2015, Helier has held the position of Chief Executive. He was previously employed by KPMG in the UK and Jersey where he worked for 11 years in the manufacturing, distribution and finance sectors. Helier qualified as a Chartered Director in 2010 and became a Fellow of the Chartered Management Institute in 2012.

Helier also serves as a director on Jersey Water's two subsidiary companies, Handois Holdings Limited and De La Haye Plant Limited.

Chair's Statement

I am pleased to report that despite the weather related and operational challenges, 2018 was a successful year for Jersey Water, in which we made significant progress towards our strategic objectives and developed plans that will see substantial changes to the business in the future.

2018 was a financially stable year for Jersey Water. The hot and dry summer weather combined with the introduction of De La Haye Plant and insurance compensation saw turnover increase by 7.8% to £17,199k. This increased revenue allowed the Group to continue its focus on achieving best practice across the business whilst managing upward pressure on operating costs. An increase in operating costs of 14% or £1,578k was primarily driven by increases in depreciation following the upgrade of the desalination plant, operation of the plant in December and an increase in employment costs as we address regulatory, water quality and succession risks. Operating profits for the year totalled £4,566k which is a decrease on 2017 of £339k or 7% (2017: £4,905k) with overall profit for the year totalling £2,969k, a decrease of £327k (10.0%) on the previous year.

During the year the Group's net assets increased by £2,210k on the prior year as a result of the Group's ongoing profitability, investment into our infrastructure and an improvement in funding position of the Defined Benefit Pension plan following the FRS102 year-end valuation which moved from a £236k liability in 2017 to a £1,013k surplus as at 31 December 2018 (£1,249k).

In 2018 we met the operational challenges presented by lower rainfall levels, which totalled 862mm (2017: 1,027mm) for the year. We started the year with reservoirs at full capacity and water in store remained healthy throughout the summer despite the very hot and dry conditions. The late onset of autumn rain meant that we needed to use our desalination plant during December to top up supplies, ending the year with reservoirs at 70% capacity. Despite the very warm and dry summer, output from the treatment works reduced by 2.0%, principally due to a reduction in leakage of approximately 19% on the prior year following the completion of a targeted leakage reduction programme.

We spent a total of £3,910k (2017: £3,275k) on our capital expenditure programme for 2018. This included the renewal of 2km of treated water mains network, the extension of our network by 2.5km, investing £800k in water quality improvement and resource initiatives and adding 340 new connections. For 2019, our capital programme will increase to approximately £4 million and investment will focus on a number of schemes to replace old or ageing assets, increase resilience and improve efficiency.

During 2018, the Company launched its Connect programme, aimed at increasing resilience, enhancing customer service and delivering efficiency using technology and new ways of working. The 3 year programme includes the replacement of the existing suite of corporate IT applications.

We are proud that water quality in 2018 was very high with a compliance rate of 99.99% (2017:99.98%). For the fifth consecutive year, nitrate concentrations in treated water have remained fully compliant with regulatory drinking water standards and during 2018, the water supplied by the Company met all of the quality standards for pesticides, including oxadixyl.

During 2018, the Company continued its close working relationship with the Environmental Protection and Natural Environment sections of the States of Jersey as well as the Farming Community through the forum of the Action for Cleaner Water Group. During the year, Jersey Water participated in the consultations on the new regulatory Orders issued by the States of Jersey under the Water Pollution (Jersey) Law 2000, in support of the initiatives outlined in the 2016 States' Water Plan for Jersey. The Company fully endorses the Orders, which aim to set the regulatory benchmark for farming activities relating to the use of fertilisers and protection of water resources from pollution. It is important, however, that the implementation and enforcement of the Orders is sufficiently resourced by the States of Jersey and that all of the actions promised within the Water Plan for Jersey, including the appointment of a Catchment Officer and review of the Pesticides (Jersey) Law 1991, are delivered.

We welcomed a number of further voluntary initiatives by farmers to reduce the volume of nitrates and restrict the use of pesticides in Jersey Water catchments. In contrast to 2017, the wet weather during the growing season meant that nitrates in untreated water were higher the previous year, but still low enough to enable the treated water supply to remain within the regulatory limit. In 2018, over 46,000 analyses were undertaken for 127 different pesticides in the stream courses and reservoir outlets, 264 were above the drinking water limit of 0.1μg/l, a modest rise on the 249 in 2017. The small increase was due to the wet weather increasing the incidence of oxadixyl in raw water. In 2018, there were 9% fewer occasions when pesticides in current use exceeded 0.1μg/l compared to 2017.

During 2018, we completed work on phase 1 of our Water Resources Management Plan ('WRMP'). The plan assesses the need for action to ensure sufficient water resources are available to meet the projected demand for water for the next 25 years. Phase 1 of the project focussed on assessing the supply-demand balance, allowing for changes in population and climate. The key findings of the project based on the assumptions in the WRMP to date are:

- Population growth and other factors will result in an increase in demand for water of 17% by 2045.
- The water supply-demand balance shows that under worst historic drought conditions the forecast supply deficit increases fourfold by 2045

Phase 2, which is due to be completed in 2019, will assess what measures are required to address this shortfall, including both demand reduction (including further water efficiency initiatives and leakage reduction) and the potential for additional resources, such as further desalination, reservoir storage and additional sources. During late 2019, the Company will consult with stakeholders on proposed measures to address these water resource challenges, their cost and the likely impact on water charges.

One area of focus for the Board has been the completion of the extension of the desalination plant. Because of issues identified by Jersey Water during the construction and commissioning process, it became clear that the plant's membranes had suffered damage. Replacement membranes have been procured and will be fitted during 2019. The Company is currently in dispute with the contractor in respect of a number of technical and financial matters.

We completed the purchase of the water tankering business, De La Haye Plant Limited in February 2018 and successfully merged the administration and operations of the business with our own to improve service to its customers.

In October 2018, the Company declared and paid an interim dividend for 2018 of 7.137 pence per share ('pps'). The Board are recommending a final dividend for the year of 14.447pps for consideration and approval by shareholders at the forthcoming Annual General Meeting ('AGM'). The combined dividend for 2018 is 21.584pps, representing an increase of 3.5% over the 2017 dividend of 20.854pps.

As part of our commitment to creating value for shareholders the Company continues to encourage trading in Jersey Water shares and we sponsor an over-the-counter share trading scheme operated by Jersey stockbrokers, LGT Vestra (Jersey) Limited, whereby willing sellers are matched with those interested in buying Jersey Water shares.

In order to accommodate a change in the year-end reporting timetable of our majority shareholder, the States of Jersey, the Group will be changing its financial year-end to 30 September. Accordingly, the next set of financial statements will be for the nine-month period ending on 30 September 2019. The annual cycle of Group events, including dividend payments, the financial reporting timeline and the AGM are currently being planned, details of which will be published on our website in due course.

At the 2019 AGM, it will be the turn of Stephen Kay, Mary Curtis and myself, Peter Yates, to retire by rotation. Stephen will seek re-election for a term of three years. Mary, having completed her maximum tenure on the Board will not be seeking re-election.

"The water supply-demand balance shows that under worst historic drought conditions the forecast supply deficit increases fourfold by 2045."

During her 10 years on the Board of Jersey Water, we have benefited a great deal from her expertise in all areas of Human Resources Management and her sound judgement and advice. Mary spent five years as Chair of the Company's Remuneration Committee for which I am especially grateful. On behalf of the Company and Board, I would like to thank Mary for her support and hard work throughout her time on the Board. Having now completed nearly ten years on the Board myself, the Nomination Committee Directors and I have been considering the matter of my succession. It has been agreed that I will retire from the Board at the 2020 AGM. The process for selecting my replacement as Chair is underway and my successor will be announced in due course. In the meantime, as I have served on the Board for a total of more than nine years I must seek re-election for a term of one year. It is the current intention that the two vacancies left by myself and Mary be filled with only one appointment. This reduces the overall size of the Board by one, which is more in keeping with the size and nature of the Company.

I am very pleased to report that the Company was awarded the Investors in People ('IIP') Silver Award during the year under the new Sixth Generation Framework. The Board and Leadership Team at Jersey Water are aware of the vital role that all employees play in the success of the organisation and the need for Jersey Water to attract and retain the best people in order to sustain that success.

Finally, it is traditional and entirely appropriate to pay tribute to the hard work and significant efforts by the whole team at Jersey Water during 2018. Throughout the year, the employees have responded positively to the many changes and challenges faced by them in the delivery of high quality water and great customer service. On behalf of the Board and shareholders, I should like to thank every Jersey Water employee for their ongoing support and contribution during 2018.

Peter Yates
Chair
14 March 2019

Strategic Review

Our objectives

Jersey Water's vision statement is "To be a great Island community water provider" and our mission is simply to provide "Safe, High Quality Water for Jersey". We achieve this by balancing the needs of our stakeholders to create value over the long-term. There are five key pillars to our business strategy underpinned by 10 strategic objectives.

JerseyWater
HIGH QUALITY WATER
Sufficient water resources to meet demand
Safe, high quality drinking water
HIGH STANDARD OF SERVICE
Charges that are fair, affordable and value for money
High customer satisfaction
A GREAT PLACE TO WORK
Safety and wellbeing come before everything else
Engaged, empowered and effective people
COMMUNITY CONSCIOUS
A positive impact on Island life and our local community
Environmentally responsible and sustainable business
LONG-TERM STABILITY
Efficient, financially secure and generates a fair profit
Good governance with a focus on long term resilience and stability

High Quality Water

We have a statutory duty to supply water meeting strict quality criteria in sufficient quantity to meet reasonable demand. We manage water quality risks from catchment to tap to ensure we meet or exceed quality requirements. We plan water resources in the short and long-term to meet day-to-day demand and address the long-term impact of population and climate change.

Strategic Objectives:

Safe, high quality drinking water

Outcomes for 2018

- 99.99% water quality compliance (2017: 99.98%)
- Zero nitrate or pesticide failures in treated water (2017: zero)
- 99.99% bacteriological compliance at treatment works (2017: 100%)
- Network model implemented and operational
- Resmix installation at two reservoirs
- Water Quality Department established & Manager appointed
- Catchment initiatives with Action for Cleaner Water Group

Key initiatives for 2019

- Commissioning of a field scale catchment pollution risk model in conjunction with the Action for Cleaner Water Group
- Upgrade of carbon dosing plant at Handois Water Treatment Works
- Determination of planning application on Val de la Mare bypass
- Implementation of Laboratory Information Management System
- Renewal of Motor Control Centre at Grands Vaux Pumping Station and installation of standby power generation
- Ongoing enhancement of water quality governance and drinking water safety plans

Sufficient water resources to meet demand

Outcomes for 2018

- Phase 1 of Water Resources Management Plan completed. Water supply/demand shortfall identified
- Leakage reduced by 19% on 2017
- Desalination plant produced 180Ml to supplement resources
- Replacement desalination membranes procured

Key initiatives for 2019

- Phase 2 of Water Resources Management Plan to identify and consult on proposed measures to address supply/demand shortfall

High Standard of Service

Our customers do not have a choice of water supplier and place their trust in Jersey Water to act responsibly. We must meet or exceed our customers' expectations both in terms of the product we supply and the service we provide, whilst ensuring that our charges are cost reflective and fair.

Strategic Objectives:

Charges that are fair, affordable and value for money

Outcomes for 2018

- 95% of customers paying for water by meter (2017: 94%)
- 32% of customers now receiving e-bills (2017: 30%)
- Below inflation tariff increase of 2.75%

Key initiatives for 2019

- Below inflation tariff increase of 3.8%

High customer satisfaction

Outcomes for 2018

- ICS benchmarking survey 86.5% satisfaction rating (2017: 83.2%)
- Text feedback score of 93% (2017: 94%)
- Reconfiguration for disabled access to Mulcaster House

Key initiatives for 2019

- Rationalisation of telephone based bill payment options

A Great Place to Work

Jersey Water can only succeed as an organisation with high calibre, happy and engaged employees working in a safe workplace. By providing an environment where employees are supported to take on more responsibility, experience new challenges and fulfil their potential, we will build on our capability, resilience and performance.

Strategic Objectives:

Safety and wellbeing come before everything else

Outcomes for 2018

- Zero time lost accidents (2017:3)
- New lone worker system implemented
- New 'Chlorguard' system at Handois
- Safety Management System updated

Key initiatives for 2019

- Roll out of safety knowledge base
- Development of new health & wellbeing programme

Engaged, empowered and effective people

Outcomes for 2018

- Silver IIP Accreditation
- Completion of Leadership Development and Talent Pipeline Programmes

Key initiatives for 2019

- New People Strategy development and rollout

Long-term Stability

We are a long-term business. To be successful we must maintain our performance over generations. This means not taking short cuts, making the appropriate long-term investment decisions, maintaining our assets to a high standard and being profitable. We will achieve this through effective financial management, strong corporate governance and by being efficient and adaptable.

Strategic Objectives:

Efficient, financially secure and generating a fair profit

Outcomes for 2018

- Profit for the year of £2,969k (2017: £3,296k)
- Completion of De La Haye Plant acquisition and integration
- Extension of mains network by 2.5km (2017: 2.1km)
- Successful tender of civil engineering term agreement
- Updated defined benefit contribution rate following actuarial valuation of pension scheme

Key initiatives for 2019

- Future metering strategy development
- Connect programme roll out (see page 33)

Good governance with a focus on long-term resilience and stability

Outcomes for 2018

- GDPR compliance project on track against milestones
- IT strategy supporting the Connect programme developed and approved

Key initiatives for 2019

- Change of year-end to 30 September
- Implementation of Connect programme related systems changes
- Ongoing delivery against GDPR milestones

Community Conscious

As the provider of the public water supply, Jersey Water is inextricably linked with the local community. Our actions have an impact on the community and environment. We focus on ensuring that the lasting legacy of Jersey Water on Island life is a positive one. To achieve this we play our part in supporting community initiatives and looking after the environment

Strategic Objectives:

A positive impact on Island life and our local community

Outcomes for 2018

- £18,850 raised for the Stroke Association
- Supported over 50 events including the Weekender, Triathlon, Island Walk and others
- School visits for 120 students
- 10th year of offering bursary placements

Key initiatives for 2019

- Friends of Special Care Baby Unit selected as charity of choice
- Ongoing support for Weekender and other events
- Ongoing bursary places offered to local students

Environmentally responsible and sustainable business

Outcomes for 2018

- First electric vehicle added to Jersey Water fleet as trial
- New water efficiency calculator developed by savewatersavemoney.co.uk

Key initiatives for 2019

- Continued 100% compliance with environmental regulation (2018: 100%)
- Ongoing provision of drinking water bottles and water supplies to events
- Key stage 1 school initiative

Our business

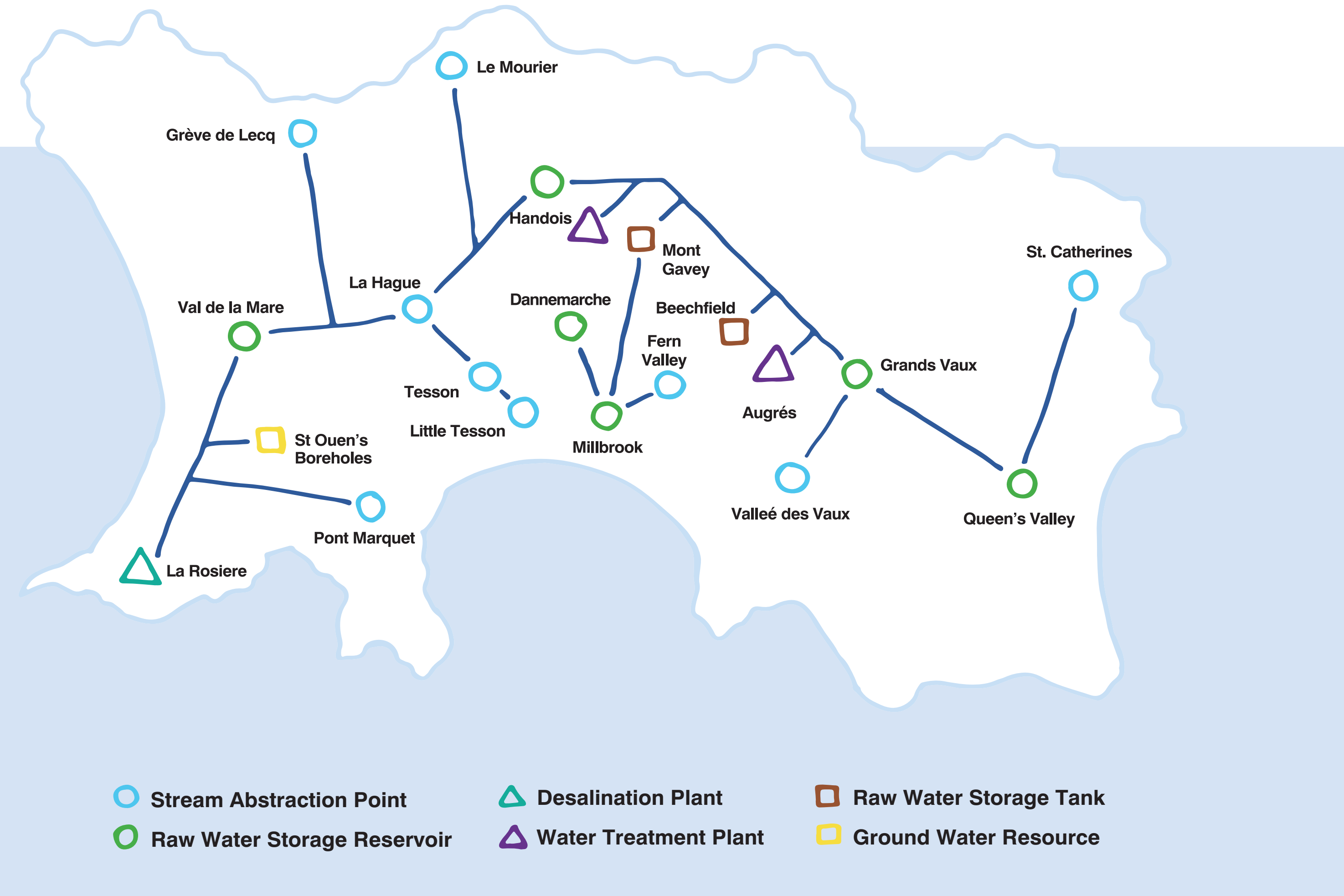
Jersey Water is the sole supplier of treated mains water to the Island of Jersey. In 2018, we supplied 7.2 billion litres of mains water to over 40,000 homes and businesses across the Island. Our two water treatment works feed our 580km network of mains where we supply Islanders with an average of 19.7 million litres of water per day.

Water resources

Jersey's water resources are nearly all derived from rainfall dependent surface waters. We capture and store raw (untreated) water in six storage reservoirs with a capacity of 2,687Ml, which is approximately 120 days of usable supply. We also capture raw water from stream catchment ponds and abstraction pumping stations across the Island. The nature of rainfall patterns in Jersey means that we generally rely on rainfall in the autumn and winter to replenish water resources and keep them topped up for as long as possible.

To help protect against prolonged water shortages, the Company has a standby reverse osmosis (RO) desalination plant. The plant, which can produce 10.8Ml/day (approximately half of daily demand) is operated when there is a risk that other water resources will be insufficient to meet demand.

Jersey Water's plan for meeting the Island's future demand for water is set out in its 25-year Water Resource Management Plan, last completed in 2010 and currently being updated. Work completed in phase 1 of the project, during 2018, included consideration of the long-term effects of changing weather patterns, population and demographics on the supply demand balance. The outcome of phase 1 indicated that, if no action is taken, by 2045, there would be a shortfall in water available for use during severe drought scenarios amounting to approximately 8.22Ml/day or 34% of the forecast daily demand. During 2019, the Company will be completing Phase 2 of the Water Resource Management Plan, which will seek to identify and assess the measures necessary to address this shortfall. Such measures are likely to focus on both demand management (e.g. water efficiency, reducing consumption and leakage) and additional water resources (e.g. further desalination, additional storage and new water sources). Once the viable options arising from phase 2 are identified, Jersey Water will consult with stakeholders when determining the measures that will be adopted.



Water quality

The water we supply is consistently of a very high quality. Bacteriological quality is good and there is an ongoing high degree of compliance with other water quality parameters. This is achieved despite often challenging raw water quality that, whilst improving over time, is susceptible to pollution from nitrates and pesticides at certain times of the year.

The Company's two water treatment works both use the same treatment processes to transform raw water into potable water. Firstly, chemically assisted sedimentation and rapid gravity filtration removes the majority of organic matter; then a two-stage treatment process utilising Ultra Violet (UV) radiation and dosing with ammonia and chlorine disinfects the water. Additional processes are in place to control taste, odour and plumbosolvency.

The treated water supply is vulnerable to the effects of diffuse nitrate and pesticide pollution across the Island. Driven principally by agricultural activity, the levels of these agro-chemicals in water resources regularly exceed the regulatory limits for treated water. Jersey Water manages this risk through careful blending, dilution and treatment (where possible). However, on occasion, circumstances can be such where minor, short-term exceedances in treated water are unavoidable. The Company has in place a dispensation from the States of Jersey for compliance with water quality parameters relating to oxadixyl and nitrates that expire in 2019 and 2021 respectively. The dispensations were not used during 2018 and the Company manages water quality in order to avoid the need for their use in all but exceptional circumstances. In addition, Jersey Water works closely with the Environmental Protection/Natural Environment sections of the States of Jersey and the local farming community looking at ways in which raw water quality can be improved. Significant progress has been made during the previous 3 years in improving raw water quality across the Island.

The Company's objective is to supply water that meets all regulatory parameters so that it is not reliant on any quality dispensations.

Regulation

The supply of water in Jersey is largely regulated through the Water (Jersey) Law 1972, which sets out, amongst other things, acceptable charging practices, service standards and the minimum water quality standards. It is understood that the Water (Jersey) Law 1972 is due to be reviewed and amended during 2019. Whilst Jersey Water have been and will continue to be consulted on any changes to the law, it is not yet clear as to the nature of any changes or the potential impact on Jersey Water.

In addition, the Company's activities are also regulated through mechanisms within the Reservoirs (Jersey) Law 1996, the Water Resources (Jersey) Law 2007 and the Water Pollution (Jersey) Law 2000.

Principal strategic risks and uncertainties

Jersey Water's operations are subject to a number of risks and uncertainties that could, either individually or in combination, affect our operations, performance and future prospects. The risks and uncertainties described on the following pages are those that we believe to be of strategic importance to the future of the organisation.

We identify and manage these and other risks through our risk management processes (which are described further on pages 19 and 20). The risk management processes are designed to manage and mitigate risk (rather than to eliminate it).

Unknown risks and those that the Directors believe are less significant may also have a material impact on the operations and performance of the Company.

Raw Water Quality

Risk:

Agriculture is the main economic activity within the catchment areas of Jersey Water's reservoirs and abstraction points. In the absence of sufficient regulatory control, there is a risk of persistent point source and diffuse pollution from the use of fertilisers and pesticides in the catchments. This could result in the need for costly and technically challenging treatment to remove nitrates and/or pesticides in order to achieve consistent compliance with water quality regulations.

Risk Management:

Jersey Water manages its water resources prudently; regularly testing raw water sources, selecting the best quality water to be taken for treatment and blending water from multiple sources. The measures are designed to manage the known risks present in Jersey Water's surface water catchments. In 2019, Jersey Water will commission a field scale catchment risk map to enable targeted, field specific catchment initiatives aimed at improving water quality.

Jersey Water is proactively involved with the States of Jersey and farming sector to develop initiatives to improve water quality in catchments. The States of Jersey have recently consulted on the introduction of regulation (in the form of Orders due for implementation in 2019) to baseline the minimum expected standards in the use of fertilisers across the Island. The regulation will be supported by a new Water Code also aimed at promoting best practice in the handling and use of pesticides. It is important, however, that the implementation and enforcement of the Orders is sufficiently resourced by the States of Jersey and that all of the actions promised within the Water Plan for Jersey, including the appointment of a Catchment Officer and review of the Pesticides (Jersey) Law 1991, are delivered.

In order to mitigate the risk of short term minimal exceedances of water quality parameters for both oxadixyl and nitrates caused by factors outside of the Company's control, Jersey Water has secured dispensations (under the Water (Jersey) Law, 1972) which permit a limited number of samples for each substance to exceed the statutory limit but remain within the health-based limit. The dispensations expire in 2019 and 2021 respectively and which unless extended will require successful catchment intervention or new treatment.

During 2019, Jersey Water will be installing a new Carbon Dosing plant at Handois Water Treatment Works. The new plant will provide duty/standby resilience and enable the use of more advanced types of carbon.

Short Term Drought

Risk:

The Company's reservoirs have sufficient capacity to store approximately 120 days' average demand for water.

The relatively low reservoir storage capacity coupled with the reliance of the Island on rainfall means that water resources in Jersey are particularly susceptible to periods of drought.

Risk Management:

The Company manages its water resources prudently, ensuring that reservoirs are filled quickly in periods of rainfall. As part of its drought management plan, the Company maintains a standby desalination plant in case additional resources are required and further contingency measures are available should the need arise.

The Company adopts a number of strategies to reduce the demand for water including Island-wide metering, pressure reduction and leakage control.

Long-term Demand for Water

Risk:

Phase 1 of preparing the next 25 year Water Resources Management Plan has concluded that, under worst historic drought conditions, there will be a shortfall in water available for use against projected demand of 8.2Ml/day by 2045.

The forecasts are dependent on assumptions regarding population growth, changing demand profiles for water and the effects of climate change on water available for use.

There is the risk that, if no action is taken, Jersey Water may be unable to meet the demand for water in the future.

Risk Management:

The Water Resources Management Plan sets out the way in which the Company expects to meet projected demand over the 25 year horizon of the plan. Phase 2 of the plan, which includes the identification and assessment of options available to address the shortfall, is currently underway and will conclude towards the end of 2019.

Once finalised, the plan will form the basis of both capital and revenue projects aimed at reducing demand for water and increasing the amount of water available for use. Projects arising from the previous plan included the roll out of island wide water metering and doubling the capacity of the desalination plant.

People Succession

Risk:

Jersey Water has a mature workforce with an average remaining working life of approximately 20 years. Many of the roles within the Company are highly technical in nature requiring specialised skills and extensive knowledge of the water supply infrastructure in Jersey that can take many years to build up. Without effective succession planning there is the risk that business objectives may not be met in the long-term.

Risk Management:

A key strategic aim of the Company is to be a 'Great Place to Work'. The Company has a number of training and development schemes in place to ensure we develop and maintain the right skills and experience. Jersey Water has adopted the Investors in People framework to empower and engage staff and regularly measures employee satisfaction. Succession programmes are in place and being developed within each department and the Company regularly runs in-house talent development and leadership programmes. Where necessary, external recruitment is undertaken to bring in skills and experience. One of the objectives of the Connect programme is to develop the Company's Corporate knowledge, capturing knowledge and experience within the corporate systems and processes.

Cyber Security

Risk:

Jersey Water's information technology systems and plant are increasingly interconnected allowing the business to operate more efficiently. This interconnectivity increases the risk of unauthorised access to the Company's systems potentially resulting in disruption to the business and/ or a data breach.

Risk Management:

Jersey Water works with specialist independent advisers to benchmark its systems and security measures and to implement improvements where required.

The Company has in place a comprehensive cyber awareness and training programme for employees and regularly tests their awareness. Cyber security underpins the Connect programme which will ensure that all systems are secure by design. A continuous improvement programme of investment in cyber risk mitigation measures is underway. The Company regularly tests its disaster recovery processes and procedures.


3
WATER

Financial results

Turnover

Turnover increased 7.8% to £17,199k (2017: £15,960k) as a result of an increase in billed water consumption combined with the introduction of De La Haye Plant water haulage services and income from an insurance claim.

Revenue from the sale of water contributed £15,937k compared with £15,171k in 2017. The overall increase in water revenue arose from a combination of higher billed water consumption particularly over the hot dry summer months, 340 new connections to the network (2017: 303) and the below-inflation tariff increase of 2.75% in April.

Turnover in relation to rechargeable works from the installation of new water mains and connections was £327k, a decrease of 31% on the prior year of £473k. Although there were a higher number of connections made in 2018 compared to 2017 the decrease on prior year is principally due to differences in the size and nature of each connection.

Revenue generated from the delivery of water by De La Haye Plant was £113k (2017: nil) is included within other income for 2018 of £424k (2017: £316k). The Group also received an amount of £511k relating to compensation received on an insurance claim in respect of replacement membranes for the desalination plant.

Operating expenditure

Operating costs increased by 14% or £1,578k to £12,633k during 2018 (2017: £11,055k). The increase in expenditure for the year is due to a number of factors. These mainly comprise of four weeks operation of the desalination plant in December 2018, a full year of depreciation on the upgraded plant (including accelerated depreciation of the membranes due to be replaced) and a continued focus on enhancing working practices to deliver best practice and efficiency across the business. This includes the initiation of the Company's Connect programme, the formation of the Water Quality team and increased regulatory compliance, particularly with regard to the introduction of the General Data Protection Regulation legislation.

Operating profit

The Group generated an operating profit of £4,566k, which is a 7% decrease or £339k lower than 2017 (£4,905k). The reduction was due to the increased operating costs discussed above of which over 75% were offset by increases in turnover.

Net interest expense

Net interest expense totalled £364k in 2018 which is a £53k decrease on 2017 (2017: £417k). The decrease is mainly attributable to the decrease in net interest expense on pension obligations to £3k compared £73k in 2017, the movement arising as a result of market driven changes.

Profit before taxation

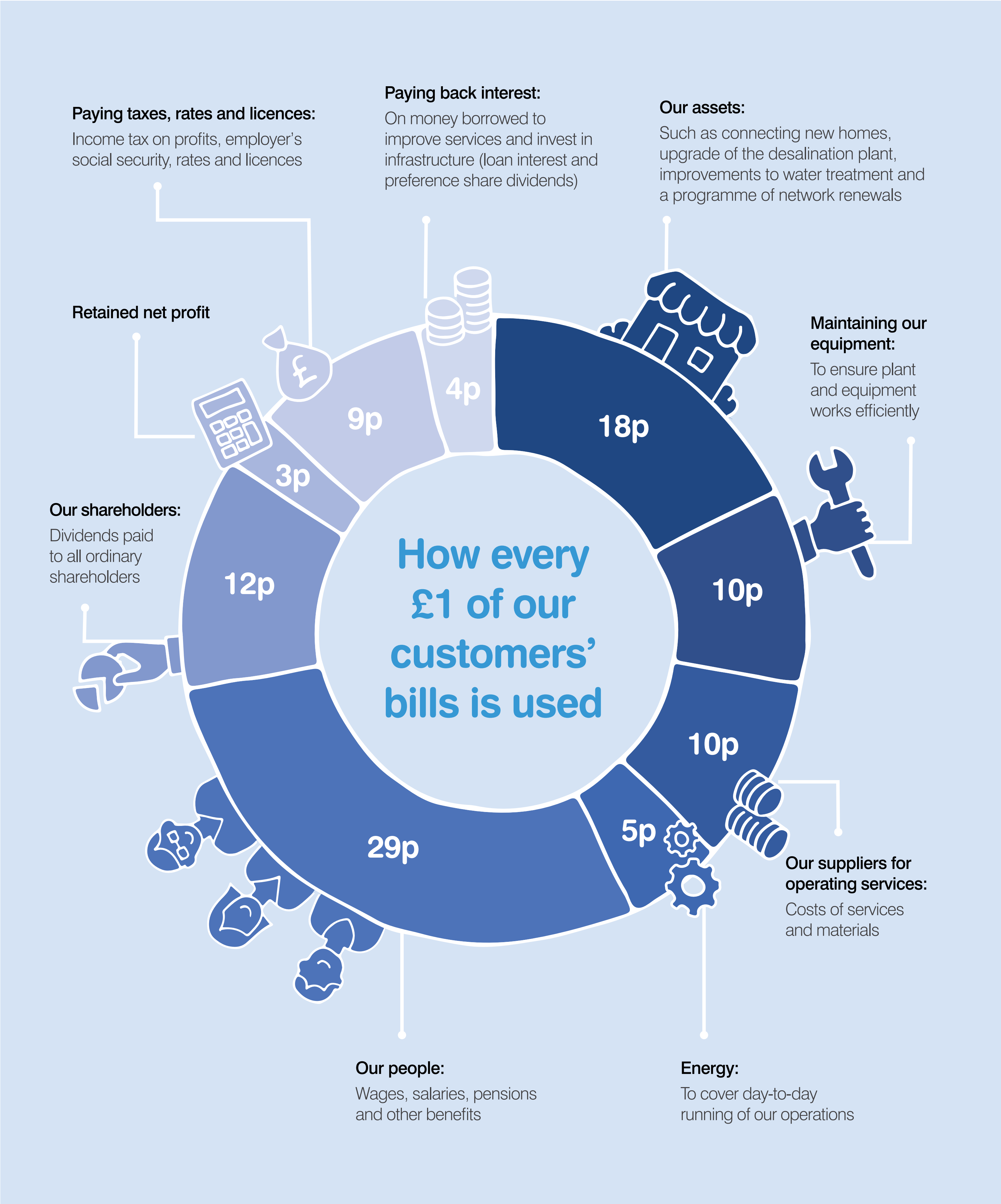
Profit before taxation for the year was £3,821k, which is £286k or 7% lower than 2017, driven principally by the reduction in operating profit.

Income tax

Income tax charged in the year has increased by £41k on the prior year to £852k due to an increase in taxable profits after adjusting for the higher annual depreciation charge and lower capital expenditure on mains renewals deductible for tax purposes.

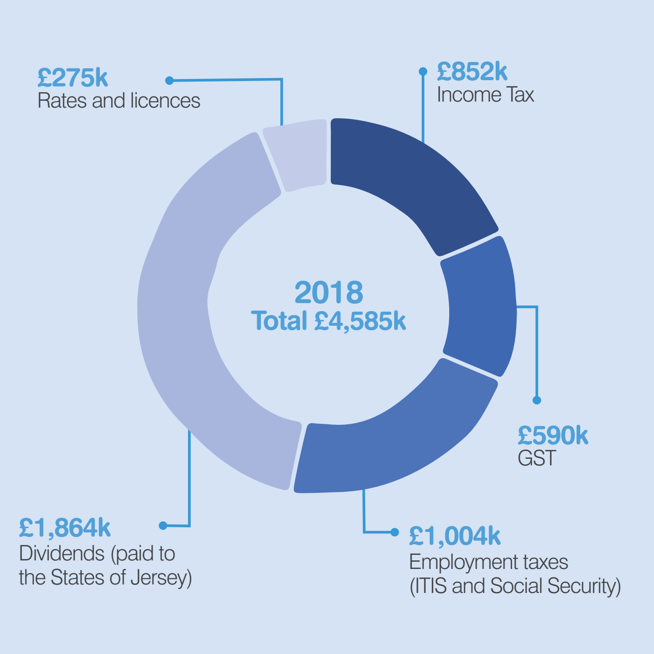
Returns to shareholders

Earnings per share for 2018 was £0.31 for each ordinary share a small decrease of £0.03 on 2017. 73.91% of the ordinary share capital of the Company is owned by the States of Jersey (representing 83.33% of voting rights) with the remaining 26.09% held by around 116 private and institutional investors.

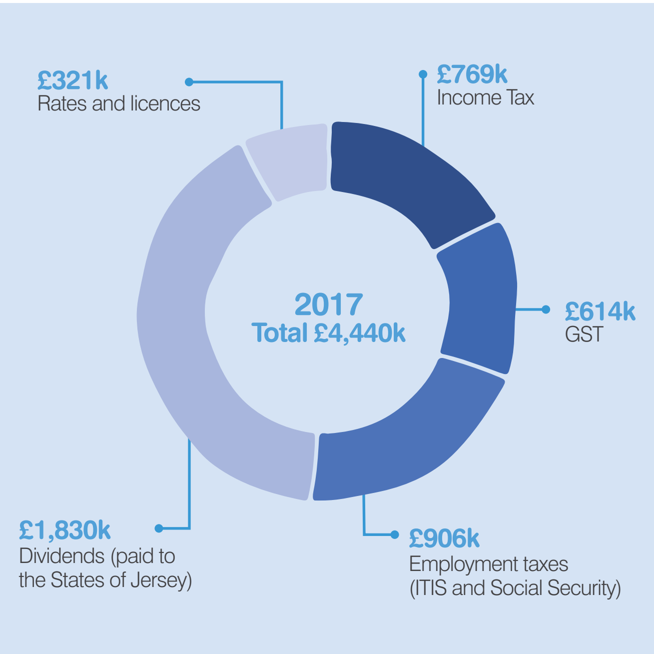


Paying taxes, rates and licences:
Income tax on profits, employer's social security, rates and licences
Paying back interest:
On money borrowed to improve services and invest in infrastructure (loan interest and preference share dividends)
Our assets:
Such as connecting new homes, upgrade of the desalination plant, improvements to water treatment and a programme of network renewals
Retained net profit
Maintaining our equipment:
To ensure plant and equipment works efficiently
Our shareholders:
Dividends paid to all ordinary shareholders
9p
4p
18p
3p
12p
10p
10p
5p
29p
How every £1 of our customers' bills is used
Our suppliers for operating services:
Costs of services and materials
Our people:
Wages, salaries, pensions and other benefits
Energy:
To cover day-to-day running of our operations

Total contribution to the States of Jersey 2018



Total contribution to the States of Jersey 2017



Transactions with the States of Jersey

The total cash paid to the States of Jersey by Jersey Water during the year, including dividends was £4,585k (2017: £4,440k).

Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 14.447 pence per share (2017: 13.932 pence). This brings the total paid and proposed dividend for 2018 to 21.584 pence per share, an increase of 3.5% on the previous year's dividend of 20.854 pence.

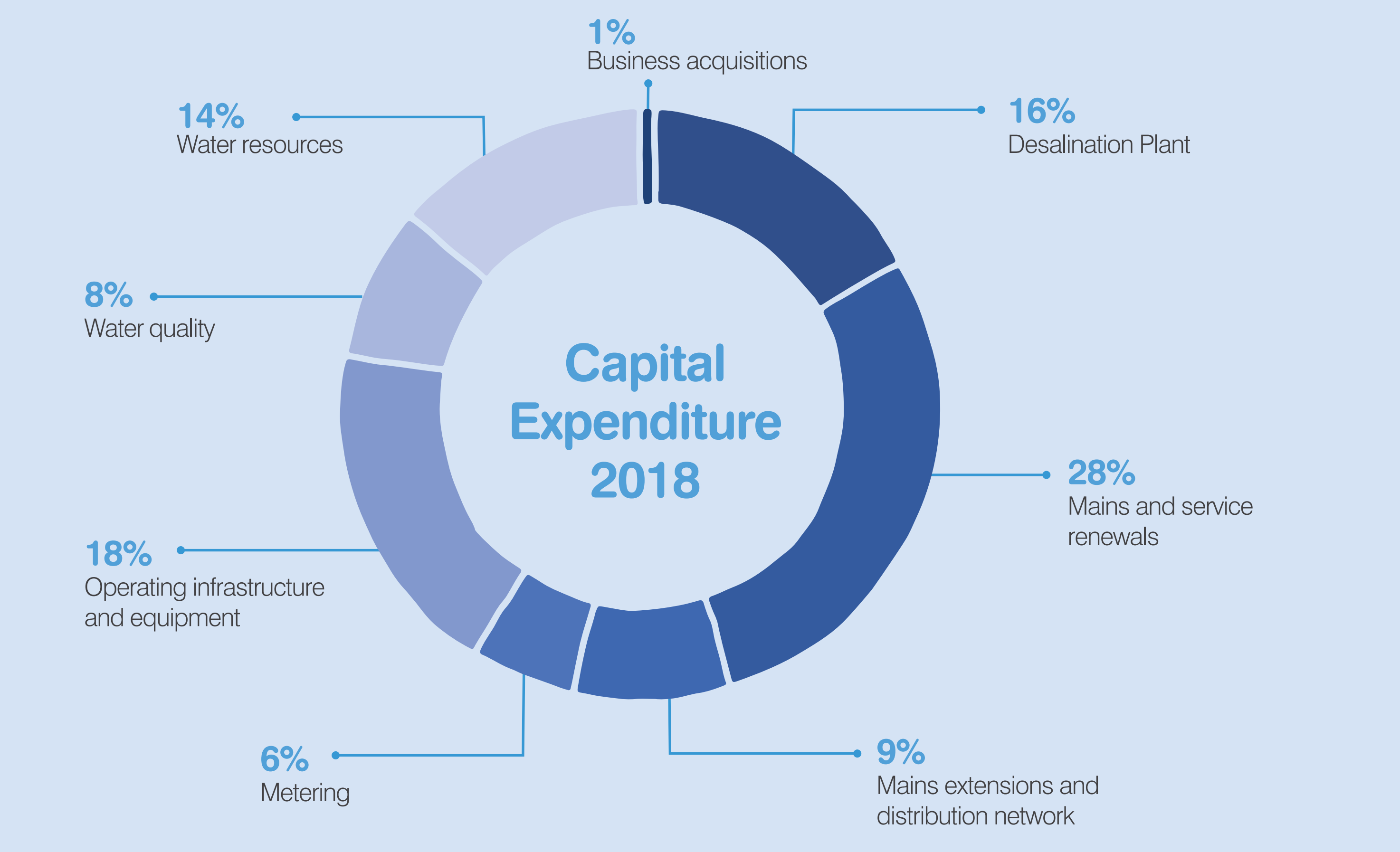
Dividends declared and paid	2018 £'000	2017 £'000
Previous year - Final dividend	1,346	1,310
Current year - Interim dividend	689	668
	£2,035	£1,978
Dividends proposed		
Current year - Final dividend	£1,396	£1,346

Cash flow

There was a net cash inflow of £215k in the year compared to a prior year inflow of £1,061k.

The lower cash inflow is a result of a decrease of £498k in cash from operating activities (2018: £6,574k, 2017: £7,072k) arising from higher operating costs, timing in trade receivables and payables accounts, partially offset by a lower tax payment due on the prior year. Net cash used in investing activities increased by £276k (2018: £3,584k, 2017: £3,308k) due to the purchase of De La Haye Plant Limited. Cash outflow from financing activities increased by £72k to £2,775k (2017: £2,703k) resulting from a combination of higher interest and dividends paid.

The graph below provides an analysis of the expenditure in 2018 by type.



Fixed assets & capital expenditure

In 2018 the total capital expenditure increased by £635k on the prior year to £3,910k (2017: £3,275k). This figure includes £564k of expenditure on the desalination plant for the ongoing performance testing phase and the replacement of the reverse osmosis membranes. This project is due for completion in June 2019.

Of the remaining £3,346k spent in 2018, in line with our focus on achieving best practice standards and resilience. Principally £1,843k was spent on new and upgraded assets throughout the business and £1,153k was spent on mains renewals and metering continuing our work to reduce leakage and improve water quality throughout the network.

At the year end, the Group held assets with net book value of £77,478k (2017: £76,439k), with tangible assets making up 98% of the book value at £76,179k (2017: £75,662k).

Investment properties

At 31 December 2018, the Company undertook an internal valuation of its investment property. The valuation resulted in an increase in the fair value by £105k bringing the market value to £780k (2017: £675k).

Loans and borrowing

Loans and borrowing at 31 December 2018 remained unchanged at £20,282k (2017: £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 £174k (2017: £270k) with a gain on the fair value of £96k being recognised in other comprehensive income for the year (2017: £144k).

Defined benefit pension scheme

Under FRS 102 the Company's defined benefit plan net liability reduced by £1,249k during the year, resulting in a net surplus of £1,013k (2017: £236k deficit). The elimination of the deficit and resulting surplus is mainly due to an improvement in funding status following market driven changes in assumptions used to calculate the plan's liabilities which offset lower than expected investment performance on plan assets during the year.

Deferred tax liability

The deferred tax liability increased in the year by £462k to £6,856k. The movement is a combination of an additional charge recognised in other comprehensive income of £319k 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 a decrease in accelerated capital allowances during the year.

High quality water

Water quality

For the second year out of the last three years, the water supplied by the Company was the highest quality to date with an overall compliance rate of 99.99% with the water quality requirements of the Water (Jersey) Law 1972 (2017: 99.98%). There were no instances of pesticides or nitrates exceeding regulatory limits in the treated water during the year and the bacteriological compliance of water leaving the treatment works was 99.99% (2017: 100%).

Throughout 2018, the Company undertook approximately 15,000 regulatory treated water analyses. Of these, just one was outside of the respective regulatory parameter but posed no risk to health. Full details are available in Jersey Water's 2018 Water Quality Report available from the Company's website.

For the 5th consecutive year, nitrate concentrations in treated water were fully compliant with the regulatory requirements and the maximum concentration of nitrates detected in treated water was 45.7mg/l; below the regulatory limit of 50mg/l but higher than the 2017 maximum of 36mg/l. The increase on the previous year is almost certainly attributable to the much greater rainfall in 2018 which will have increased the amount of runoff from land and made widespread use of mechanised fertiliser application and potato planting much more difficult.

Nitrate concentrations in raw water sources are mainly dependent on the volume and timing of the application of fertiliser during the potato growing season and of rainfall in the winter and summer months; factors over which we have no control. Jersey Water has a dispensation for nitrates under the Water (Jersey) Law 1972, which allows for a maximum concentration of 65mg/l and places additional restrictions on the number of samples exceeding the 50mg/l limit. The dispensation expires in December 2021. The ongoing need for the dispensation can only be assessed over a long period of time during which long-term trends in nitrate concentrations can be understood.

In 2018, we undertook over 46,000 analyses of raw water sources, looking for over 127 different pesticides. The results of those tests showed that on 264 occasions (2017: 249), raw water contained concentrations of pesticides that exceeded the limit for drinking water quality. The increase was principally due to the wet weather which caused an increase in the presence of oxadixyl. There was a reduction of 9% in the instances of pesticides in current use exceeding the limit for drinking water quality.

In 2016, the Company identified the presence of oxadixyl, a pesticide last used in 2003, in raw water sources across the Island. Given the prevalence of oxadixyl in the Island's ground and surface water, the Company was granted a precautionary dispensation, for three years until 2019, under the Water (Jersey) Law 1972, which increases the permitted regulatory limit for oxadixyl from 0.1ug/l to 0.3ug/l (one tenth of the health based limit) for a period of three years.

During 2018, the Action for Cleaner Water Group (AFCW) continued its work. This joint initiative between the farming community, the Environment Protection Team of the States of Jersey and Jersey Water aims to develop sustainable working practices that protect water resources from pollution. In 2018, the voluntary pesticide risk assessment process was amended to classify the Handois Catchment as 'red', limiting the pesticides that can be used in it. In 2019, Jersey Water will commission a field-scale catchment risk map to identify those fields within catchments that present the most pollution risk so that they may be the focus of targeted catchment management initiatives in the future.

During the year Jersey Water participated in the consultation on the new Water Pollution (Water Quality)(Jersey) Order 201- and Water Pollution (Water Management)(Jersey) Order 201- (the 'Orders') issued by the States of Jersey under the Water Pollution (Jersey) Law 2000, in support of the initiatives outlined in the Water Plan for Jersey issued in 2016. The Company fully supports the issuance of the Orders, which aim to set the regulatory benchmark for farming activities relating to the use of fertilisers and protection of water resources from pollution. It is important, however, that the implementation and enforcement of the Orders is sufficiently resourced by the States of Jersey in order to ensure they deliver the necessary improvements in water quality.

In 2018, work continued on the development of the live distribution network management system. The system will allow the distribution network to be monitored in real time to allow operatives to understand pressures, flows, the age of water in the mains and numerous other parameters. During the year, the system was set up and calibrated such that it can now be used to model the effects of changes to the network on water quality, pressure and quality of service.

> **"In 2018, work continued on the development of the live distribution network management system."**

During 2017, Jersey Water submitted a planning application to install a bypass on the western stream at Val de la Mare Reservoir. The purpose of the bypass being to protect the body of water within the reservoir from pesticide and fertiliser pollution from the stream. The planning process has been the subject of consultation with numerous stakeholders and is now due to complete in the first half of 2019.

In 2018, numerous additional water quality initiatives were undertaken including the installation of two resmix units at Handois and Queen's Valley Reservoirs. The units are a cost-effective means by which manganese and dissolved oxygen in reservoirs can be managed. The Company also completed the installation of the individual filter turbidity meters at Augres Water Treatment Works to better monitor filter performance and water quality.

In 2019, the Company will spend approximately £500k renewing and enhancing the powdered activated carbon ('PAC') dosing plant at Handois Water Treatment Works. PAC treatment provides an effective means of controlling concentrations of oxadixyl and other pesticides in treated water. The new plant will allow the use of more efficient grades of carbon and provide additional resilience of the treatment process. The Company will also be investing approximately £500k in the renewal of the Motor Control Centre ('MCC') at Grands Vaux Pumping Station, including the installation of standby power generation. The investment will provide additional resilience and ensure that important blending and dilution tools remain available in the event of power interruption.

In order to enhance the scientific capability within Jersey Water and address a number of succession risks, the Company appointed a Water Quality Manager during 2018 to head up the newly formed Water Quality Team. Dr Donald Reid who joined the Company from Alberta, Canada where he spent 10 years as the Drinking Water Quality Regulator for the Department of Environment and Parks. Donald holds a BSc in Biology and a PhD in Chemical Engineering. In addition to the work undertaken within the Company's laboratory, the role of the Water Quality Team is to develop Jersey Water's Drinking Water Safety plans, ensuring water quality risks are properly addressed and enhance the Company's water quality management processes.

Water resources

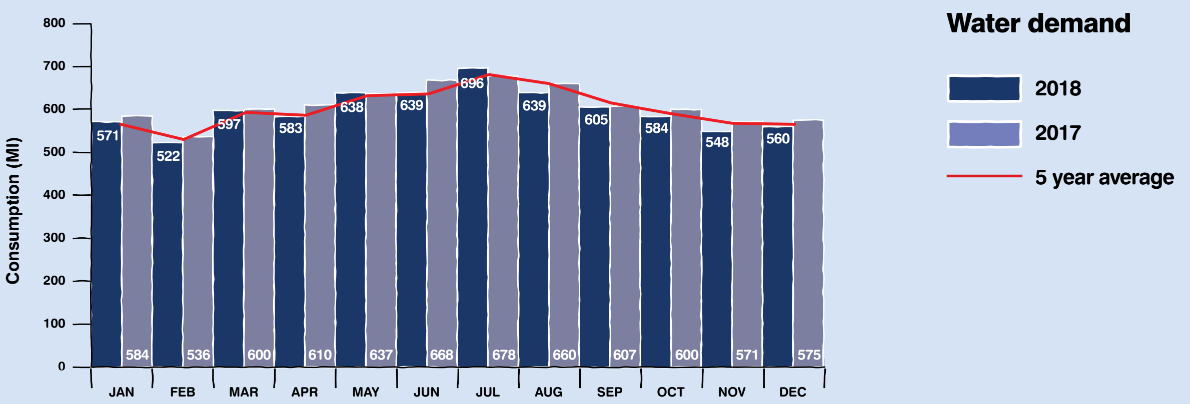
Rainfall in 2018 totalled 862mm (2017: 1,027mm), a reduction of 16% on the previous year and 13% below the five year average. Rainfall patterns during the year were unusual in that the first quarter was 40% wetter than the previous year followed by a much drier period from May through to the end of the year, when rainfall was below the previous year and the average in each month.

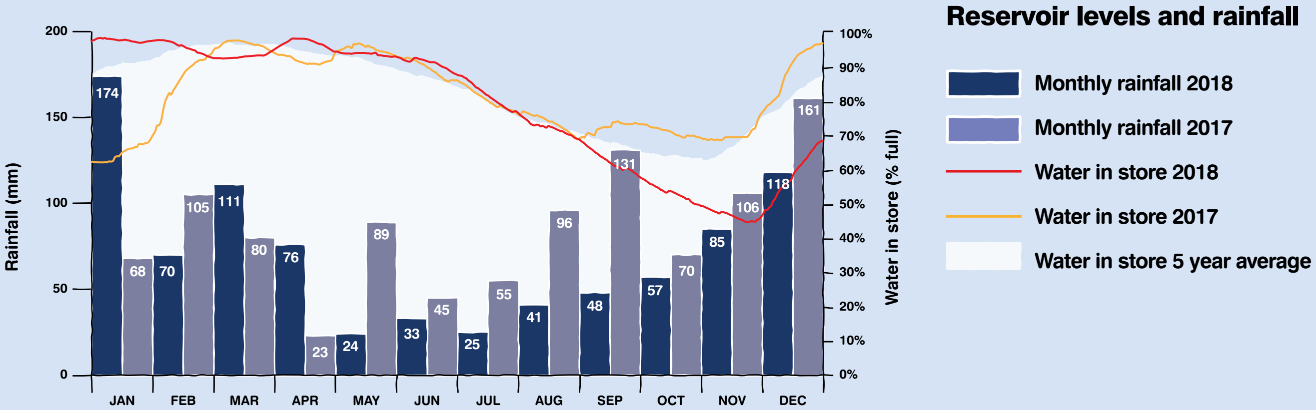
Despite the very warm and dry summer of 2018, demand for water totalled 7,180Ml; a reduction of 2% on 2017 and 0.5% on the five year average. The lower volume supplied is principally attributed to the reductions in leakage throughout the year referred to on page 29.

With the increased rainfall in the first quarter of 2018, reservoirs were kept above 95% full throughout the period to May 2018. Thereafter, the dry and hot weather over the summer resulted in the depletion of reservoir stocks, ending in November with a minimum storage level for the year of 46%. The natural replenishment of reservoirs brought about by autumn rainfall was delayed this year by approximately one month and only started in earnest in December. Rainfall and use of the desalination plant meant that reservoir levels quickly rose to end the year at 70% full, some 21% below the 5 year average.

The production of desalinated water lasted for 23 days and produced approximately 180Ml of water which was transferred for storage in Val De La Mare reservoir. The cost of the run was approximately £75,000. This was the first year since 2013 during which the desalination plant was required to be run to augment water resources. The desalination plant is capable of producing 10.8Ml per day, which is approximately half of the Island's demand for water and was recently the subject of a £6 million extension and refurbishment project. Following a number of issues arising during the extension and refurbishment of the plant which were outside of the control of Jersey Water, it became clear during 2018 that the plant's reverse osmosis membranes were not performing within the contractual specification. Replacement membranes have been procured (funded through an insurance claim) and will be fitted during 2019. The Company is currently in dispute with the contractor in respect of a number of technical and financial matters.

During 2018, work on phase 1 of Jersey Water's Water Resources Management Plan was completed. The plan aims to assess whether there are sufficient water resources available to meet the projected demand for water over the next 25 years and if not, what further steps should be undertaken to mitigate the effects of any shortages. Phase 1 of the project focussed on the projection of water resources and demand in the future allowing for changes in population and climate.





The key findings of the project to date are:

- **Estimated demand for water is forecast to increase by 17% to 24Ml/day in 2045. This growth in demand is driven primarily by the forecast population growth which assumes net inward migration of 700 people per year, in line with recent trends. The choice of population growth scenario has a substantial effect on the demand forecast.**
- **The water supply-demand balance forecast shows there is currently a supply deficit of 2.2Ml/day in 2018 if there were a repeat of the worst historic drought conditions. The deficit rises throughout the planning period to 8.2Ml/day by 2045.**

Phase 2, will assess what measures are required to address the shortfall described above. These measures are likely to include both demand reduction (including water efficiency initiatives and further leakage reduction) and the potential for additional resources such as further desalination, reservoir storage and additional sources. Later in 2019, the Company will consult with stakeholders on proposed measures to address these water resource challenges and the likely impact on water charges. The previous plan, completed in 2010, resulted in the roll out of Island wide water metering and the extension of the desalination plant.

Leakage levels in 2018 were the lowest to date at 2.47Ml/day and despite a modest uptick in February and March during the 'Beast from the East' fell by 19% on the previous year (2017:3.05Ml/day). The reduction is attributable to relatively few burst mains in 2018 and the completion in 2018 of the replacement of certain types of meter installations that had previously proved prone to leakage. Over the past five years, the Company has had considerable success in the reduction of leakage through a combination of the effects of metering, mains renewals, pressure reduction and active leakage detection.

In 2018, the Company renewed 2km of water mains (2017: 2.1km) slightly ahead of the planned total for the year. The renewal of mains involves the replacement of old, end of life, unlined cast iron or galvanised iron pipework, and related service connections where appropriate. In 2018, the Company completed a number of important renewal schemes including 840 metres along Wellington Road (the original dating back to 1935). The Company plans to replace 1.9km of mains during 2019 including 807m in Ville de Bocage and 483m in Old Forge Lane.

High standard of service

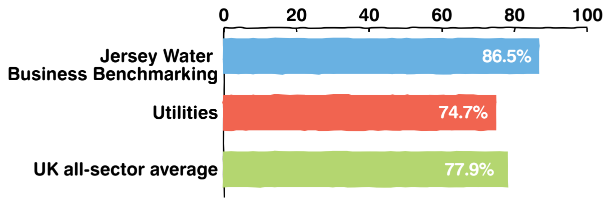
During 2018, Jersey Water commissioned its second customer satisfaction benchmarking survey with the Institute of Customer Service ('ICS'). The results of the survey, shown in the table below, showed that Jersey Water outperformed both the UK All-sector average and the Utilities sector in the UK Customer Satisfaction Index in all three key metrics. The results were confirmed in our own in-house text feedback service which scored an industry leading 93% for the year (2017:94%).

For the past 20 years, Jersey Water has applied a policy of limiting annual price increases to no more than inflation in all but two years. During that time, by applying this policy, the price of water has fallen in real terms by approximately 16% after inflation. This has been achieved by the Company focussing on cost efficiency and sharing the benefit of those efficiencies with customers and shareholders. As reported in the 2017 annual report and financial statements, the Company applied a price increase of 2.75% on 1 April 2018, below the rate of inflation and representing an increase of just 3 pence per day for the average household. In January 2019, the Company published its tariffs for the year commencing April 2019, incorporating a further below inflation increase of 3.8%.

During 2018, Jersey Water implemented the new 'aqKWa' water efficiency calculator developed by water efficiency experts, SaveWaterSaveMoney.co.uk. The calculator produces tailored water saving tips, specific to each customer, based on the information they provide and compares their water consumption to the average for Jersey. To help customers reduce household demand for water and minimise waste, Jersey Water also offers free water savings devices to domestic customers that can be ordered through the website.

During the year, Jersey Water made 340 new connections to its mains network, a 12% increase on the 303 installations in 2017. Mains extensions in 2018 totalled 2.5km, including 1.1km funded by Jersey Water.

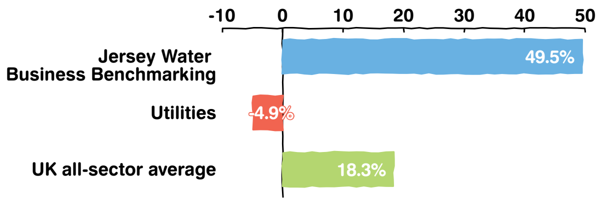
UK customer satisfaction index (UKCSI)



Jersey Water Business Benchmarking survey data based on respondents from Jersey Water customer survey.

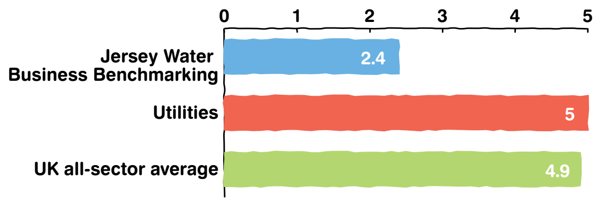
UKCSI July 2018 data sourced from nationwide ICS survey panel of 10,000 customers. The results are generated from a maximum of 400 customer respondents. [1]

Net promoter score



Net Promoter Score ('NPS') is based on "likelihood to recommend" scores. % of respondents scoring 9 or 10 (out of 10) on likelihood to recommend minus % of respondents scoring 0-6 on likelihood to recommend equals NPS. [1]

Customer effort



Customer Effort is based on the question: "How much effort did you have to make to complete your transaction, enquiry or request on this occasion" (1-10 scale). A lower score signifies less effort required on the part of the customer. [1]

[1] *Survey data as provided by the ICS.*

Long-term stability

A key element of the Company's strategy is to use technology to help drive efficiency, manage business risks and enhance customer experience. During 2018, the Company launched its Connect programme aimed at digitally transforming operations and accelerating business improvement in order to create new ways of working. The Connect programme is supported by two key initiatives. Firstly, the implementation of an information systems strategy which looks to replace, over the next three years, the existing suite of corporate applications, introduce new systems (e.g. asset management and laboratory information system) and replace the ageing end-user desktop experience. Secondly, and key to the success of the Connect programme, is the adoption of Lean Six Sigma methodology to develop and introduce new ways of working and streamline existing processes.

During 2018, Jersey Water completed the acquisition of De La Haye Plant Limited, a haulage and water tankering business operating a fleet of tankers to deliver water to private and commercial customers around the Island. During 2018, Jersey Water merged the administration and operations of De La Haye Plant Limited into its own operational structure.

> **During 2018, the company launched its Connect programme, aimed at transforming the business using technology and new ways of working.**

The term service main-laying contract with the Company's main civil engineering contractor, ('Jayen') Limited, expired in March 2018. Jersey Water completed a full tender process to select the firm to be awarded the new contract and invited tenders from Jayen, Brenwall, Geomarine and Jersey Gas. Tenders were received from two companies and following a thorough and rigorous selection process, Jayen were successful in securing the contract for a further term of three years.

The General Data Protection Regulation ('GDPR') and Data Protection (Jersey) Law 2018 came into force in Jersey on 25 May 2018. In 2017, the Company implemented a programme to ensure compliance with the provisions of the GDPR and Law and during 2018, the Company has met all planned project milestones and is on track for full compliance by 25 May 2019 in accordance with the regulations.

In 2018, the Company completed the triennial valuation of the Company's Defined Benefit pension scheme. The scheme closed to new entrants in 2003 but currently remains open to service accrual. The results of the actuarial valuation indicate a surplus, as at 1 January 2018, of £1,013k which represents an improvement in the funding of the scheme since the previous valuation from which there was a deficit of £236k.

During the year, Jersey Water implemented a new risk management identification and assessment methodology aimed at enhancing the risk management processes within the business.

In March 2018, the Company completed the statutory five yearly inspections of the three dams in Waterworks Valley as required under Article 10 of the Reservoirs (Jersey) Law 1996. The independent All Reservoirs Panel Engineer found the dams and reservoirs to be in very good condition, with evidence of careful supervision and maintenance on the part of the Company. No recommendations were required to be taken in the interests of safety.

During 2018 the Company has taken steps to prepare for Brexit. This involved consulting with various stakeholders including suppliers and the States of Jersey to understand and plan for the possible impact of various Brexit scenarios, with continuity of supply of chemicals being a key concern. Given the uncertainty and potential severity of the outcome the Company has in place a plan to mitigate the effects of a 'no deal' exit. This includes increasing stock levels of chemicals and key consumables to mitigate the risk of disruption to supply lines. In addition, chemicals for treated water processes are included by the States of Jersey along with food, fuel and medicine as top priorities for transportation to the island should logistical problems arise.

A great place to work

At the end of 2018, Jersey Water had 90.23 employees (FTE), an increase of 4.7 (2017: 85.53) on the previous year. There was a small increase in employee turnover at 9.3% (2017:8.5%). The prolonged absence due to sickness of a few individuals meant that our sickness absence rate increased from 2% in 2017 to 4.8% in 2018.

The Company has, for many years, been accredited under the Investors in People Framework. Jersey Water uses the best practice framework to guide its people strategy and help ensure that Jersey Water is a great place to work. The Company achieved the gold standard accreditation in 2017, two years ahead of target. Since 2017, the IIP standard has evolved and been enhanced into the Sixth Generation Framework. The new standard has stricter and more difficult criteria to achieve across the various levels of accreditation and fewer organisations are therefore qualifying for the gold standard. Jersey Water were assessed under the new standard in 2018 and in accordance with expectation were awarded Silver standard accreditation.

The Company has a number of programmes underway to support the strategic objective of having an engaged, empowered and effective workforce:

- **The Leadership Development Programme, launched in 2017, is accredited by the Institute of Leadership & Management and aims to enhance and develop the leadership skills of all employees with managerial responsibility. The first cohort of managers completed the programme and the related action learning project during the year.**
- **The second cohort of the Talent Pipeline Programme ('TPP') completed the programme during 2018. The TPP is a programme aimed at those employees who do not yet have managerial responsibility but aspire to progress. The TPP supports the development of their career aspirations with this structured experiential training programme.**
- **A key element of the Connect programme mentioned above is the development of change management capability throughout the organisation and empowering employees to effect change that enhances the efficiency and resilience of the business. To this end, during 2018, the Company developed and piloted a tailored Yellow Belt Lean training course which will be rolled out to employees during 2019.**
- **The Company supports specific individuals in their pursuit of formal professional qualifications.**

> **During the year, the company reviewed and updated its safety management system and developed an online safety knowledgebase for employees to use whilst out of the office.**

Providing a safe place for our staff and contractors to work is of the utmost importance. In 2018, there were zero (2017: three) time lost accidents (using the definition in Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) - an accident that results in an injured person being absent from work or unable to do their normal work for more than seven days). We review the circumstances surrounding all accidents to determine whether changes in practices or procedures are required to help prevent their recurrence.

During the year, the Company reviewed and updated its safety management system and developed an online safety knowledgebase for employees. In addition, the Company implemented a new electronic lone worker system to help manage risks for employees working alone.

In 2018, the Company replaced the chlorine and ammonia dosing equipment at Handois Water Treatment Works. The opportunity was taken to install a new 'Chlorguard' system that automatically shuts down the dosing system and alerts the control room in the unlikely event of an escape of gas. The new Chlorguard system mirrors that at Augres Water Treatment works installed some years ago and which has proved to operate very reliably, enhancing worker safety and mitigating a number of safety risks.

Community conscious

In 2018, Jersey Water employees selected the Stroke Association Jersey as their charity of choice for the year. The mission of the Stroke Association is to prevent strokes and achieve life after stroke through providing services, campaigning, education and research. Employees raised a total of £9,425 through fundraising activities including a 'Robo-Mower' rally, the 'Hydration Station' stand at the Weekender Festival, an open day at Handois Water Treatment works and numerous other events. Jersey Water matches every £1 raised by employees for the charity of choice and the Charity Committee presented the Stroke Association with a cheque for £18,850 in January 2019.

Jersey Water employees have selected Friends of Special Care Baby Unit ('SCBU') as their charity for 2019. SCBU seeks to raise funds to purchase specialist equipment and fund improvements to the facilities within the unit, to support families whose babies need treatment in the UK with travel and accommodation costs and to support families through contact with other families in similar situations.

During 2018, the Company hosted four school visits to the treatment works, reaching 120 students and held a sell-out open day at Handois Water Treatment works, attracting over 100 visitors. Jersey Water supplied over 71,000 litres of water and 6,500 reusable water bottles to help raise money for charity and support over 50 events held throughout the year including open days, fun runs, school walks, the Island Walk, Jersey Marathon, Jersey Sings, the Weekender Festival, the Dandara Colour Run and the Relay for Life.

Land owned by Jersey Water continues to be utilised by local clubs as a venue for sporting events. In 2018, Jersey Water hosted events by Jersey Motor Cycle and Light Car Club, Jersey Old Motor Club, Channel Island Occupation Society, Channel Island Mountain Bike Association and the Jersey Fresh Water Angling Association. In 2018, Jersey Water hosted the Out There dance festival at Val De La Mare Reservoir in July. The Company also maintains both Val de la Mare and Queen's Valley Reservoirs open to the public for all to enjoy.

The Jersey Water Bursary, is now in its 10th year and is a well-established and popular scheme providing funding and work experience opportunities for local students embarking on a degree course in a subject related to the supply of water (e.g. engineering, environmental sciences, chemistry).

The Strategic Report was approved by the board on 14 March 2019 and signed on its behalf by

Helier Smith
Chief Executive

Corporate Governance

Compliance with the UK Corporate Governance Code

The Group has chosen to adopt the principles of good corporate governance and best practice set out in the UK Corporate Governance Code (the 'Code') as updated in 2016. The Board is of the opinion that, throughout the year under review, the Group has been in compliance with the main principles of the Code.

Directors and the Board

The Board

The Jersey Water (the 'Company') Board comprises of nine directors, two of whom are Executive Directors and seven of whom are Non-Executive Directors. The Board has a schedule of regular meetings, normally between six and eight per year, with any additional meetings convened as and when required.

Neither Executive Director holds any non-executive directorship positions.

The Board is collectively responsible for the long-term success of the Group. This is achieved by setting the overall operating strategy, approving detailed business plans and overseeing delivery of objectives by continually monitoring performance against those plans. The Board establishes the culture, standards and values of the Group. The Board oversees the management of risk, monitors financial performance and reporting and ensures that appropriate and effective succession planning and remuneration policies are in place. The Chair is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Non-Executive Directors constructively challenge and help develop proposals on strategy and bring strong, independent judgement, knowledge and experience to the Board's deliberations. The Board has Audit, Nomination and Remuneration Committees in place; the terms of reference of the Committees are available on request from the Company Secretary.

Whilst maintaining oversight at regular meetings of the Board, the day to day strategic operations of the Group have been delegated to the Executives. The Board is supplied with a sufficient level of regular, detailed and timely management information to allow it to discharge its functions effectively.


WATER

	Board	Audit	Remuneration	Nomination
Number of meetings in 2018	**7**	**2**	**3**	**2**
Tony Cooke (retired 17 May 2018)	1/1	1/1	-	-
Mary Curtis	7	-	3	2
Tim Herbert	7	-	3	2
Stephen Kay	7	2	-	2
Helier Smith	7	-	-	-
Heather MacCallum	7	2	-	2
Daragh McDermott	6	2	-	2
Natalie Passmore	7	-	-	-
Michael Pocock (appointed 17 May 2018)	6/6	-	-	2
Peter Yates	7	-	3	2

Meetings and Committee membership

The table above sets out the number of meetings (including Committee meetings) held and attendance during the year.

Director independence

The Board considers all of the Non-Executive Directors to be independent in character and judgement. In determining independence, the Board considers the specific circumstances of each director, inclusive of those directors who have served more than nine years on the Board. The Board has concluded that Mary Curtis, Stephen Kay, Tim Herbert, Heather MacCallum, Daragh McDermott and Michael Pocock shall be deemed independent.

Peter Yates, as Chair of the Group, was considered independent on appointment and, in accordance with the Code, is not subject to the independence test thereafter.

Performance evaluation

In order to ensure that the Board continues to operate effectively, each individual board member and its Committees are subject to annual performance evaluations. The process measures the performance of the Board and its Committees against a set of predefined targets. Individual directors are assessed by way of self and peer appraisal.

The results of the performance assessments and appraisals are fed back to the individual directors and the Board collectively (as appropriate) and, if necessary, appropriate action is taken.

Other significant commitments

The Board has a process in place for reviewing the other significant commitments of Non-Executive Directors and their impact on the ability of the Non-Executive Directors to discharge their duties to Jersey Water.

Reappointment

Except where a director is appointed to fill a casual vacancy, all directors are appointed by the shareholders at the Annual General Meeting. One third of the directors, or where the number of directors is not a multiple of three, the number nearest to one third, retire by rotation (based upon length of service) and, where eligible, seek re-election each year. No director may serve a term of longer than three years without seeking re-election. Jersey Water has adopted a policy of requiring non-executive directors who have served on the Board for nine years or more to retire from the Board and seek re-election on an annual basis. Directors appointed to fill a casual vacancy must seek formal appointment by the shareholders at the next Annual General Meeting.

Relations with shareholders

Jersey Water is in regular contact with its majority and controlling shareholder, the States of Jersey, with whom they meet not less than twice a year. Details of contact with and the views of the States of Jersey are shared with the Board as necessary. Jersey Water uses events such as the Annual General Meeting to interact with and hear the views of all shareholders. Due notice of the Annual General Meeting stating the business of the meeting is circulated to all shareholders in advance of the meeting in accordance with Companies (Jersey) Law, 1991, as amended. The Company monitors and reviews votes received and considers the need to further engage with shareholders in the event of significant opposing votes.

Internal controls

The Board is responsible for ensuring that there are effective systems of internal control in place to reduce the risk of misstatement or loss and to ensure that business objectives are met. These systems are designed to manage and mitigate (rather than to eliminate) the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Jersey Water has developed and adopted corporate and operational risk registers detailing and grading the significant risks faced by the Group. Alongside the register is a process through which the significant risks faced by the business are identified and evaluated on a regular basis and the controls operating over those risks are assessed to ensure that they are adequate.

The process of risk assessment and reviewing the effectiveness of the systems of internal control is regularly reviewed by the Audit Committee in accordance with FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', and has been in place for the whole of the year, up to and including the date on which the financial statements are approved.

Controls adopted by the Board (or its Committees) to ensure the effectiveness of the systems of internal control include the following:-

- **Review the corporate and operational risk and control registers maintained and updated by the Company and the status of any actions arising from their regular review;**
- **Receive confirmation from senior management of the proper operation of controls throughout the period of the review;**
- **Review and approve during the year terms of reference of committees;**
- **Review and approve during the year the schedule of matters specifically reserved for its attention; and**
- **Review reports received from the Audit Committee concerning the findings of the external auditors on the financial statements of the Group and the systems of internal control.**

Audit Committee

The Audit Committee is chaired by Heather MacCallum supported by Stephen Kay and Daragh McDermott as members of the Committee. Both Heather and Daragh are Chartered Accountants with vast experience within the private sector and Stephen is a Chartered Engineer with extensive experience of the water industry.

During this financial year, the Audit Committee met twice.

The composition of the Committee ensures that as a whole there are sufficient skills, experience, knowledge, professional qualifications, utility and water industry expertise to discharge the Committees responsibilities effectively. Biographical information and qualifications of each of the members can be found on page 03.

The external auditors, the Executive Directors, Financial Controller and Company Secretary also attend the meetings by invitation.

The terms of reference of the Audit Committee require it to meet at least twice per annum. Additional meetings may be called where deemed necessary. The Committee is charged by the Board with the following main responsibilities:-

- **To monitor the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;**
- **To provide advice, when requested by the Board, on whether the annual report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess performance, the business model and strategy;**
- **To ensure that arrangements are in place for the proportionate and independent investigation of concerns raised confidentially by whistle-blowers about possible improprieties in matters of financial reporting or any other matters;**
- **To review and monitor the adequacy, operation and effectiveness of the Group's risk management and internal control systems, including internal financial controls, and make recommendations for improvement where necessary;**
- **To review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement;**
- **To oversee the external audit process and manage the relationship with the external auditors;**
- **To compile a report on its activities to be included in the Group's annual report;**
- **To exercise judgement in deciding which of the issues it considers in relation to the financial statements to be significant; and**
- **To make recommendations to the Board as to the re-election and remuneration of the auditors at the annual general meetings based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.**

The Committee regularly assesses the need for an internal audit function and has determined that the establishment of such a function, at the present time, given the size and complexity of the Group, is not cost effective. This function is considered by the Committee on at least an annual basis.

Performance evaluation of the Audit Committee is described on page 38.

Review of financial statements

To enable the Committee to discharge its responsibilities effectively in respect of the financial statements, a number of processes are in place.

The Committee is briefed by the Finance Director in advance of the year end on the significant issues pertaining to the financial statements and how they will be dealt with. These issues are generally focused on the areas of subjectivity in the financial statements. In 2018, these included consolidated financial statements and acquisition accounting, defined benefit pension scheme valuation, impairment review of the desalination plant, the interest rate swap, investment property valuations and the meter replacement programme. Further details can be found in notes 3 and 4 of the financial statements. Changes in accounting or disclosure requirements and the accounting or disclosure implications of one-off events occurring in the year were also considered by the Committee. Where necessary, the Committee considers evidence and independent third party advice on the key matters for consideration.

At the year end, the Committee reviews the annual report, related announcements, going concern assumption and viability statement and considers them in the context of the significant issues identified, the suitability of any key assumptions and the extent that they have been disclosed. The process is completed in consultation with the auditors whose view is sought by the Committee. The Committee also considers, based on their knowledge of the business and issues arising, whether they can advise the Board that the annual report, as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, the business model and strategy.

External Auditors

Each year the Committee considers the external auditors' proposed approach and approves fees for the year-end statutory audit. The performance and effectiveness of the external auditors is monitored continually and formally considered by the Audit Committee before a recommendation is made to the Board regarding their reappointment. Length of service of the incumbent audit firm, effectiveness of the audit process, the independence and objectivity of the team, the depth and breadth of the audit approach, the level of fees and the quality of the service provided are all taken into account. Fees paid to the auditor for the statutory audit of the Group are detailed in note 17 of the financial statements.

The current auditor is Deloitte LLP with Andrew Isham as Lead Audit Partner. This will be Deloitte LLP's second term as auditor.

The Audit Committee considers the impact of the provision of any non-audit services by the external auditor on the objectivity and independence of the audit. The consideration has regard to the nature of the non-audit work, size of the fee relative to any audit, any potential involvement of the audit team in the work and the longer term effect of any non-audit services on the relationship with the audit firm, including an assessment of their continuing objectivity and independence. The fees paid to the auditors for non-audit services are detailed in note 17 of the financial statements.

Remuneration Committee

The Remuneration Committee is chaired by Mary Curtis, with Tim Herbert and Peter Yates as committee members. The Executive Directors, Natalie Passmore and Helier Smith along with the Company Secretary, may also attend meetings by invitation.

No Director is allowed to be party to discussions regarding, or play any role in, the determination of their own remuneration.

For the year ended 31 December 2018, the Remuneration Committee met 3 times.

The terms of reference of the Remuneration Committee allow it to meet as and when necessary to:-

- **To determine the policy on executive director and senior managers remuneration and consider specific remuneration packages for individual executive directors and senior management, having regard to the risk appetite of the Group and alignment to the Group's long-term strategic goals so that rewards are linked to corporate and individual performance and designed to promote the long-term success of the Group;**
- **To review and approve not less than once a year specific remuneration packages for all members of the Senior Leadership Team and the Executive Directors;**
- **To review the terms of executive directors and senior management's service agreements from time to time;**
- **To maintain contact as required with its principal shareholder regarding remuneration through the Chair of the Board; and**

- **At least once per year, or as required by the Board, the Committee will review its own performance, constitution and terms of reference to ensure it is operating effectively at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.**

Nomination Committee

The Nomination Committee is chaired by Peter Yates, with, Mary Curtis, Stephen Kay, Tim Herbert, Heather MacCallum, Daragh McDermott and Michael Pocock being the other members. The Executive Directors, Natalie Passmore and Helier Smith and the Company Secretary may also attend the whole or parts of the meetings by invitation.

In 2018, the Nomination Committee met twice.

The Committee is primarily responsible for the selection and appointment of the Group's Executives and Non-Executive Directors as and when required.

The other duties of the Committee include:-

- **Making recommendations to the Board as to the re-election of directors under the 'retirement by rotation' provisions in the Company's Articles of Association whilst giving due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required;**
- **To make recommendations to the Board for the re-appointment of any non-executive director at the conclusion of their specified term of office having due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required;**
- **To regularly review the structure, size and composition (including the balance of skills and attributes required of the Board compared to its current position) and make recommendations to the Board with regard to any changes; and**
- **Keeping under review the leadership needs of the organisation, both executive, non-executive and other senior executives, including succession plans, with a view to ensuring the continued ability of the organisation to operate effectively, and make recommendations to the Board.**

When selecting candidates for potential appointment as a non-executive director, the Committee evaluates the needs of the Group and identifies the necessary skills and experience required by candidates for consideration. The Nomination Committee makes recommendations to the Board taking into account the performance of the candidates at interview, their skills and experience and their ability to meet the specific needs of the Group. Consideration is given to the use of external recruitment consultants and open advertising in the recruitment process. Terms and conditions of appointment of non-executive directors are available for inspection at the Company's registered address during normal business hours and at the AGM.

It is the policy of the Board to populate itself with directors who have a diverse range of skills, attributes and backgrounds so that collectively, the Board is appropriately resourced to discharge its duties effectively and meet the changing needs of the business. A wide range of factors are considered in determining the appropriate composition of the Board including but not limited to technical expertise, local market knowledge and experience, independence, length of service on the Board and diversity, including age and gender balance.

A rigorous recruitment process is in place for the appointment of non-executive directors to ensure that the policy of the Board to populate itself with directors who have a diverse range of skills and attributes is achieved.

The current board profile is as follows:

Gender		Tenure (Years)		Age		Sector	
Male	6	**< 1**	1	**41-50**	3	**Utilities / Engineering**	4
Female	3	**1 – 3**	3	**51-60**	3	**Professional / Financial**	4
		4 – 9	2	**61-70**	3	**Human Resources**	1
		9+	*3				

**Mary Curtis is retiring at the 2019 Annual General Meeting and will not be standing for re-election.*

Directors' Report

Activities of the Group

The Company, which was incorporated in 1882, has adopted 'Jersey Water' as its trading name. Jersey Water is the sole supplier of treated water to the Island of Jersey.

Both Handois Holdings Limited, a private Jersey holding company and De La Haye Plant Limited, a water tanker company, are wholly owned by Jersey Water (the 'Company'). Together all three companies form the Group.

Dividends

Ordinary and 'A' ordinary shares

The Company paid an interim dividend of 7.137 pence per share on 21 September 2018 (2017: 6.922p). The Directors are proposing a final dividend on ordinary and 'A' ordinary shares for 2018 of 14.447 pence (2017: 13.932p), bringing the total dividend for 2018 to 21.584 pence per share (2017: 20.854p).

	2018 £'000	2017 £'000
Interim dividend paid	**689**	668
Final dividend proposed	**1,396**	1,346
	£2,085	£2,014

Preference shares

In 2018, Jersey Water paid dividends on preference shares totalling £381k (2017: £381k).

Directors

Changes in Directors

The Directors of the Group on the date the consolidated financial statements were approved are detailed on page 2. With the exception of Michael Pocock and Tony Cooke, all Directors were Directors of the Group throughout the year ended 31 December 2018. Michael Pocock was appointed to the Board on 17 May 2018 as a Non- Executive Director. Tony Cooke retired from the Board on 17 May 2018 as the Senior Independent Director.

In accordance with the provisions of Article 49 of Jersey Water's Articles of Association, Stephen Kay will retire by rotation at the forthcoming Annual General Meeting ('AGM') and offer himself for re-election.

Peter Yates has completed more than 9 years' service on the Board and is due to resign and seek reappointment (on an annual basis) at the forthcoming AGM. Having completed his tenure or maximum term on the Board, Peter will be retiring from the Board of Directors of the Group at the 2020 AGM.

The process of identifying a successor to Peter is underway and the successor will stand for election at the 2020 AGM.

Mary Curtis has completed more than 9 years' service on the Board and will be retiring at the forthcoming AGM and will not be seeking reappointment.

As described on page 38, the Board has undertaken an annual formal assessment of its performance and that of the individual Directors, including structured meetings between the Directors being assessed and the Chair. Following this review, the Chair and Senior Independent Director have confirmed that the Directors standing for re-election at the AGM continue to perform effectively and demonstrate commitment to their roles.

Directors' interests

Particulars of the holdings of the Directors, including family and beneficial interests, in the share capital of the Company as at 31 December 2018 are:

	Ordinary shares	Preference shares
Mary Curtis	7,338	-
Tim Herbert	2,500	-
Stephen Kay	500	-
Heather MacCallum	8,000	-
Natalie Passmore	800	-
Helier Smith	700	389
Michael Pocock	150	
Peter Yates	3,938	-

There have been no subsequent changes in Directors' interests up to the date of approval of the financial statements.

The States of Jersey is the Group's majority and controlling shareholder. JT Group Limited is wholly owned by the States of Jersey. Daragh McDermott is the Corporate Affairs Director of JT Group Limited.

Change in financial year end

On 13 December 2018, the Group's board of directors resolved to change the Group's financial year end to the 30 September in order to align the publication of the Group's financial results with its majority shareholder's revised reporting timetable. The Group will move to the new year end with effect from 30 September 2019.

Insurance of Directors and Officers of the Company

Jersey Water maintains an insurance policy on behalf of all Directors and Officers of the Company against liability arising from neglect, breach of duty and breach of trust in relation to their activities as Directors and Officers of the Group.

Significant shareholdings

Set out below are details of the significant voting rights (3% or more) in shares of Jersey Water as at 14 March 2019:-

Shareholder	% of total voting rights held
The States of Jersey	83.33%

The States of Jersey owns 4,620,000 (100%) 'A' Ordinary shares, 2,520,000 (50%) Ordinary shares and 900,000 (100%) 10% cumulative fifth preference shares. The 'A' Ordinary shares, whilst in their ownership, have voting rights that confer twice the number of votes than those cast in respect of all other shares.

Independent Auditors

A resolution to re-appoint Deloitte LLP as the Group's auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board

Louisa McInnes
Company Secretary
14 March 2019

Directors' Statement

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial period in accordance with generally accepted accounting principles. The financial statements of the Group are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors should:

- **Select suitable accounting policies and then apply them consistently;**
- **Make judgements and estimates that are reasonable and prudent;**
- **Specify which generally accepted accounting principles have been adopted in their preparation;**
- **Notify its Shareholders of the use of disclosure exemptions, if any, used in the preparation of the financial statements; and**
- **Prepare the financial statements on the going concern basis of accounting unless it is inappropriate to presume that the Group will continue in business.**

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements prepared by the Group comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual report

We confirm that, having taken into account all of the matters considered by the Board brought to its attention during the year and to the best of our knowledge, the financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Review of risk management and internal control systems

We confirm that we have carried out a review of the Group's risk management and internal control systems. We are satisfied that the systems are aligned with our strategic objectives and these systems are being developed, applied and maintained appropriately. We are satisfied that the Group has effective processes in place to monitor and review material financial, operational and compliance controls.

Statement of viability

The Directors are responsible for assessing and expressing their view on the longer term viability of the Group taking into account the Group's current position and principal risks. The Code requires that Directors should explain this process and outcome in the annual report

In accordance with the Code, the Directors' have assessed the prospect for the Group over a longer period than the 12 months required by the 'Going Concern' provision. The Board conducted this review for a period of five years in line with the Group's five year strategic business plan, for which the Group has sufficiently robust financial forecasts. Within the five year plan are financial forecasts; these are made up of detailed plans for the year's one and two with indicative forecasts for year's three to five. Capital investment plans are detailed for the full five years.

The Board have considered the impact that the principal risks or combination of risks may have on the business including those that would threaten its business model, future performance, solvency or liquidity. A summary of the principal risks are summarised on pages 19 and 20. Where relevant, the financial forecasts were subject to sensitivity analysis to illustrate the potential effects of significant risks and identify whether any could represent serious threats to the Group's liquidity or operation.

The following sensitivities were used in stress testing the forecasts:

- Variations in turnover due to the need to restrict water use (e.g. severe drought);
- Increased expenditure from the operation of the desalination plant for a significant period of time;
- Increased operating and financing costs as a result of increasing inflation and higher interest rates; and
- Substantial increases in reactive capital expenditure and resource requirements following the failure of a critical asset or business system.

These were considered along with the Group's financial resources, the Water Resource Management Plan, its wide and varied customer base within Jersey, the steady demand for its products and services and its stable and well established treatment and distribution network.

Based on the assessment of prospects and viability described, we confirm that we have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period ending 31 December 2023.

Going Concern

We also consider it appropriate to prepare the financial statements on the going concern basis, as explained in note 3 of the financial statements 'Basis of preparation'.

Approved by the Board on 14 March 2019 and signed on its behalf by

Peter Yates
Chair

Independent auditor's report to the members of The Jersey New Waterworks Co. Ltd

Report on the audit of the financial statements

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of The Jersey New Waterworks Company Limited ('the company') and its subsidiaries ('the group') as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

We have audited the financial statements which comprise:

- the consolidated statement of financial position
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 31.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the UK and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation and fair presentation of the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Companies (Jersey) Law 1991 we are required to report in respect of the following matters if, in our opinion:

- proper accounting records have not been kept, or proper returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Isham
For and on behalf of Deloitte LLP
St Helier, Jersey
14 March 2019

Consolidated Financial Statements

Consolidated statement of financial position

31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Fixed assets					
Intangible assets	5	311		102	
Tangible assets	6	76,179		75,662	
Freehold investment property	7	780		675	
Goodwill	5	208		-	
			77,478		76,439
Current assets					
Inventories	8	509		616	
Trade receivables	9	3,941		3,110	
Cash		3,867		3,652	
		8,317		7,378	
Creditors - Amounts falling due within one year					
Creditors and accruals	10	(2,765)		(2,210)	
Income tax		(716)		(620)	
		(3,481)		(2,830)	
Net current assets			4,836		4,548
Total assets less current liabilities			82,314		80,987
Creditors - Amounts falling due after more than one year					
Bank loans	11	(14,900)		(14,900)	
Derivative financial liability	12	(174)		(270)	
Non-equity preference shares	13b	(5,382)		(5,382)	
			(20,456)		(20,552)
Provisions for liabilities and charges					
Deferred taxation	14		(6,856)		(6,394)
Net assets excluding pension asset/ (liability)			55,002		54,041
Pension asset / (liability)	15		1,013		(236)
Net assets			£56,015		£53,805
Capital and reserves					
Called up equity share capital	13a		4,830		4,830
Reserves			51,185		48,975
Total equity			£56,015		£53,805

The financial statements on pages 50 to 75 were approved by the Board of Directors on 14 March 2019 and were signed on its behalf by:

Peter Yates, Chair

Consolidated income statement
For the year ended 31 December 2018

	Note	2018 £'000	2018 £'000	2017 £'000	2017 £'000
Turnover	16		**17,199**		15,960
Operating expenditure	17		**(12,633)**		(11,055)
Operating profit			**4,566**		4,905
Interest					
- receivable and similar income	19a	**15**		5	
- payable and similar charges	19b	**(379)**		(422)	
Net interest expense		**(364)**		(417)	
Non-equity dividends	20	**(381)**		(381)	
			(745)		(798)
Profit before taxation			**3,821**		4,107
Income tax	21a		**(852)**		(811)
Profit for the reporting period			**£2,969**		£3,296
Basic and diluted earnings per ordinary share of £0.50	22		**£0.31**		£0.34

The results for the current and prior year all relate to continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit for the reporting period		**2,969**	3,296
Fair value movement on swap	12	**96**	144
Annual re-measurements of net defined benefit liability	15	**1,499**	2,992
Total income tax on components of other comprehensive income	21b	**(319)**	(627)
Other comprehensive income for the year net of tax		**£1,276**	£2,509
Total comprehensive income for the year		**£4,245**	£5,805

Consolidated statement of changes in equity
For the year ended 31 December 2018

	Note	Called-up equity share capital	Revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
		£'000	£'000	£'000	£'000	£'000
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	23	-	-	-	(1,978)	(1,978)
Balance as at 31 December 2017		**£4,830**	**£675**	**£(215)**	**£48,515**	**£53,805**
Balance as at 1 January 2018		4,830	675	(215)	48,515	53,805
Profit for the reporting period		-	-	-	2,969	2,969
Other comprehensive income for the year		-	-	76	1,200	1,276
Total comprehensive income for the year		-	-	76	4,169	4,245
Equity dividends	23	-	-	-	(2,035)	(2,035)
Balance as at 31 December 2018		**£4,830**	**£675**	**£(139)**	**£50,649**	**£56,015**

Consolidated cash flow statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Net cash inflow from operating activities	24	7,186	7,841
Income tax paid		(612)	(769)
Net cash generated from operating activities		6,574	7,072
Cash flow from investing activities			
Purchase of fixed assets		(3,385)	(3,381)
Purchase of subsidiary		(199)	-
Disposal of fixed assets		-	73
Net cash used in investing activities		(3,584)	(3,308)
Cash flow from financing activities			
Interest paid		(374)	(349)
Interest received		15	5
Non-equity dividends paid		(381)	(381)
Equity dividends paid		(2,035)	(1,978)
Net cash used in financing activities		(2,775)	(2,703)
Increase in cash and cash equivalents	25	215	1,061
Cash and cash equivalents at the beginning of the year		3,652	2,591
Cash and cash equivalents at the end of the year		£3,867	£3,652

Reconciliation of net cash flow to movement in debt		2018 £'000	2017 £'000
Increase in cash	25	215	1,061
Liquid resources movement	25	96	144
Movement in net debt	25	311	1,205
Net debt brought forward	25	(16,900)	(18,105)
Net debt carried forward	25	£(16,589)	£(16,900)

Notes to the Consolidated Financial Statements

1 General information

The Jersey New Waterworks Company Limited supplies potable mains water to the Island of Jersey. Its 100% owned subsidiary, Handois Holdings Limited, is a holding company which in turn owns 100% of the issued share capital of De La Haye Plant Limited. De La Haye Plant Limited, supplies tankered water, swimming pool filling and refilling and building site bulk water supply services. The Company and its subsidiaries are together ‘the Group’.

The Company is a public company limited by shares and is incorporated and domiciled in Jersey. The address of its registered office is Mulcaster House, Westmount Road, St Helier, JE1 1DG.

2 Statement of compliance

The financial statements of the Group have been prepared in compliance 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’) and Jersey Companies Law 1991.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified for the revaluation of investment properties and non-basic financial instruments measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas and estimates involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The Group has early adopted the Triennial review 2017 amendments in these financial statements. The Group has been impacted by three of the amendments:

- **Section 5: Changes to the presentation of the Income Statement.** The Group now presents items such as stock write downs, profits or losses of the sale of property, plant and equipment, investment property and intangible assets within operating profit rather than on the face of the income statement.
- **Section 7: Statement of cash flows disclosures.** The Group is now required to produce a net debt reconciliation within the notes to the cash flow statement. The reconciliation shows separately changes arising from cash flows of the entity; the acquisition and disposal of subsidiaries; new finance leases; other non-cash changes; and the recognition of changes in market value and exchange rate movements.
- **Section 18: Treatment of intangible assets.** Intangible assets acquired on acquisition are now recognised separately from goodwill if they are separable and arise from contractual or other legal rights. The Group considered whether any intangibles were acquired on acquisition of De La Haye Plant Limited and concluded that were any acquired they were not separable and did not arise from contractual obligations.

The presentation of the financial statements has been amended to reflect these changes.

Going concern

The Group’s business activities, together with the factors likely to affect its future development, performance and position, and a summary of the financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic Review on pages 8 to 35 and in notes 11 and 12. The Group 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 Group 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.

Basis of consolidation

The Group’s consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The subsidiaries held by the Company have the same accounting policies as the Group and no adjustments are required to be made to those subsidiary financial statements to apply the Group’s accounting policies when preparing the consolidated financial statements.

Any subsidiary undertakings acquired during the year are included from, or up to, the dates of change of control or change of significant influence.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Under Article 105 (11) of the Companies (Jersey) Law 1991 the directors of a holding company need not prepare single company financial statements, if consolidated accounts for the Group are prepared, unless required to do so by the members of the company by ordinary resolution. The members of the Company have not passed a resolution requiring separate accounts and, in the opinion of the Directors', the Company meets the definition of a holding company. As permitted by the law, the directors have elected not to prepare separate financial statements for the Company.

Foreign currency

The Group financial statements are presented in pound sterling and rounded to thousands.

The Group's functional and presentation currency is the pound sterling.

The Company has a Euro bank account which holds a minimal working cash balance for the purposes of settling ad-hoc payments in Euros.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Turnover

Revenue is measured at the fair value of the consideration received or receivable when services are delivered. Turnover represents the total value of water charges net of goods and services tax (GST), together with minor contracts, rental income and income from the delivery of tankered water. Income from minor contracts (rechargeable works income) is recognised within turnover upon completion of the contracted works. Income arising on minor contracts to be provided in the future is treated as deferred income.

(i) Water charges

Water charges are billed either as a fixed rate (in advance) or as a metered charge (in arrears). Both fixed rate and metered water income is recognised for the year up to 31 December 2018.

(ii) Third party funded works

Rechargeable works income relates to charges applied to offset costs of installing new service mains and services to properties across the Island.

Stocks of water

In accordance with normal water industry practice, no value is placed on stocks of water held within reservoirs, treatment works or the mains network.

Inventory

Inventory is valued at the lower of cost and estimated selling price less costs to complete and sell which is the equivalent to the net realisable value. Inventory is recognised as an expense in the period in which the related revenue is recognised or allocated to capital projects undertaken in the year.

Cost is determined on a weighted average cost basis, which includes the purchase price, including taxes and duties and transport and handling directly attributable to bringing the inventory to its present location and condition.

At the end of each reporting period inventory is assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration paid, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets and liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable assets and liabilities acquired.

Goodwill is amortised over its expected useful life which is estimated to be five years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. No reversals of impairment are recognised.

Intangible assets

Computer software is stated at cost less accumulated depreciation and accumulated impairment losses. Software is amortised over its estimated useful economic life of between three to five years on a straight line basis.

The assets are reviewed for impairment if factors such as technological advancement or changes in market price, indicate that residual value or useful life have changed. If there is impairment the residual value, useful economic life or amortisation rate are amended prospectively to reflect the new circumstances.

Intangible fixed assets under construction or development are recognised as 'Intangible Uncompleted Works' until such time as they are ready for use. At this point the asset is transferred to its appropriate asset category and amortisation commences. Subsequent qualifying expenditure is transferred directly to its appropriate asset category.

Tangible assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bring the asset to its working condition for its intended use, dismantling and restoration costs.

Tangible fixed assets under construction are recognised within 'Tangible Uncompleted Works' until such time as they are ready for use. At this point the asset is transferred to 'Property and Completed Works' and depreciation commences. If the major components of a tangible asset have significantly different patterns of consumption of economic benefits the Group will recognise those components as separately identifiable assets. Subsequent qualifying expenditure is transferred directly to 'Property and Completed Works'.

Expenditure incurred on a tangible fixed asset after the asset has been transferred to 'Property and Completed Works' will be recognised as part of the carrying amount of the asset if it is specifically related to a major inspection, overhaul or contractual performance test provided it has met the asset recognition criteria within FRS 102.

Depreciation is charged on a straight line basis in accordance with the rates of depreciation set out below for each major asset type. No depreciation is provided on freehold land.

Asset type	Depreciation period
Water mains	
- Ductile iron	80 years
- Others	50 years
Buildings	30-100 years
Impounding reservoirs & dams	60-100 years
Dam lining membranes	50 years
Pumping plant	10-40 years
Reinforced concrete structures	100 years
Water meters	6-15 years
Motor vehicles	5-8 years
Mobile plant and tools	3-10 years
Reverse osmosis membranes	3-10 years

In 2016 the Company undertook to replace water meter installations that were susceptible to increased leakage. This replacement programme was completed in April 2018 and resulted in only 59% of the 17,000 estimated affected meters requiring replacement. The gross book value of the meters replaced was £639k with a net book value of £399k. The total additional depreciation charge was £399k. Of the total additional depreciation charge, £32k was accounted for in 2018 and £367k previous years. During the year ended 31 December 2018 the Company disposed of £135k (2017: £504k) of the fully depreciated meters.

In September 2018 the Company placed an order for the replacement of the current reverse osmosis membranes. The replacement membranes are expected to be installed in June 2019. As a result the remaining useful lives of the existing membranes were reduced from 26 months to 10 months from September 2018 resulting in accelerated depreciation of £153k in 2018 and £229k in 2019.

Freehold investment property

Certain of the Company's properties originally acquired for business purposes, or otherwise used within the business, are no longer so used and are now held for investment purposes (to earn rental income and or capital appreciation). These properties are classified as investment properties and are accounted for at fair value at the reporting date with changes in fair value recognised in the income statement. The Company engages an independent qualified valuer to provide a full valuation of investment properties at least once every three to five years, and these valuations are reviewed annually by management for appropriateness in light of market movements. The last independent valuation was undertaken by Buckley and Co Limited and provided a market valuation as at 31 December 2016. For the year ended 31 December 2018 management engaged Buckley and Co Limited to provide a desktop valuation of the investment property. The valuation resulted in a movement of £105k in the fair value of the properties at the reporting date. No depreciation is provided in respect of freehold investment property.

Cash and cash equivalents

Cash and cash equivalents, includes cash in hand, at bank and held on deposit for fixed terms of up to 3 months. These items are included within 'Cash' in the statement of financial position.

Financial instruments

The Group has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments are initially recorded at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets' original effective interest rate. The impairment loss is recognised in the income statement or statement of comprehensive income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The impairment reversal is recognised in the income statement.

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Preference shares, which result in fixed returns to the holder are classified as liabilities. The dividends on these preference shares are recognised in the income statement as non-equity dividends.

Derivatives such as interest rate swaps are not basic financial instruments.

(iii) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value assumes that the amount that would be paid to the counterparty to settle the liability would not incorporate changes in the Company's credit risk since the inception of the contract. Changes in the fair value of derivatives are recognised in the income statement as finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

The Group applies hedge accounting for transactions entered into to manage the cash flow exposures of borrowings. Interest rate swaps are held to manage the interest rate exposures and are designated as cash flow hedges of variable rate borrowings.

Changes in the fair values of derivatives designated as cash flow hedges, and which are effective, are recognised in other comprehensive income. Any ineffectiveness in the hedging relationship (being the excess of the cumulative change in fair value of the hedged item since inception of the hedge) is recognised in the income statement.

The gain or loss recognised in other comprehensive income is reclassified to the income statement when interest is incurred and when the hedge relationship ends. Hedge accounting is discontinued when the hedging instrument expires, no longer meets the hedging criteria, the forecast transaction is no longer highly probable, the hedge instrument is derecognised or the hedging instrument is terminated.

(iv) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amount and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years.

(ii) Deferred tax

Deferred tax arises from timing differences that are the difference between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Employee Benefits

The Company provides a range of benefits to employees, including paid holiday arrangements and defined benefit and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits are recognised as an expense in the period in which the service is received.

(ii) Defined contribution pension scheme

The Company operates a defined contribution scheme for its employees. A defined contribution scheme is a pension plan under which the Company pays contributions into a separate entity. The contributions are recognised as an expense in the period they are due. Amounts not paid are shown in accruals in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

(iii) Defined benefit pension scheme

The Company operates a defined benefit scheme for certain employees. A defined benefit scheme defines the pension benefit that the employee will receive on retirement, usually depending upon several factors including age, length of service and remuneration. A defined benefit scheme is a pension plan that is not a defined contribution scheme.

The asset or liability recognised in the statement of financial position in respect of the defined benefit scheme is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the scheme assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. The Company engages independent actuaries to calculate the annual year end obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of scheme assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on scheme assets, less amounts included in net interest are disclosed as 'Re-measurement of net defined benefit liability/asset'.

The cost of the defined benefit scheme is recognised in the income statement as employee costs except where included in the cost of an asset and comprises:

(a) The increase in pension benefit liability arising from employee service during the period; and

(b) The cost of scheme benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of scheme assets. The cost is recognised in the income statement within net interest expense.

Related party disclosures

The Group is applying the exemption available under FRS 102 section 33.11, which exempts the Group from reporting related party transactions, balances and commitments with a state that controls it, and with other entities that are related parties because the same state has control over them.

4 Critical accounting judgements, estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

In the process of applying the Group's accounting policies the critical judgements applied by the Group are detailed below.

(i) Tangible or intangible assets ready for use

Due to the nature of certain contracts for example timing delays, specific contractual obligations or payment schedules and the nature of the assets in question, the Group occasionally has to apply judgement in deciding the point at which the asset was deemed ready for use. See notes 3, 5 and 6 for further details on tangible and intangible assets.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period are addressed below.

(i) Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depends on a number of factors, including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management obtains estimates of these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 15 for disclosures relating to the defined benefit pension scheme and estimates used.

(ii) Unbilled income accrual

The Company invoices its customers daily on a cyclical basis. On average customers will receive a bill covering a 90 day period. The Company makes an estimate of income due on unbilled water consumption at the reporting date. See note 9 for the carrying amount of accrued income.

(iii) Useful economic lives of intangible and tangible assets

The annual amortisation and depreciation charge for intangible and tangible assets respectively is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. These are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 5 and 6 for the carrying amount of the intangible assets and property, plant and equipment, and note 3 for the useful economic lives for each class of assets.

Inventory provision has been removed from this note in 2018 as it is not material.

5 Intangible assets

	Goodwill	Software	Intangible uncompleted works	Total
Cost	£'000	£'000	£'000	£'000
Brought forward	-	466	34	500
Additions	232	183	123	538
Disposals	-	-	-	-
Transfers	20	93	(139)	(26)
Carried forward	£252	£742	£18	£1,012
Amortisation				
Brought forward	-	(398)	-	(398)
Charge for the year	(44)	(51)	-	(95)
Disposals	-	-	-	-
Carried forward	£(44)	£(449)	£ -	£(493)
Net book value				
Bought forward	£-	£68	£34	£102
Carried forward	£208	£293	£18	£519

The above amortisation charges are included within operating expenses in the consolidated income statement.

6 Tangible assets

	Property and completed works	Tangible uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
Brought forward	109,949	966	2,435	113,350
Additions	1,766	1,440	166	3,372
Disposals	(729)	-	(16)	(745)
Transfers	828	(1,002)	200	26
Carried forward	£111,814	£1,404	£2,785	£116,003
Depreciation				
Brought forward	(35,975)	-	(1,713)	(37,688)
Charge for the year	(2,554)	-	(273)	(2,827)
Disposals	675	-	16	691
Impairment	-	-	-	-
Carried forward	£(37,854)	£ -	£(1,970)	£(39,824)
Net book value				
Brought forward	£73,974	£966	£722	£75,662
Carried forward	£73,960	£1,404	£815	£76,179

The above depreciation charges are included within operating expenses in the consolidated income statement.

Included within fixed assets is £194k (2017: £253k) relating to internal labour costs capitalised in the year and £135k (2017: £504k) relating to the disposal of meters in the year.

At 31 December 2018 capital commitments contracted for amounted to £766k (2017: £445k).

7 Freehold investment property

	Freehold investment property
	£'000
Cost or valuation	
Brought forward	675
Additions	-
Disposals	-
Revaluation	105
Carried forward	**£780**

The Company owns one freehold residential investment property containing two units.

An external valuation of all freehold investment property, on the basis of open market value in accordance with the requirements of the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards, is undertaken every three years. For the year ended 31 December 2018, management engaged Buckley and Co Limited to provide a desktop valuation of the investment property. The valuation resulted in a movement of £105k in the fair value of the properties at the reporting date. No depreciation is provided in respect of freehold investment property.

The license income arising from the properties during the year was £35k (2017: £34k), with maintenance and repair costs of £3k (2017: £6k). The Company is obliged to keep the premises wind and water tight, in a good state of condition and repair and structurally sound.

8 Inventories

	2018	2017
	£'000	£'000
Inventory	**800**	912
Provision for impairment	**(291)**	(296)
	£509	£616

Inventory includes desalination plant spares, pipes and fittings, chemicals, meters, fuel and other materials which will be consumed in the course of daily operations.

9 Trade receivables

	2018	2017
	£'000	£'000
Trade debtors	**973**	1,099
Prepayments	**390**	279
Accrued income	**1,986**	1,724
Other debtors	**592**	8
	£3,941	£3,110

Accrued income relates solely to unbilled measured water.

The fair value of trade and other receivables is considered by the Directors to be equivalent to its carrying value because of their short term nature.

10 Creditors and accruals

	2018 £'000	2017 £'000
Trade payables	1,276	640
GST, taxation and social security	234	174
Other creditors	402	367
Contract retentions	246	243
Accruals and deferred income	607	786
	£2,765	£2,210

Trade payables and accruals relate to amounts owed to various suppliers through the normal course of business. Deferred income amounts to nil (2017: £115k) and relates solely to water charges which have been charged in advance.

The fair value of trade and other payables is considered by the Directors to be equivalent to its carrying value because of their short term nature.

11 Bank loans

	Repayment Dates	2018 £'000	2017 £'000
Facilities drawn down			
HSBC Bank plc	2021	5,250	5,250
HSBC Bank plc	2023	6,000	6,000
HSBC Bank plc	2025	3,650	3,650
		£14,900	£14,900

	2018 £'000	2017 £'000
Loans falling due within one year	-	-
Loans falling due between one and two years	-	-
Loans falling due after two years but less than five years	5,250	5,250
Loans falling due after five years	9,650	9,650
	£14,900	£14,900

The Company has a rolling overdraft facility with HSBC Bank plc. Unconditional guarantees have been given by the States of Jersey for the repayment of the principal and interest on loans up to a maximum of £16,200k taken out to fund the Company's capital works programmes. There is no expiration date on the States of Jersey guarantee.

12 Financial instruments

The Company has the following financial instruments:

	2018 £'000	2017 £'000
Financial assets that are debt instruments measured at amortised cost	1,891	1,130
Financial liabilities at fair value through profit or loss	174	270
Financial liabilities that are measured at amortised cost	22,908	22,119

Derivative financial instruments

In October 2011, the Company entered into an interest rate swap contract with HSBC Bank Plc in order to hedge against the interest rate exposure of the Company on the loan of £5,250k maturing in 2021. The interest rate swap contract has a nominal value of £5,250k and also matures in 2021. The fair value used by the Company to value the swap is provided by HSBC Bank Plc and is calculated as the net present value of future cash flows expected to be paid or received under the swap contract.

HSBC Bank plc valued the derivative on 31 December 2018 as a liability of £174k (2017: £270k), generating a fair value movement of £96k (2017: £144k) which has been recognised in other comprehensive income. The Company did not reclassify any amount relating to the derivative financial instrument from equity to the income statement during the year (2017: nil). The Company also did not recognise any excess of the fair value of the hedging instrument over the change in fair value of the expected cash flows to the income statement in the period (2017: nil). The income statement is charged each quarter in line with interest payments resulting from the derivative financial instrument.

13 Share capital

a) Equity share capital

	Shares of £0.50 each '000	2018 £'000	2017 £'000
Authorised, issued & fully paid up			
Ordinary shares	5,040	2,520	2,520
'A' Ordinary shares	4,620	2,310	2,310
	9,660	£4,830	£4,830

Ordinary and 'A' ordinary shares carry no right to fixed income and rank after preference shares and other liabilities. Each ordinary share carries one vote in the event of a poll. Each 'A' ordinary share, whilst in the ownership of the States of Jersey, entitles the holder to such additional votes at a poll as brings the total number of votes attaching to the 'A' ordinary shares to twice the number of votes cast in respect of all other shares.

b) Non-equity preference share capital

		2018 £'000	2017 £'000
Authorised			
20,000	cumulative preference shares of £5	100	100
20,000	cumulative second preference shares of £5	100	100
100,000	cumulative third preference shares of £5	500	500
100,645	cumulative fourth preference shares of £5	503	503
900,000	cumulative fifth preference shares of £5	4,500	4,500
		£5,703	£5,703
Issued and fully paid			
17,261	5% cumulative preference shares of £5	86	86
17,402	3.5% cumulative second preference shares of £5	87	87
23,509	3% cumulative third preference shares of £5	118	118
16,036	3.75% cumulative third preference shares of £5	80	80
11,400	5% cumulative third preference shares of £5	57	57
90,877	2% cumulative fourth preference shares of £5	454	454
900,000	10% cumulative fifth preference shares of £5	4,500	4,500
		£5,382	£5,382

Preference shares bear interest at the rates indicated above and rank, in the order listed, above ordinary and 'A' ordinary equity shares in the event of winding up.

Upon a poll, every holder of a preference share present at a general meeting in person or by proxy shall have one vote only for all the preference shares held by the holder, irrespective of the number and class of such preference shares.

14 Deferred taxation

	Note	2018 £'000	2017 £'000
Accelerated capital allowances		**6,688**	6,495
Derivative financial liabilities		**(34)**	(54)
Liability/(asset) arising from pension surplus/deficit		**202**	(47)
Net liability		**£6,856**	£6,394
Brought forward		**6,394**	5,568
Amounts charged in the income statement	21a	**192**	256
Amounts charged in comprehensive income	21b	**270**	570
At 31 December		**£6,856**	£6,394

The net deferred tax liability expected to reverse in 2019 is £608k. This relates to the reversal of timing differences on fixed assets.

15 Pensions

During the year the Company operated two formal pension schemes; a defined contribution scheme and a defined benefit scheme. There are also certain past employees whose pension or pension supplements, which are of a defined benefit nature, have not been funded by the Company's present or previous pension agreements (the 'unfunded scheme'). Where applicable, the liability of the Company in respect of the unfunded scheme is included within the disclosure below relating to the defined benefit section. The defined benefit section of the scheme was closed to new entrants with effect from 1 January 2003.

The defined benefit scheme is a section of The Jersey Water Pension Plan ('the Plan'). The plan is administered by trustees who are responsible for ensuring that the Plan is sufficiently funded to meet current and future obligations. The Company has agreed a funding plan with the trustees, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary. Additional contributions are agreed with the trustees to reduce the funding deficit where necessary.

The defined contribution scheme was opened to new members on 1 May 2003. It was a section of The Jersey Water Pension Plan until March 2016 when it was transferred under a 'Master Trust' arrangement to the Blue Riband Channel Islands Retirement Plan, established and administered by BWCI Pension Trustees Limited.

Defined contribution section

Employer contributions during the period to 31 December 2018 totalled £180k (2017: £158k).

Defined benefit section and unfunded scheme

The FRS 102 valuation as at 31 December 2018 shows a net asset of £1,013k compared to a net deficit of £236k at 31 December 2017.

The major assumptions used by the independent actuary were:

	2018	2017
Rate of increase in salaries	3.15%	2.98%
Rate of increase in pensions accrued after 1 January 1999	3.05%	2.93%
Discount rate	2.92%	2.47%
Inflation assumption	3.15%	2.98%
Life expectancy assumptions		
Current pensioners at 65 - Male	87	87
Current pensioners at 65 - Female	88	90
Future pensioners at 65 - Male	88	89
Future pensioners at 65 - Female	90	92

The post-retirement mortality assumptions allow for expected changes in longevity.

The overall expected rate of return is based on the weighted average return of each class of asset at the start of each accounting period.

	Assets £'000	Liabilities £'000	Total £'000
Reconciliation of the present value of scheme assets and liabilities			
At 1 January 2018	28,303	(28,539)	(236)
Benefits paid	(1,358)	1,358	-
Employer contributions	167	-	167
Current service costs	-	(401)	(401)
Employee contributions	62	(62)	-
Past service costs	-	-	-
Interest income/(expense)	685	(688)	(3)
Life assurance premiums	(13)	-	(13)
Re-measurement gains/(losses)			
- Actuarial gains	-	3,255	3,255
- Return on plan assets excluding interest income	(1,756)	-	(1,756)
As at 31 December 2018	£26,090	£(25,077)	£1,013

	Assets £'000	Liabilities £'000	Total £'000
Analysis of funded and wholly unfunded scheme assets and liabilities			
Funded scheme	26,090	(25,072)	1,018
Wholly unfunded scheme	-	(5)	(5)
Total present value of scheme liabilities	£26,090	£(25,077)	£1,013

Total cost recognised as an expense within the income statement

	2018 £'000	2017 £'000
Current service cost	(401)	(428)
Life assurance premiums	(13)	-
Interest expense within net interest expense	(3)	(73)
Total	£(417)	£(501)

Current service cost, past service cost and curtailments are included within operating expenditure in the income statement. Net interest income / (expense) on pension plan assets and interest on pension plan liabilities are shown within interest receivable or payable in the income statement. No amounts (2017: nil) were included in the cost of the assets.

Total income recognised within other comprehensive income

	2018 £'000	2017 £'000
Re-measurement gains/(losses)		
- Actuarial gains	3,255	1,163
- Return on plan assets excluding interest income	(1,756)	1,829
Total re-measurement gains	£1,499	£2,992

Analysis of scheme assets	2018 % of total fair value of scheme assets	2017 % of total fair value of scheme assets
Equities	30%	31%
Property	7%	6%
Corporate bonds	62%	62%
Cash and receivables	1%	1%
	100%	100%

The fair value of the plan assets was:	2018 £'000	2017 £'000
Equities	7,922	8,973
Property	1,768	1,713
Corporate bonds	16,341	17,451
Cash and receivables	59	166
	£26,090	£28,303

Return on plan assets:	2018 £'000	2017 £'000
Interest income	685	671
Return on plan assets excluding interest income	(1,756)	1,829
Total return on plan assets	£(1,071)	£2,500

Funding of the defined benefit pension scheme

The actual funding of the defined benefit pension scheme is determined by the triennial actuarial valuation and this differs from the amount that is required to be charged to the income statement under FRS 102. During the year, the Company made scheduled retirement benefit contributions into the defined benefit scheme totalling £167k (2017: £215k).

Following the results of the last triennial valuation as at 1 January 2018, the contribution rate for 2018, 2019 and 2020 was set at 12.5% of pensionable salaries.

16 Turnover

	2018 £'000	2017 £'000
Measured water charges	14,891	14,084
Unmeasured water charges	390	425
Service charges and other charges for water	656	662
Total water supply charges	15,937	15,171
Rechargeable works income	327	473
Insurance compensation	511	-
Other income	424	316
Turnover	£17,199	£15,960

17 Operating expenditure

	Note	2018 £'000	2017 £'000
Included in operating expenditure are the following:			
Net employment costs	18	4,441	4,038
Impairment of tangible fixed assets	6	-	-
Impairment of inventory	8	(5)	34
Amortisation & depreciation	5/6	2,737	2,167
Accelerated depreciation	3	185	79
Loss/(gain) on disposal of fixed assets		54	(53)
Materials, consumables, hired in services and other costs		5,100	4,582
Directors' fees		141	140
Auditors' fees - Statutory audit		80	60
- Other services (Tax compliance)		5	-
- Other services (Pension scheme audit)		8	8
Gain arising on the revaluation of investment property	7	(105)	-
Foreign exchange gain		(8)	-
Total operating expenditure		£12,633	£11,055

18 Net employment costs

	2018 £'000	2017 £'000
Wages, salaries and other payments	3,829	3,497
Social Security	224	208
Pension costs	582	586
	4,635	4,291
Less amount capitalised within fixed assets	(194)	(253)
Net employment costs	£4,441	£4,038

19 Net interest expense

a) Interest receivable

	2018 £'000	2017 £'000
Bank interest received	15	5
Net interest income on pension obligations	-	-
Total interest receivable and similar charges	£15	£5

b) Interest payable and similar charges

	2018 £'000	2017 £'000
Bank loans and overdrafts	299	240
Net interest expense on pension obligations	3	73
Interest rate swap contract	77	109
Total interest payable and similar charges	£379	£422

20 Non-equity dividends

	2018			2017		
	Paid	Payable	Charge for the year	Paid	Payable	Charge for the year
	£'000	£'000	£'000	£'000	£'000	£'000
5% cumulative preference shares	3	1	4	3	1	4
3.5% cumulative second preference shares	2	1	3	2	1	3
3% cumulative third preference shares	3	-	3	3	-	3
3.75% cumulative third preference shares	2	-	2	2	-	2
5% cumulative third preference shares	2	-	2	2	-	2
2% cumulative fourth preference shares	7	-	7	7	-	7
10% cumulative fifth preference shares	360	-	360	360	-	360
Total dividends on non-equity shares recognised in the year	£379	£2	£381	£379	£2	£381

21 Income tax

a) Tax expense included in the income statement

	2018 £'000	2017 £'000
Current tax		
Income tax on the profit for the year	660	555
Deferred tax		
Charge for the year	192	256
Total tax on profit on ordinary activities	£852	£811

b) Tax expense included in other comprehensive income

	2018 £'000	2017 £'000
Current tax		
Movements relating to pension surplus / deficit	49	57
Deferred tax		
Movement on deferred tax relating to interest rate swap	20	29
Movement on deferred tax relating to pension surplus / deficit	250	541
Total tax expense included in other comprehensive income	£319	£627

Factors affecting tax charge for year

The tax assessed for the year is higher than the standard rate of Jersey income tax (20%) (2017: 20%) applicable to utility companies. The differences are explained below:

	2018 £'000	2017 £'000
Consolidated profit before tax	3,821	4,107
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	764	822
Tax at 20% on:		
Depreciation for the period in excess of capital allowances	182	75
Capital expenditure, deductible for tax purposes	(198)	(151)
Loss/(profit) on disposal of fixed assets	11	(11)
Dividends on non-equity shares - non deductible	76	76
Non deductible expenses	17	-
Total tax charge for year	£852	£811

22 Basic and diluted earnings per ordinary share

Basic and diluted earnings per ordinary share of £0.31 (2017: £0.34) is based on earnings of £2,969k (2017: £3,296k), being the profit available for distribution to equity shareholders and 9,660,000 (2017: 9,660,000) ordinary and 'A' ordinary shares of £0.5 in issue.

23 Equity dividends

Ordinary and 'A' Ordinary shares

	2018 Pence per share	2017 Pence per share	2018 £'000	2017 £'000
Dividends paid				
Final dividend for the previous year	13.932	13.559	1,346	1,310
Interim dividend for the current year	7.137	6.922	689	668
	21.069	20.481	£2,035	£1,978
Dividends proposed				
Final dividend for the current year	14.447	13.932	£1,396	£1,346

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in the financial statements.

24 Notes to the consolidated statement of cash flows

	2018 £'000	2017 £'000
Profit for the reporting period	2,969	3,296
Tax on profit on ordinary activities	852	811
Non-equity dividends	381	381
Net interest expense	364	417
Operating profit	4,566	4,905
Gain on revaluation of investment property	(105)	-
Loss/ (gain) on disposal of fixed assets	54	(53)
Depreciation and amortisation	2,922	2,246
Change in order to bring pension charges onto a contribution basis	235	213
Decrease in inventories	107	24
(Increase) / decrease in trade receivables	(1,040)	171
Increase in creditors	447	335
Net cash inflow from operating activities	£7,186	£7,841

25 Analysis of changes in net debt

	At 1 January 2018 £'000	Cash Flows £'000	Other Changes £'000	At 31 December 2018 £'000
Bank and cash	3,652	(2,785)	-	867
Term deposit	-	3,000	-	3,000
Debt due within one year	-	-	-	-
Debt due after one year	(20,552)	-	96	(20,456)
Total	**£(16,900)**	**£ 215**	**£96**	**£(16,589)**

26 Directors' emoluments

	Salary	Bonus	Fee	Benefits	Total emoluments (Excluding pension contributions)	
					2018	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Executives						
Helier Smith	165	29	-	5	199	188
Natalie Passmore	113	19	-	3	135	74
Non-Executives						
Tony Cooke	-	-	7	-	7	19
Mary Curtis	-	-	19	-	19	19
Tim Herbert	-	-	19	-	19	19
Stephen Kay	-	-	19	-	19	19
Heather MacCallum	-	-	19	-	19	19
Daragh McDermott	-	-	19	-	19	19
Michael Pocock	-	-	12	-	12	-
Peter Yates	-	-	27	-	27	27

During the year the Company made pension contributions of £25k (2017: 22k) in respect of Helier Smith and £12k (2017: £8k) in respect of Natalie Passmore. Benefits for Helier and Natalie consist of private health care, prolonged disability and death in service insurance. Helier also receives motor fuel benefit.

Michael Pocock was appointed as a non-executive director on 16 May 2018 and Tony Cooke resigned as a non-executive director on 17 May 2018.

27 Related parties

The Group shares a common controlling shareholder, the States of Jersey, with Jersey Post Group, Jersey Telecom, Jersey Electricity, Andium Homes, Ports of Jersey and Jersey Development Company. During the year the Group provided water services and mains and service installations to these entities and several departments of the States of Jersey, and purchased services from Jersey Electricity, Jersey Post Group, Ports of Jersey and Jersey Telecom. All transactions were undertaken on an arm's length basis during the normal course of business.

During the year the Company paid pension benefits on behalf of the Defined Benefit Jersey Water Pension Scheme amounting to £284k (2017: £120k) on the basis it would be fully reimbursed by the Scheme. At 31 December 2018, the net balance owed by the scheme is £75k (2017: (£50k)).

The remuneration of key management personnel (which is defined as the Executive and Non-Executive Directors) is set out in note 26 above.

28 Ultimate controlling party

The ultimate controlling party of The Jersey New Waterworks Company Limited is the States of Jersey.

29 Events after the end of the reporting date

The Group is proposing to change their financial year end from 31 December to 30 September. This will result in a shortened accounting period of nine months to 30 September 2019.

30 Business combinations

On 16 February 2018, the Company purchased the entire issued share capital of De La Haye Plant Limited for £287k 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 continues to operate this business as a wholly owned subsidiary company under its existing trading name.

Goodwill of £252k arose on the acquisition. The useful life of the goodwill is estimated to be 5 years.

There would be no material impact on either the turnover or profit of the Group for the year ended 31 December 2018 if De La Haye Plant Limited had been owned for the whole of the financial year.

	£'000
Consideration	
Cash	173
Deferred consideration	87
Directly attributable costs	27
	£287

	£'000
For cash flow disclosure purposes the amounts are disclosed as follows:	
Cash consideration	173
Directly attributable costs	27
	200
Less:	
Cash and cash equivalents acquired	(1)
Net cash outflow	**£199**

	Book Value £'000	Revaluation £'000	Fair Value £'000
Recognised amounts of identifiable assets acquired and liabilities assumed			
Motor vehicles	1	34	35
Trade receivables	6	-	6
Cash	1	-	1
Trade payables	(7)	-	(7)
Total identifiable assets	1	34	**35**
Goodwill			252
Total			**£287**

The adjustment on acquisition relates to a third party valuation of the motor vehicles undertaken by Morris Marine & Motors Ltd.

The deferred consideration was paid on 15 February 2019. The amount has not been discounted, as the effect of discounting is not material.

31 Subsidiaries

Name	Registered office address	Nature of business	Interest
Handois Holdings Limited	Mulcaster House, Westmount Road, St Helier, Jersey, JE1 1DG	Holding company	100% ordinary shares
De La Haye Plant Limited	Mulcaster House, Westmount Road, St Helier, Jersey, JE1 1DG	Water haulage	100% ordinary shares

Five Year Summary (Unaudited)

	Units	2018[2]	2017	2016	2015	2014
Statement of financial position						
Total equity	£'000	**56,015**	53,805	49,978	52,043	48,383
Net Debt	£'000	**16,589**	16,900	18,105	17,119	14,780
Income statement						
Turnover	£'000	**17,199**	15,960	15,720	15,373	15,184
Operating profit (before exceptional items)	£'000	**4,566**	4,852	5,024	4,841	4,971
Profit before tax	£'000	**3,821**	4,107	4,256	4,074	4,242
Profit for the reporting period	£'000	**2,969**	3,296	3,334	3,336	3,390
Equity dividends paid	£'000	**2,035**	1,978	1,936	1,902	1,842
Financial statistics & ratios						
Capital expenditure	£'000	**3,910**	3,275	4,589	6,611	2,880
Net cash inflow / (outflow)	£'000	**215**	1,061	(860)	(2,383)	4,736
Earnings per share	£	**0.31**	0.34	0.35	0.35	0.35
Dividend cover	Times	**1.5**	1.7	1.7	1.8	1.8
Interest cover	Times	**6.1**	6.1	7.2	6.3	6.6
Gearing[1]	%	**37**	42	41	40	42
Operational statistics						
Total water supplied	Ml	**7,180**	7,327	7,567	7,294	7,080
Maximum daily demand	Ml	**25.1**	25.9	25.6	25.0	24.0
Annual rainfall	mm	**862**	1,027	986	964	1,045
New mains laid	km	**2.5**	1.9	2.3	0.2	1.6
Mains re-laid/relined	km	**2.0**	2.1	2.0	2.5	3.5
New connections	No.	**340**	303	374	506	403
Live unmeasured supplies	'000	**0[3]**	0[3]	2	5	6
Live metered connections	'000	**33**	33	33	32	31
Employees	No.	**90**	83	81	80	82
Water quality						
% Compliance with water quality parameters		**99.99%**	99.98%	99.99%	99.99%	99.99%

[1] Gearing = Debt (including preference share capital / equity shareholders' funds).

[2] For 2018 the results are presented on a consolidated basis.

[3] Less than 500 unmeasured supplies in 2018 and 2017.

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