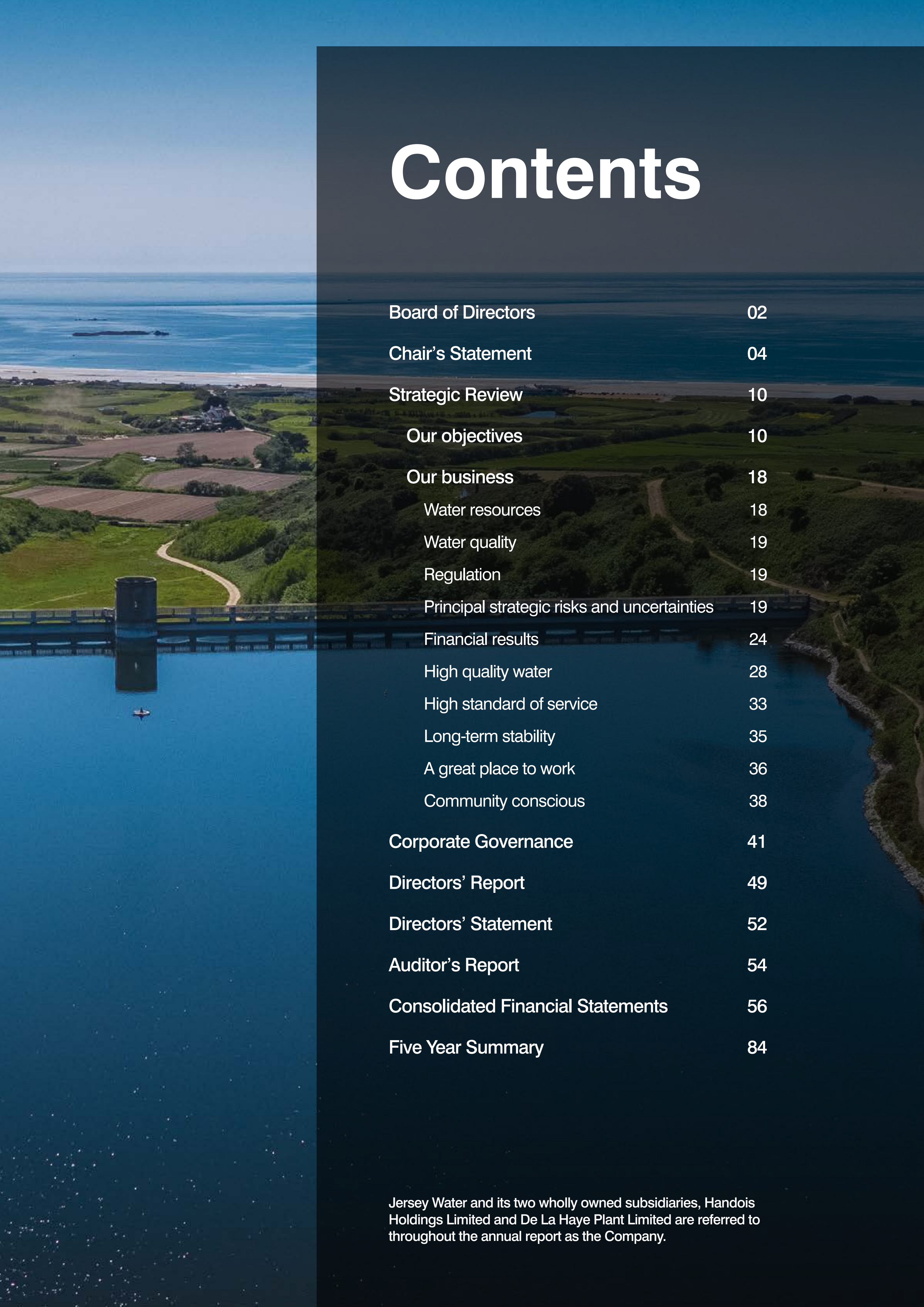
30 September 2019
Annual Report and Financial Statements

The Jersey New Waterworks Company Limited



Contents

Jersey Water and its two wholly owned subsidiaries, Handois Holdings Limited and De La Haye Plant Limited are referred to throughout the annual report as the Company.

Board of Directors

Non-Executive

Chair

Peter Yates
BSc, FCA

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

Executive

Chief Executive

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

Finance Director

Natalie Passmore
MA (Hons), BFP, 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

Bankers

HSBC Bank PLC
HSBC House, Esplanade
St Helier, Jersey, JE1 1HS

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.

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 chairs the Remuneration Committee and is a member of 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. He was previously Managing Director of Cambridge Water Plc and Chair of both the Water UK Standards Board and the Water Regulations Advisory Scheme (WRAS). Stephen is a Trustee of the Water Companies' Pension Scheme and the Arthur Rank Hospice Charity (the 'Cambridge Hospice'). Since 2012 Stephen has been a Director of Watersafe Limited, a company limited by guarantee to promote the use of qualified plumbers.

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 from 2001 until 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 a Non-Executive Director of a number of companies listed on the London Stock Exchange, namely Blackstone/GSO Loan Financing Limited, Aberdeen Latin American Income Fund Limited and City Merchants High Yield Trust Limited. She is also a Trustee of Lloyds Bank Foundation for the Channel Islands.

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), BFP, 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 more 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 both of Jersey Water's subsidiary companies, Handois Holdings Limited and De La Haye Plant Limited.

Michael Pocock *BSc (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. Michael was also a trustee of the Affinity Water Pension Fund. In September 2018 Michael retired as an executive director of Affinity Water and trustee of the Pension Fund. 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), BFP, 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 both of Jersey Water's subsidiary companies, Handois Holdings Limited and De La Haye Plant Limited.

Chair's Statement

It is my pleasure to introduce Jersey Water's Annual Report and Financial Statements for the nine-month period ending 30 September 2019 in what will be my final time as Chair of the Board before I stand down in February 2020. The period has been a busy but successful one for Jersey Water during which we made significant progress on the many important projects underway in all areas of the business, whilst ensuring that we continue to supply water of the very highest standard and customer service at a level of which we are very proud.

As referenced above and as reported in the 2018 Financial Statements, in order to accommodate a change in the year-end reporting timetable of our majority shareholder, the States of Jersey, Jersey Water has changed its financial year-end to 30 September. Accordingly, these financial statements report on the nine-month period ending on 30 September 2019.

The Company is reporting an increase in turnover of 4.4% on the same time period in 2018. The increase being mainly attributable to the combined effects of a below inflation tariff increase, an increase in demand for water during the hot and dry summer months, new customers and a modest increase in income from the installation of new connections. Profit for the period stands at £1,593k compared to £2,325k for the same time period in 2018. The reduction in profit for the period was lower than expected and is due to a 15% increase in operating expenditure which totalled £10,643k (30 September 2018: £9,231k).

The change in costs was principally due to the following factors:

- **Delivery of key strategic projects such as the Connect Programme and the Water Resource Management Plan. This investment, whilst significant in the short term, will help drive efficiencies, ensure value for money and build resilience in the long term.**
- **The write off relating to expenditure on the proposed bypass at Val de la Mare following the refusal of the planning application.**
- **A market driven increase in the current service cost of the defined benefit pension scheme.**
- **Increased power costs due to low winter rainfall and low groundwater levels increasing the volume of water pumped during the period.**

We invested a total of £2,818k (31 December 2018: £3,910k) in our capital expenditure programme for the period. Almost half of this was spent on our network both in extending it by 0.74km and in the renewal of 1.33km of treated water mains network, service connections and meters as we proactively continue to reduce leakage, improve water quality and maintain the condition of our underground assets. We also spent £587k on improvements to the membrane preservation pipework at the desalination plant.

In 2018, we announced that the Company would be renewing much of its IT infrastructure through our business transformation programme Connect. During the period, work on the Connect Programme has been an area of significant focus and business cases are approved for the replacement in 2020 of our accounting system, HR system, desktop environment and the introduction of a new asset management platform and laboratory information management system. The new and replacement systems will bring significant business benefits including added resilience, greater efficiency in costs and resources and enhancements to customer service. We expect capital expenditure on the Connect Programme in 2020 will be £1,293k.

We recently conducted our third annual customer survey which confirmed that Jersey Water continues to perform better than the utility sector in the UK and the Institute of Customer Service Index. We are acutely conscious that our customers don't have a choice over their water supplier and that is why providing an excellent service is fundamental to the way we operate. We were delighted that the survey confirmed that we were easy to do business with, many would recommend us if they had a choice and we were among the best performing in customer perception of value for money for the service we provide.

"The period has been a busy but successful one for Jersey Water during which we made significant progress on the many important projects underway in all areas of the business."

Water quality in the period continued to be of a very high quality, with an overall compliance rate of 99.97% (31 December 2018: 99.99%). The water we supplied was fully compliant with all regulations for nitrates and pesticides for the 5th and 3rd years running respectively. Our work with the Action for Cleaner Water Group was ongoing and continues to show its beneficial effects through improvements to the quality of water entering our reservoirs, although some of this will be due to the dry weather during the growing season. Jersey Water sponsored and produced a video showcasing the work of the Company and the practical measures that the farming community have implemented on a voluntary basis to improve raw water quality and discharge their obligations under the Government's 2016 Water Management Plan for Jersey.

It was disappointing that our planning application to install a bypass at Val de la Mare West Stream to protect water resources from diffuse pollution was refused. We believe this practical and sensible solution to manage water quality risks forms part of a package of measures necessary to protect water resources; others include the replacement and upgrade of our carbon dosing equipment at Handois which is scheduled for completion in March 2020.

The Government of Jersey have yet to meet their commitments under the Water Management Plan, namely, the introduction of a new Water Code and Catchment Protection Orders under the Water Pollution (Jersey) Law 2000, the long overdue review of the Pesticides (Jersey) Law 1991 and most importantly, the appointment of a Catchment Protection Officer to help the farming community further improve water quality and comply with the new catchment protection regulations. We continue to work with the Government, encouraging them to move forward in these areas so that they are able to achieve the water quality improvements that were due to be delivered by 2021 and maintain the considerable trust and goodwill that exists within the Action for Cleaner Water Group.

From a water resources perspective, the nine month period was atypical as a result of a dry winter which meant that ground water levels did not replenish and reservoir levels did not reach full until March 2019 and then only for a short while, before declining over the spring and summer to end the period at 58% full, well below the average for that time of the year. Operation of the desalination plant commenced on 23 September 2019, for the purposes of topping up reservoir levels and testing recent modifications to the plant. Rainfall subsequent to the period end has been such that reservoir levels were all but full by late November. As a result of our limited reservoir capacity, any rainfall not used for treatment between now and when resources start to decline in spring will be lost to sea. Additional water storage capacity would allow us to capture and store additional winter rainfall and safeguard water resources more effectively.

Work continued throughout the period on our Water Resources and Drought Management Plan which has highlighted that if no action is taken, in severe drought years, there will be a forecast shortfall by 2045 of 8 Million litres per day between the demand for water and the water available for use. The shortfall is driven principally by the effects of climate change and predicted population growth. We are currently evaluating a number of measures to address the shortfall both in terms of demand management, including additional water efficiency and leakage reduction initiatives, and additional resources which may include more desalination, extension of existing reservoir storage, water recycling and the creation of new reservoir storage.

We are actively engaged in the Government of Jersey's Island Plan process and have recommended that a Water Strategy should be incorporated as an explicit element of the new Island Plan and sit alongside the existing strategies for minerals, energy, waste and transport, which are all incorporated into the current Island Plan. The Strategy would translate the Island's needs for additional water resources into land-use issues and ensure that Water Resources are considered alongside other infrastructure needs. We have also recommended that the Island Plan include a review of the future of Gigoulande Quarry, in St Peter's Valley, as a potential water storage reservoir when extraction is complete.

The quarry, which is currently earmarked for inert waste landfill, is estimated to have a capacity on completion of slightly less than Val de la Mare Reservoir, is well-located close to existing water infrastructure and is within a high yielding and reliable water catchment.

As an island with only 120 days of water storage when full, we are vulnerable to water shortages and drought. At maximum capacity we also lose a considerable amount of water to the sea. It is important that the Island Plan recognises water as a strategic issue that will have multi-generational implications. The potential repurposing of Gigoulande Quarry as a water storage reservoir, represents a unique, once in a lifetime, opportunity to secure a key piece of infrastructure for the benefit of the island that, if ignored, will never present itself again. Filling the quarry with inert waste provides a temporary solution for solid waste management; filling the quarry with water provides a permanent water resource for the island for centuries to come.

In September 2019, the Company declared and paid an interim dividend of 5.353 pence per share ('pps'). The Board are recommending a final dividend for the period of 10.835pps for consideration and approval by shareholders at the forthcoming Annual General Meeting ('AGM'). The Board have recognised the shorter, nine-month financial period in determining the dividends announced and proposed.

Dividends paid and proposed for the period to 30 September 2019 are 16.188pps, compared to dividends paid for the financial year to 31 December 2018 of 21.584pps.

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 the change in year end, the 2020 Annual General Meeting has moved from its customary timing in spring to 6 February 2020. At the AGM, the Directors retiring by rotation and seeking re-election for further terms of three years shall be Heather MacCallum, Daragh McDermott, Natalie Passmore and Helier Smith. As previously reported, as I have completed 10 years on the Board, in accordance with our policy of limiting the maximum terms for Non-Executive Directors, I shall retire by rotation but will not be seeking re-election. I am delighted to report that Heather MacCallum has agreed to take over from me as Chair of the Board and I wish her every success in the role. The Company will shortly commence the recruitment process for a new non-executive director to join the board during 2020.

There continues to be a significant amount of change at Jersey Water while we improve and modernise our systems and ways of working. I have been immensely impressed by the positive and enthusiastic response to these changes by all who work at Jersey Water and the support given by employees to ensuring they are a success; all the while maintaining high standards of water quality and ensuring our customers continue to receive the great customer service that they have grown to expect. We work hard to ensure that Jersey Water is a great place to work and were delighted with the results of our biannual employee engagement score in which our overall engagement score was 90%: an improvement of 1% on the previous score.

As I come to the end of my tenure on the Board, I should like to take a moment to reflect on what the future may hold for Jersey Water. It is my firm belief that Jersey Water consistently punches above its weight as it seeks to ensure that it provides the very best quality and service, despite the relatively modest resources at its disposal. We achieve a huge amount with a team of just 91 dedicated people.

Looking back during my 10-year term in office we have invested a total of £42 million in our infrastructure which has included Island-wide metering, extending the network by 12km, renewing 29km, doubling the capacity of the desalination plant and making a myriad of improvements to our treatment processes. All achieved while maintaining a reliable supply of very high quality water underpinned by great customer service. The majority of investment activity isn't designed to grow market share or fill the bottom line (in fact we are one of the few businesses who advocate customers using less of our product); it is to enhance water quality, preserve water resources or improve our resilience; all with our customers in mind. Our role as the supplier of water, a service that is essential to life and wellbeing, means we play a wider role in the community we serve.

Looking ahead, that role we play needs to evolve as the world around us changes more quickly than ever and we face the significant challenges presented by climate, demographic and technological change. There has never been a greater urgency for society to deal with climate change, as populations grow and age there will be serious implications for how organisations resource themselves, deliver their service and meet the changing needs of their customers and the incessant pace of technological advancement means companies need to be able to adapt with speed and agility. Jersey is far from immune to these trends and how we address them will be instrumental in determining our collective fortune. I have every confidence that Jersey Water will continue to tackle these challenges head on, playing its part for the benefit of the Island community. Our recent announcement of a partnership with the National Trust for Jersey, Jersey Trees for Life and Jersey Electricity to undertake possibly the largest tree planting exercise seen in Jersey is a case in point. The scheme, which involves planting 6,000 trees in and around Le Mourier Valley, is aimed at safeguarding biodiversity, offsetting carbon and helping Jersey towards its aim of being carbon neutral by 2030.

I would like to thank my fellow directors, the leadership team and colleagues throughout the business, for their significant and ongoing contribution to the Company's success during 2019 and for the support they have given me during my tenure as a Director and Chair of the Board of Jersey Water.

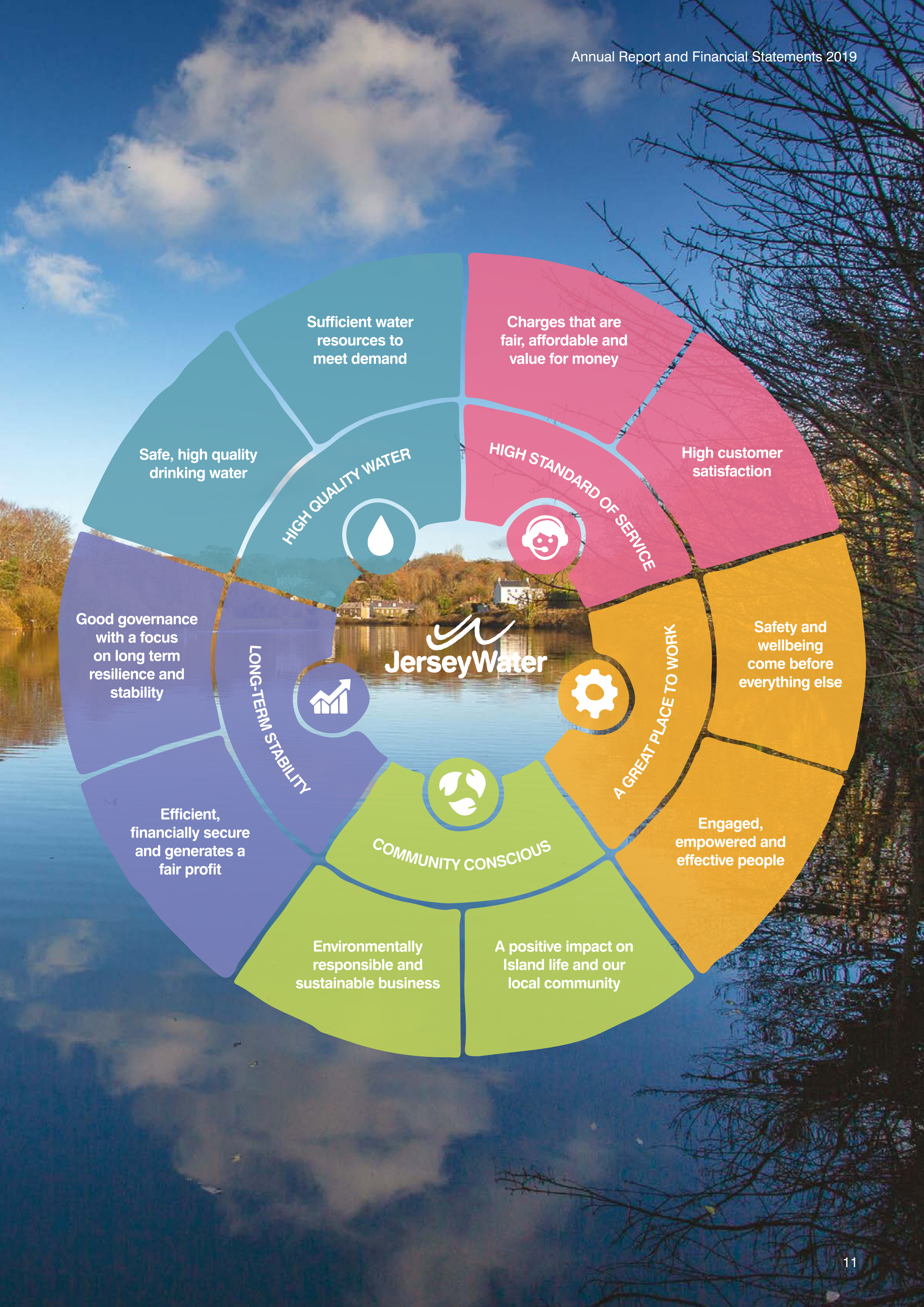
Peter Yates
Chair
12 December 2019

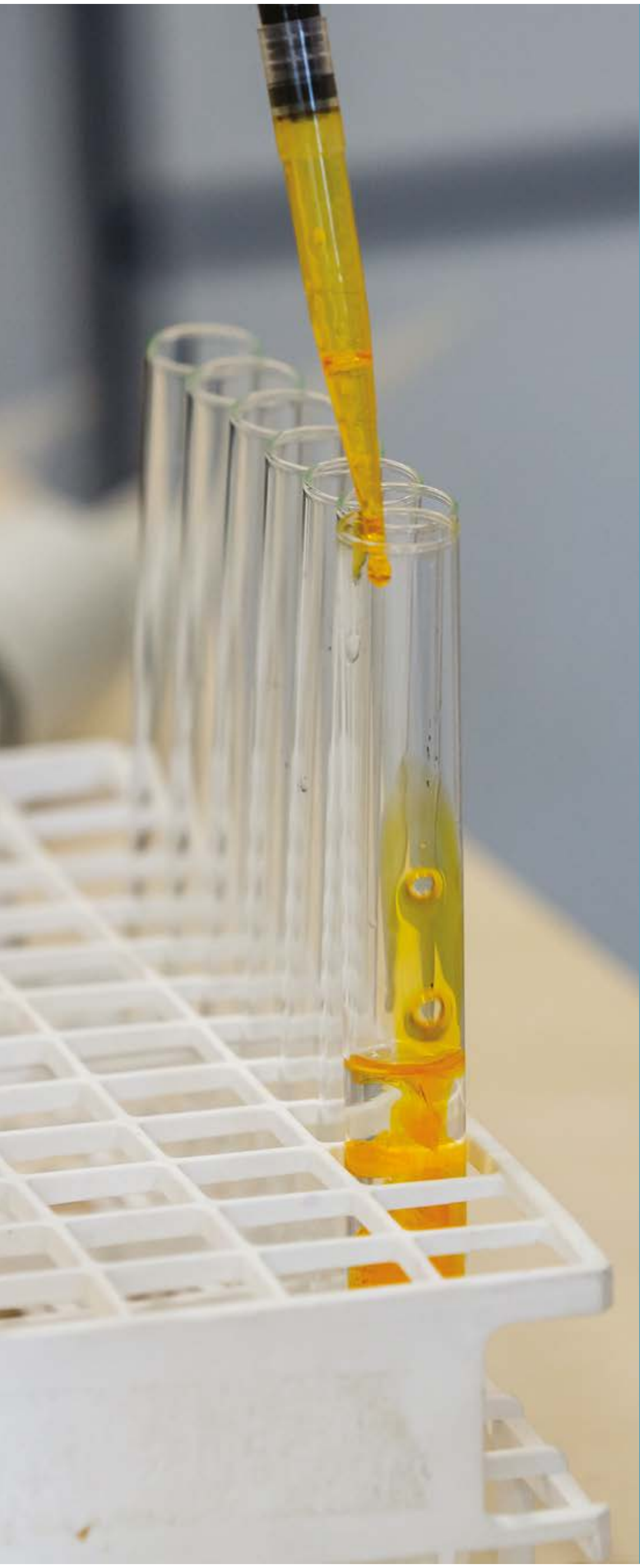

WATER

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.


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



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	Sufficient water resources to meet demand

Outcomes for the period:

Safe, high quality drinking water

- 99.97% water quality compliance (31 December 2018: 99.99%)
- Zero nitrate or pesticide failures in treated water (31 December 2018: zero)
- 99.99% bacteriological compliance at treatment works (31 December 2018: 99.99%)
- Catchment initiatives undertaken with the Action for Cleaner Water Group
- Determination of the planning application on Val de la Mare bypass

Sufficient water resources to meet demand

- Phase 1 of Water Resources Management Plan completed. Water supply/ demand shortfall identified, work on Phase 2 underway
- Island Plan submission regarding water resources
- Leakage reduced by 3.6% on 31 December 2018
- Modifications to desalination plant completed and membranes replaced
- Desalination plant produced 65Ml to supplement resources and test modifications to desalination plant

Key initiatives for 2020:

Safe, high quality drinking water

- 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
- Implementation of Laboratory Information Management System
- Ongoing enhancement of water quality governance and drinking water safety plans

Sufficient water resources to meet demand

- Completion of Phase 2 of Water Resources Management Plan to identify measures to address the supply/demand shortfall
- Renewal of the Motor Control Centre at Grands Vaux Pumping Station and installation of standby power generation

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

High customer satisfaction

Outcomes for the period:

- 96% of customers paying for water by meter (31 December 2018: 95%)
- 34% of customers now receiving e-bills (31 December 2018: 32%)
- Below inflation tariff increase of 3.8%

- ICS benchmarking survey 84% satisfaction rating (31 December 2018: 86.5%)
- Text feedback score of 93% (31 December 2018: 93%)

Key initiatives for 2020:

- Transfer of remaining customers onto metered or assessed volume charging

- Working towards the Institute of Customer Services Servcheck standard
- Consultation with customers on the Water Resources Management Plan

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	Engaged, empowered and effective people

Outcomes for the period:

Safety and wellbeing come before everything else

- Zero time lost accidents (31 December 2018: 0)
- Development of Mental Health Safety Management System
- Deployment and training on new mobile friendly safety management knowledge base

Engaged, empowered and effective people

- New People Strategy developed and implementation underway
- New HR system identified for implementation
- Employee engagement survey scored 90% engagement based on 95% response rate

Key initiatives for 2020:

Safety and wellbeing come before everything else

- Enhancement and refinement of the Jersey Water Safety Management System including mechanisms for dealing with hazardous substances
- Implementation of Mental Health Safety Management System and training delivery
- Development of Health & Wellbeing Strategy

Engaged, empowered and effective people

- Implementation of new HR system
- Ongoing delivery of People Strategy initiatives
- Development of new performance management system and processes

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 generates a fair profit

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

Outcomes for the period:

- Profit for the period of £1,593k (30 September 2018: £2,325k)
- Extension of mains network by 0.7km (31 December 2018: 2.5km)
- Future metering strategy development

- Change of financial year-end to 30 September 2019
- GDPR project delivery against milestones
- Ongoing preparations for Brexit
- Design completed for End User Computer (EUC) Project within Connect Programme
- Design and business case sign off for new accounting, HR and asset management systems
- Business case preparation for Laboratory information management system
- Yellow Belt, Lean Six Sigma training

Key initiatives for 2020:

- Development of five-year business plan cycle for 2020-2025
- Property Strategy development & implementation

- Implementation of EUC desktop and mobile working platform
- Implementation of accounting, asset management and HR system
- Implementation of Laboratory Information Management System
- Further Yellow Belt, Lean Six Sigma training and development of new ways of working

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	Environmentally responsible and sustainable business

Outcomes for the period:

A positive impact on Island life and our local community

- To 30 September 2019 £11k raised by employees for the Friends of Special Care Baby Unit (SCBU)
- Supplied 94,000 litres of free water from refill stations supporting more than 70 festivals and events which included the Island walk, Jersey Hospice Moonlight walk and Family Nursing and Home Care Colour Run
- Our employees volunteered to run the Jersey Water 'Hydration Station' providing free water refills and reusable drinking bottles supporting SCBU at the Jersey Boat show, the International Air Display, Queens Valley open day, Out there and the Weekender festivals
- Educational visits for 80 students.
- 12th year of offering bursary placements

Environmentally responsible and sustainable business

- 100% compliance with environmental regulations
- 6,000 tree planting scheme for Le Mourier Valley agreed in partnership with Jersey Electricity Plc, National Trust for Jersey and Jersey Trees for Life

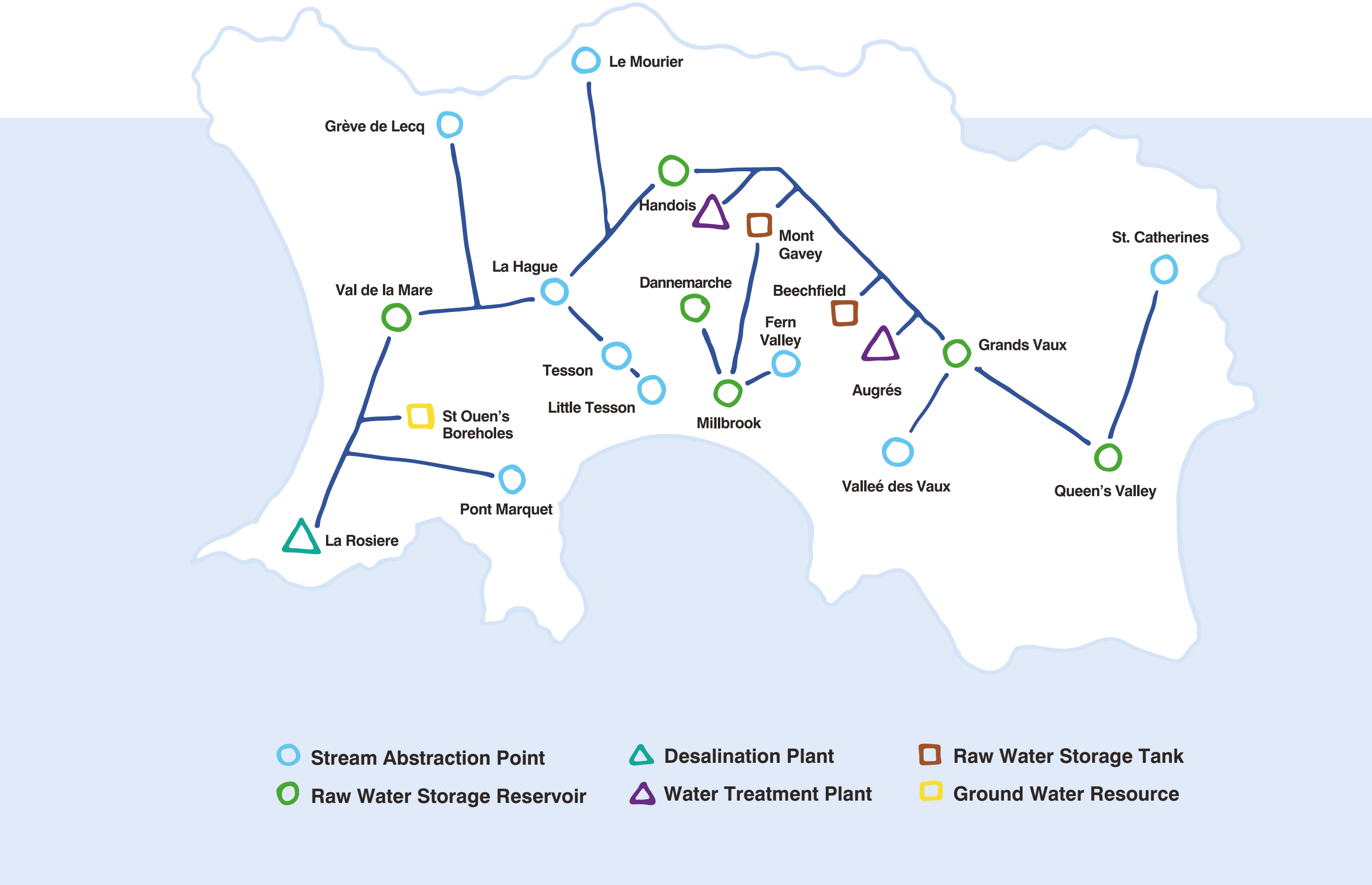
Key initiatives for 2020:

A positive impact on Island life and our local community

- Selection and fundraising for charity of choice for 2020 calendar year
- Ongoing support for community events
- Ongoing bursary places offered to local students

Environmentally responsible and sustainable business

- Continued 100% compliance with environmental regulation
- 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 the nine months to 30 September 2019, we supplied 5.3 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 19.4 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 now produce 10.8Ml/day (approximately half of daily demand) is now 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 and Drought 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. Work is currently underway on 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 provide protection from lead piping.

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 in the past exceeded 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 the water quality parameter relating to nitrates which expires in 2021. In addition, during 2019, a three-year dispensation relating to oxadixyl expired and the Company is currently in the process of applying for its renewal. Neither of the dispensations were used during the period and the Company manages water quality in order to avoid the need for their use in all but exceptional circumstances. Jersey Water works closely with the Environmental Protection/Natural Environment sections of the Government of Jersey and the local farming community through the Action for Cleaner Water Group (AFCWG), looking at ways in which raw water quality can be improved. Significant progress has been made since the inception of the AFCWG in improving raw water quality across the Island.

"Jersey Water works closely with the Environmental Protection/Natural Environment sections of the Government of Jersey and the local farming community through the Action for Cleaner Water Group."

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 regulated through the Water (Jersey) Law 1972, which includes mechanisms for charges for water, service standards and the minimum water quality standards. It is understood that the Water (Jersey) Law 1972 is in the process of being reviewed and updated. Whilst Jersey Water has 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 or the planned timing of the change in legislation.

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 20 to 22). 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 November 2019, Jersey Water commissioned a field scale catchment risk model 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 (through the Action for Cleaner Water Group) to develop initiatives to improve water quality in catchments.

The States of Jersey made a number of commitments under the Water Plan for Jersey in 2016 aimed at improving water quality; namely:

- Introducing regulation (in the form of Orders under the Water Pollution (Jersey) Law 2000) to baseline the minimum expected standards in the use of fertilisers across the Island.
- Developing a new Water Code aimed at promoting best practice in the handling and use of pesticides.
- Reviewing and updating the Pesticides (Jersey) Law 1991.
- Appointing a Catchment Protection Officer to support the farming community and their compliance with the above orders and code.

At the time of writing, all of these initiatives are overdue. Some progress has been made in developing the Orders and Code, the review of the Pesticides Law has not been started and funding for a Catchment Officer has yet to be secured.

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 relies on 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 dispensation for oxadixyl expired in 2019 and an application for renewal is underway. The dispensation for nitrates expires in 2021.

During 2020, 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.

This is adequate to manage the normal variance in seasonal demand for water. However, 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.

The Company works closely with the States of Jersey through the Drought Group to monitor water resources and assess the risks of drought.

The forthcoming Water Resources and Drought Management Plan will enhance the process by which the Company manages short term drought.

Climate Change

Risk:

During the period the States Assembly agreed that there exists a climate emergency likely to have profound effects in Jersey and indicated an ambition of Jersey becoming carbon neutral by 2030. The Government are due to publish their plan to achieve this in late 2019.

The effects of climate change have the potential to significantly affect the operations of Jersey Water if left unchecked.

Risk Management:

Jersey Water considers climate change and its effects within the Company's risk management framework, assessing the effects of different elements of climate change on the business and determining the measures necessary to mitigate them.

A key area of interest is the effect of climate change on water available for use, the changing patterns of rainfall and the impact of dry weather on the demand for water. Such considerations are considered within the best practice framework adopted for the Water Resources and Drought Management Plan. The plan looks 25 years into the future and is designed to be iterative such that changes in forecast and outlook can be accommodated through adjustment to the plan.

Long-term Demand for Water

Risk:

Phase 1 of the Water Resources and Drought Management Plan has concluded that, under worst historical 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 and Drought Management Plan will set 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.

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 our people 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.

Financial results

The financial results summarise performance for the nine-month period to 30 September 2019. In order to demonstrate how the Company has performed against prior periods comparative results for the nine months to 30 September 2018 have been included in detail on page 84 with the income statement key financials summarised in the following table.

	9 months to 30 Sep 2019[1] £000	9 months to 30 Sep 2018[1] £000	12 months to 31 Dec 2018 £000
Turnover	**13,229**	12,669	17,199
Operating profit (before exceptional items)	**2,579**	3,438	4,566
Profit for the reporting period	**1,593**	2,325	2,969

Turnover

Turnover increased 4.4% to £13,229k when compared against income of £12,669k for the same time period in 2018[1]. This is as a result of an increase in customer numbers and a hot dry summer.

Revenue from the sale of water contributed £12,568k compared with £12,123k[1] for the same period in 2018. The overall increase in water revenue arose from a combination of higher billed water consumption particularly over the hot dry summer months, 276 new connections to the network (30 September 2018: 277) and the below-inflation tariff increase of 3.8% in April.

Turnover in relation to rechargeable works from the installation of new water mains and connections was £301k, an increase of 40% on the same period last year (£215k[1]). The amount of connections made in the period to 30 September 2019 was in line with the same period for 2018 (276 against 277) so the increase 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 £106k (30 September 2018: £95k[1]) is included within other income for 2019 of £321k (30 September 2018: £330k[1]). The Company also received an amount of £49k relating to compensation received on an insurance claim in respect of replacement membranes for the desalination plant.

Operating expenditure

Operating costs increased by 15% or £1,432k to £10,643k during 2019 (30 September 2018: £9,231k[1]). The increase in expenditure for the period is due to a number of factors. These mainly comprise:

- Delivery of key strategic projects such as the Connect Programme (page 35) and the Water Resource Management Plan (pages 30 and 31), as well as the continued focus on enhancing working practices and systems in order to deliver best practice, effectively manage change and address regulatory advancements, particularly with regard to water quality, cyber resilience and General Data Protection Regulation legislation
- Upward pressure on normal operating costs as low raw water levels at the beginning of 2019 created an unforeseen increase in electricity costs as the Company had to pump water between reservoirs to meet demand
- A market driven decrease in discount rate increased the current service cost of the defined benefit pension scheme for the period
- One-off costs in the preparation for Brexit
- The write-off of expenditure incurred on the rejected planning application for the proposed Val de la Mare bypass (which included research and design costs)

Whilst costly in the short term these strategic projects will help the Company drive cost efficiency, ensure value for money and will deliver benefits for the long term.

Operating profit

Although operating profit decreased by 25% (£852k), in comparison to the corresponding prior period (30 September 2018), overall the Company performed well given its current investment programme and one-off costs, generating an operating profit of £2,586k, representing a 25% or £852k decrease on the same period last year (30 September 2018: £3,438k). During the period, revenue increased by 4.4% and was able to offset over 75% of the increased operating cost.

Net interest expense

Net interest expense totalled £589k in 2019 which is a £19k increase on the same period in 2018 (£570k[1]). The increase is mainly attributable to the impact of higher net interest income on the pension scheme being recognised in 2019 when compared against the period to 30 September 2018, the movement arising as a result of market driven changes.

Profit before taxation

Profit before taxation for the period was £1,997k, which is £872k or 30% lower than the same period in 2018, driven principally by the reduction in operating profit and the impact of the increase in the current service cost on the pension scheme.

Income tax

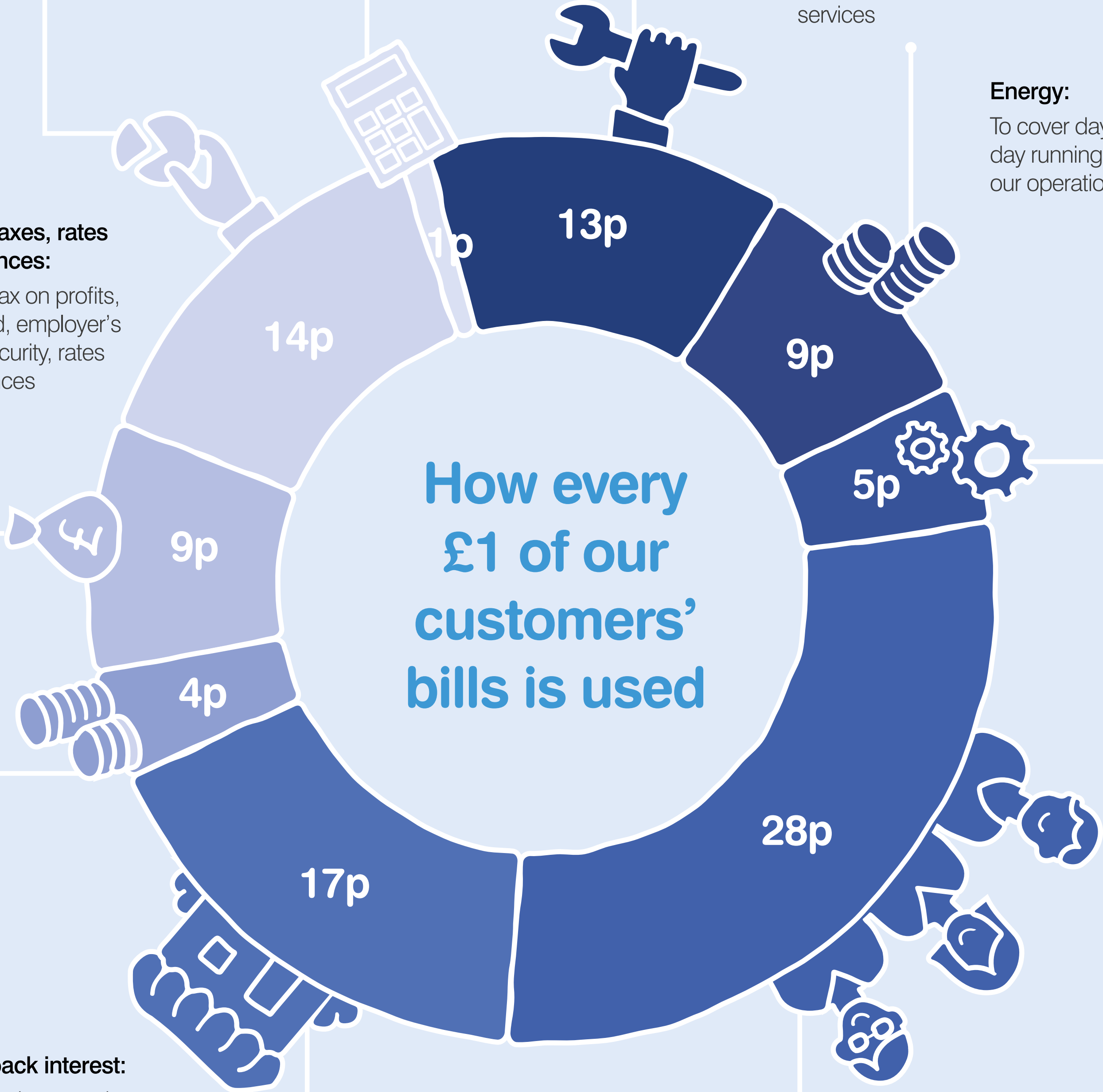
Income tax charged in the period has decreased by £404k on the prior period equivalent to £140k due to a decrease in taxable profits after adjusting for the higher annual depreciation charge and lower capital expenditure on mains renewals deductible for tax purposes.

Returns to shareholders

Earnings per share for 2019 was £0.16 for each ordinary share, a decrease of £0.08 on 30 September 2018. 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.

[1]To aid in comparison the Company has provided unaudited 9 month equivalents based on the audited annual report for the financial year ending 31 December 2018. Please see page 84 for the full results.

How every £1 of our customers' bills is used



Net profit retained

Maintaining our equipment:
To ensure plant and equipment works efficiently

Our suppliers:
Costs of suppliers' services

Energy:
To cover day-to-day running of our operations

Our people:
Wages, salaries, pensions and other benefits

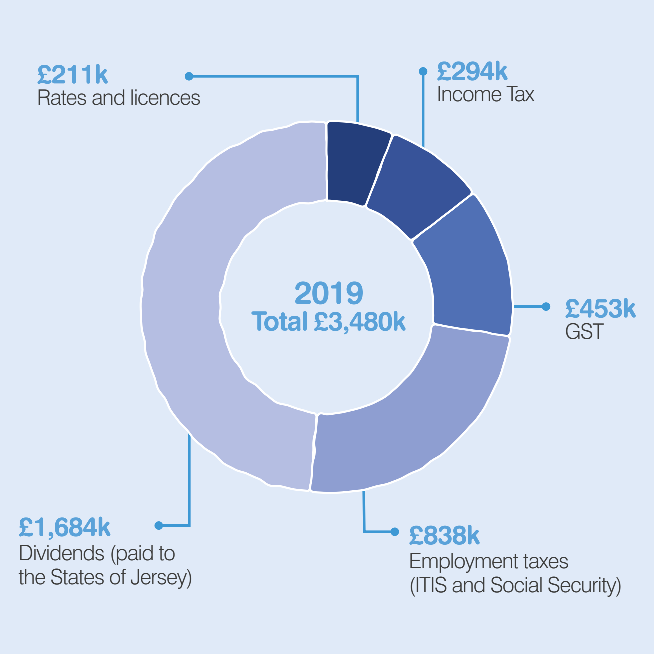
Building new assets:
Such as connecting new homes, upgrading the Desalination plant and treatment works and replacing the mains network

Paying back interest:
On money borrowed to improve services and invest in infrastructure (loan interest and preference share dividends)

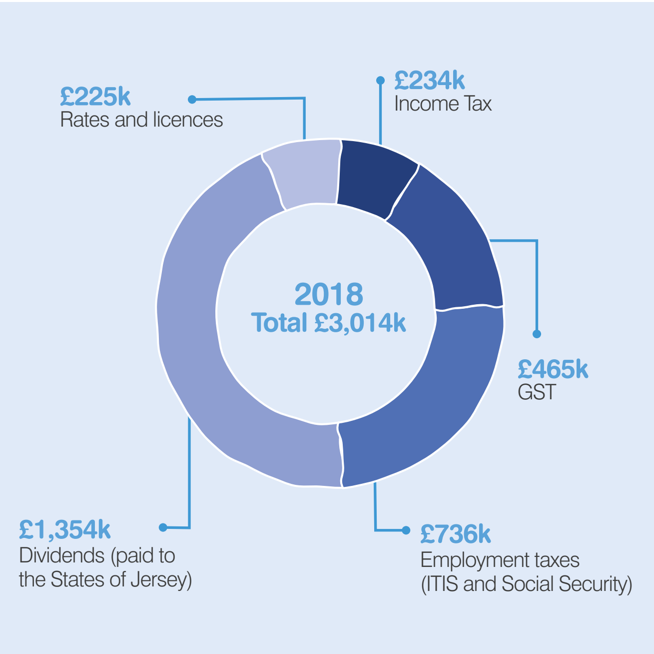
Paying taxes, rates and licences:
Income tax on profits, GST paid, employer's social security, rates and licences

Our shareholders:
Dividends paid to all ordinary shareholders

Total contribution to the States of Jersey in 9 months to 30 September 2019



Total contribution to the States of Jersey in 9 months to 30 September 2018



Transactions with the States of Jersey

The total cash paid to the States of Jersey by Jersey Water during the period, including dividends was £3,480k (30 September 2018: £3,014k).

Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 10.835 pence per share (31 December 2018: 14.447 pence). This brings the total paid and proposed dividend for the 9 month period to 30 September 2019 to 16.188 pence per share (31 December 2018: 21.584 pence).

Dividends declared and paid	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Previous year - Final dividend	1,396	1,346
Current period/year - Interim dividend	517	689
	£1,913	£2,035
Dividends proposed		
Current period/year - Final dividend	£1,047	£1,396

Cash flow

There was a net cash inflow of £347k in the period compared to a prior year equivalent inflow of £228k[1].

The higher cash inflow is a result of an increase of £111k in cash from operating activities (2019: £4,421k, 30 September 2018: £4,348k[1]) arising from a lower tax payment due on the prior year and higher turnover. Net cash used in investing activities decreased by £9k (2019: £2,200k, 30 September 2018: £2,211k[1]) due to increased capital expenditure, this was offset by the income from the disposal of the investment property. Cash outflow from financing activities in line with the prior period at £1,870k (30 September 2018: £1,870k[1]) as interest payments and dividends paid remained constant with the prior year comparator.

Fixed assets & capital expenditure

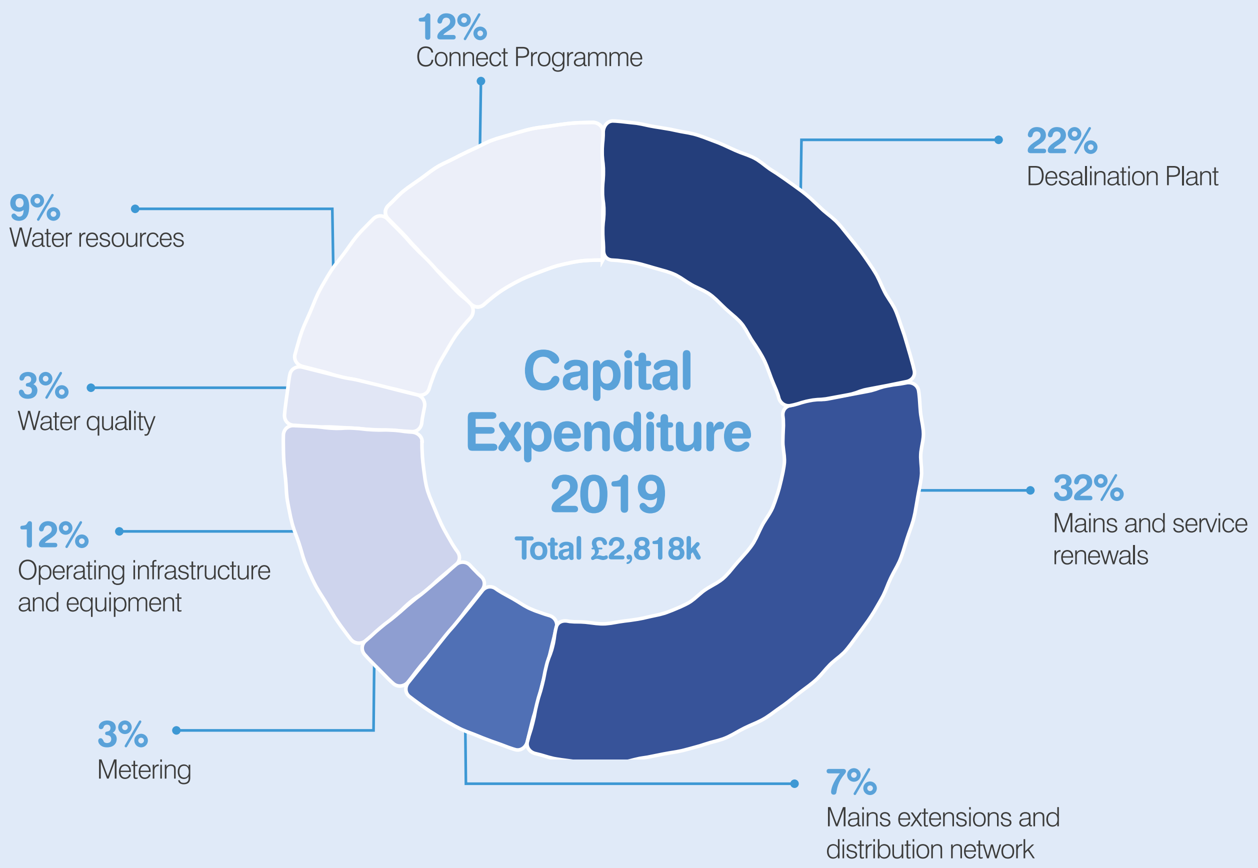
In 2019 the total capital expenditure was £2,818k. This figure includes £587k of expenditure on the desalination plant for the ongoing performance testing phase and the replacement of the reverse osmosis membranes. This project was completed in October 2019.

Of the remaining £2,231k spent in 2019, in line with our focus on achieving best practice standards and resilience, £437k was spent on new and upgraded assets throughout the business and £1,794k was spent on mains renewals and metering continuing our work to reduce leakage and improve water quality throughout the network.

At the period end, the Company held assets with net book value of £76,972 (31 December 2018: £77,478k), with tangible assets making up 99% of the book value at £76,500k (31 December 2018: £76,179k).

To aid in comparison the Company has provided unaudited 9 month equivalents based on the audited annual report for the financial year ending 31 December 2018. Please see page 84 for the full results.

The graph below provides an analysis of the expenditure in 2019 by type.



Investment properties

During 2019 the Company disposed of its one remaining investment property. This disposal resulted in a profit on disposal of £110k.

Loans and borrowing

Loans and borrowing at 30 September 2019 remained unchanged at £20,282k (31 December 2018: £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 £180k (31 December 2018: £174k) with a loss on the fair value of £6k being recognised in other comprehensive income for the period (31 December 2018: £96k).

Defined benefit pension scheme

Under FRS 102 the Company's defined benefit plan net surplus reduced by £593k during the period, resulting in a net surplus remaining of £420k (31 December 2018: £1,013k surplus). The reduction in the surplus is primarily due to the reduction in the discount rate used to calculate the present value of the defined benefit obligations. As a result the present value of the obligation increased by £4,274k, although this was significantly offset against the continued strong performance on the value of the plans assets which saw an increase of £3,681k in the period.

Deferred tax liability

The deferred tax liability decreased in the period by £117k to £6,739k. The movement is a combination of an additional charge recognised in other comprehensive income of £116k arising from the reduction in value of the pension scheme surplus and an increase in the amount charged to the income statement arising from the disposal of the investment properties and the associated release of the deferred tax charge.

High quality water

Water quality

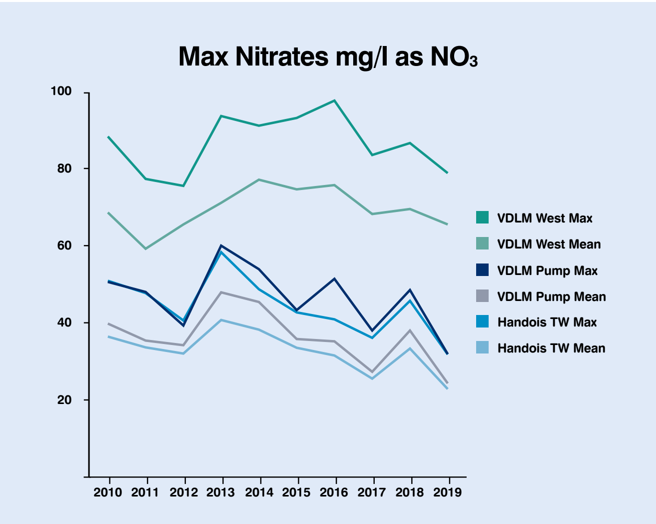
Water supplied by Jersey Water during the period was of a very high quality with an overall compliance rate of 99.97% (31 December 2018: 99.99%) and 100% compliance with water quality standards for nitrates and pesticides (31 December 2018: 100%). Bacteriological compliance of water supplied was 100% for E.coli (31 December 2018: 100%) and 99.51% for total coliforms (31 December 2018: 99.88%).

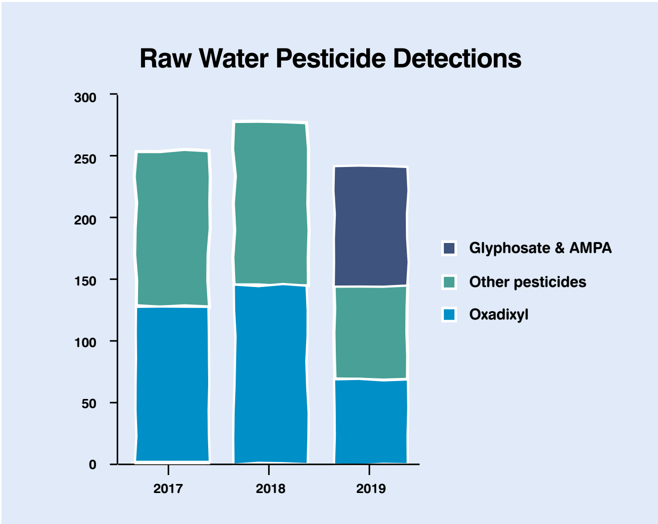
During the period, the Company completed 11,083 analyses on treated water samples and of these, only 3 were outside of their respective regulatory water quality parameter but posed no threat to health. Full details are available in Jersey Water's 2019 Water Quality Report available from the Company's website.

The maximum concentration of nitrates detected in treated water was the lowest level ever recorded at 34.5mg/l (31 December 2018: 45.7mg/l); significantly below the regulatory limit of 50mg/l. This was the 6th consecutive period of full compliance with regulatory limits for nitrates, enabling the Company to avoid the use of the dispensation it has in place 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. Nitrate concentrations in water resources are mainly dependent on the volume and timing of rainfall and the application of fertiliser during the potato growing season.

The reduction in concentrations during the period was due to a combination of the effects of a dry winter, enabling automated potato planting and lower fertiliser application rates, and the reduced run off and ground water discharge caused by lower rainfall and depleted ground water levels. The need for the dispensation, which expires in December 2021, is largely driven by nitrate concentrations in raw water which, whilst improving, are outside the Company's control, continue to present a risk to water quality and can only be assessed over an extended number of years.

During 2019, Jersey Water continued to test raw water sources for pesticides on a weekly basis during the growing season and completed 45,243 analyses. The number of pesticide detections during the 2019 growing season totalled 240, 9% lower than the 275 during the same period in 2018. This period's figure also includes the results of a survey on glyphosate and its breakdown product aminomethylphosphonic acid (AMPA) which was not monitored in 2018 (both are totally removed by the treatment processes at the treatment works). If these results were excluded so a direct comparison could be made, there were 144 detections above 0.1 μg/l in 2019, a 48% reduction compared to the same period in 2018. The reduction in detections was despite greater use of "broad sweep" analysis of raw water quality capable of identifying the presence of a wide variety of different pesticides. The change in the rate of detections can be attributed to both the drier growing season and the work of the Action for Cleaner Water Group aimed at curbing the effect of farming pesticides on raw water quality.





The Company continues to work closely with the farming community and Government of Jersey as an integral member of the Action for Cleaner Water Group (AFCWG). In 2019, the Company funded the production of a video showcasing the work of the AFCWG and reinforcing the need for all stakeholders to continue working together to improve raw water quality. It is of concern that whilst the States of Jersey continue to support the AFCWG, they have yet to fulfil their commitments made in 2016 to review and update the Pesticides (Jersey) Law 1991 and deliver improved catchment protection mechanisms through a new Water Pollution (Water Quality)(Jersey) Order 202- and Water Pollution (Water Management) (Jersey) Order 202- (the 'Orders'), a new Water Code of Practice for Jersey and the recruitment of a Catchment Protection Officer to support the farming community in complying with the Orders and Code.

In 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 reservoir from pesticides (oxadixyl in particular) and fertiliser in the stream. The planning process completed during 2019 and despite the agreement by all of the need to protect water quality, the application was refused. The Company remains firmly of the position that the bypass represents a practical and sensible solution to protecting water quality in Val de la Mare Reservoir and may revisit the project in the future.

In 2016 the Company was granted a dispensation under the Water (Jersey) Law 1972 for oxadixyl, a pesticide last used in 2003, following its detection in the Island's ground and surface water. The dispensation increased the permitted regulatory limit for oxadixyl from 0.1μg/l to 0.3μg/l (one tenth of the health-based limit) for a period of three years. The refusal of plans for the bypass at Val de la Mare prevents Jersey Water from implementing a key control intended to mitigate the risks presented by oxadixyl.

The Company continues to work closely with the farming community and the Government of Jersey as an integral member of the Action for Cleaner Water Group (AFCWG).

Accordingly, the Company is in the process of applying for the oxadixyl dispensation to be renewed for a further term of three years but at the lower limit of 0.2μg/l.

Following the discovery of PFOS in boreholes to the north of the Airport in December 2018, Jersey Water has been involved as member of the "Technical Officer Group" tasked by the Minister for Environment to investigate the issue and make recommendations. Jersey Water welcomes the interim report which makes a number of recommendations including the need for hydrogeological studies into the PFOS pollution plumes in St Ouen's Bay and Pont Marquet catchment and development of a plan to remediate them. The aquifer in St Ouen's Bay and the Pont Marquet catchments are important sources of water for the island and their pollution with PFOS and related substances present a significant raw water quality challenge and directly affects quality of water in Val de la Mare Reservoir. On an Island facing significant potential future water shortages, priority must be given to resolving these pollution issues such that water resources are not jeopardised by virtue of being unusable due to quality considerations.

As previously reported, the Company has contracted to 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 reducing 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. Work is planned to commence after the 2020 planting season. Work is also currently underway on the £500k project to renew the Motor Control Centre (MCC) at Grands Vaux Pumping Station, including the installation of standby power generation. The project, which is due for completion before the end of December 2019, will provide additional resilience and ensure that important blending and dilution tools remain available in the event of power interruption.

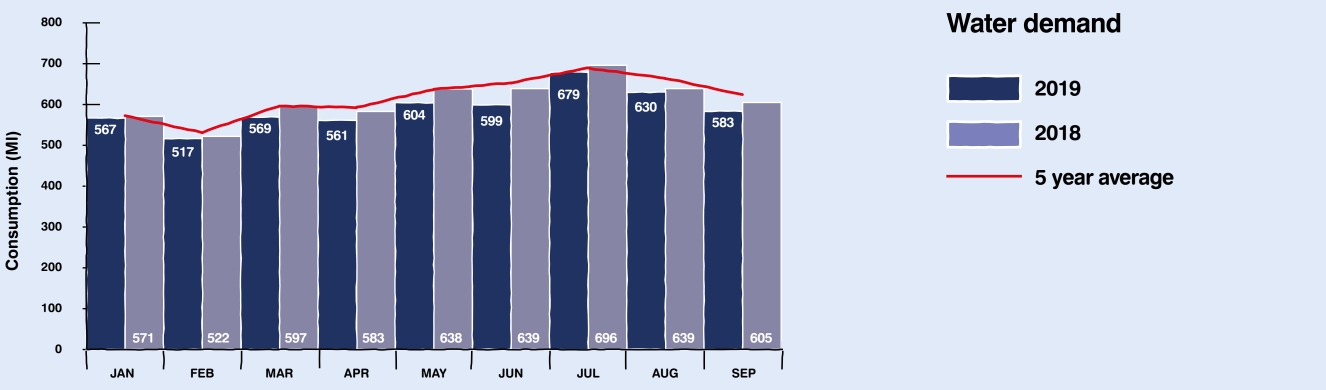
Water resources

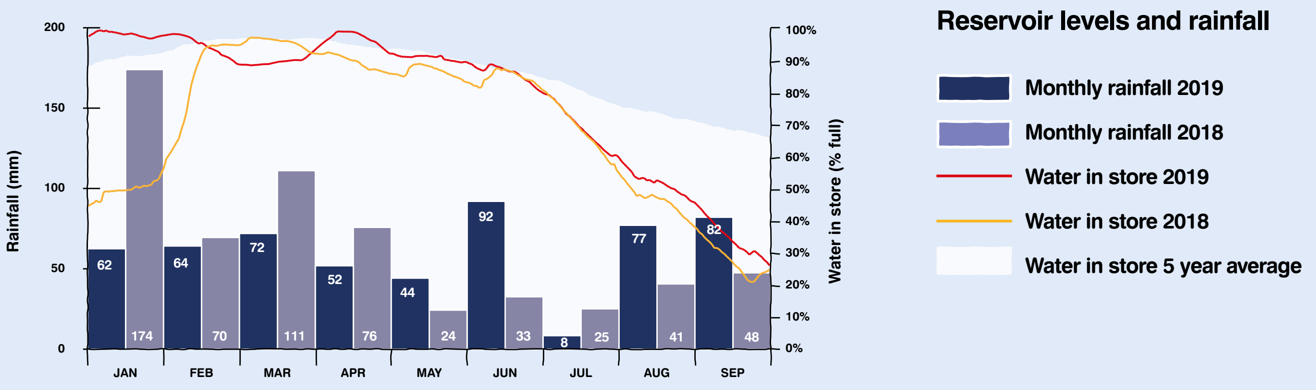
During the 9 months to the end of September 2019, Jersey Water treated a total of 5,309Ml of water. This represents a reduction of 3.3% on the same period during the previous year (2018: 5,489Ml) and 4.3% lower than the 5 year average for the period of 5,549Ml. Rainfall in the period totalled 554mm, a reduction of 7.7% compared to the 601mm during the same period in 2018 and 18.8% lower than the five year average for the period of 683mm. Rainfall patterns were unusual with a much drier January to April and a very wet June and September. The reduction in the volume of water treated is attributed to the combined effects of the ongoing reductions in leakage and the very high rainfall in June, reducing demand for garden watering.

Water in store began the year at 70% full, some 21% below the five year average. Levels recovered until reservoirs reached full in early March 2019. Thereafter water resources maintained a similar pattern to the average, recovering in months of heavy rainfall but reducing through the period to a minimum of 56% full in September and closing at 58% full at the end of the month,11.7% below the 5 year average. Since the period end, water resources have recovered to 96.9% full following the operation of the desalination plant (which produced 232Ml) and relatively heavy rainfall in September and October.

During the period, the Company completed modifications to its desalination plant, to rectify a number of issues arising during the recent £6 million extension and refurbishment of the plant which were outside of the control of Jersey Water. The work included the replacement of the plant's reverse osmosis membranes (funded through an insurance claim) which were not performing within the contractual specification. The Company is currently progressing a dispute with the original contractor in respect of a number of technical and financial matters. The desalination plant is now fully operational and capable of producing 10.8 Ml/day (approximately 50% of the daily demand for water in Jersey).

Work continued on the Company's Water Resources and Drought Management Plan. 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.





The key findings of Phase 1 of the project, completed in 2018, were:

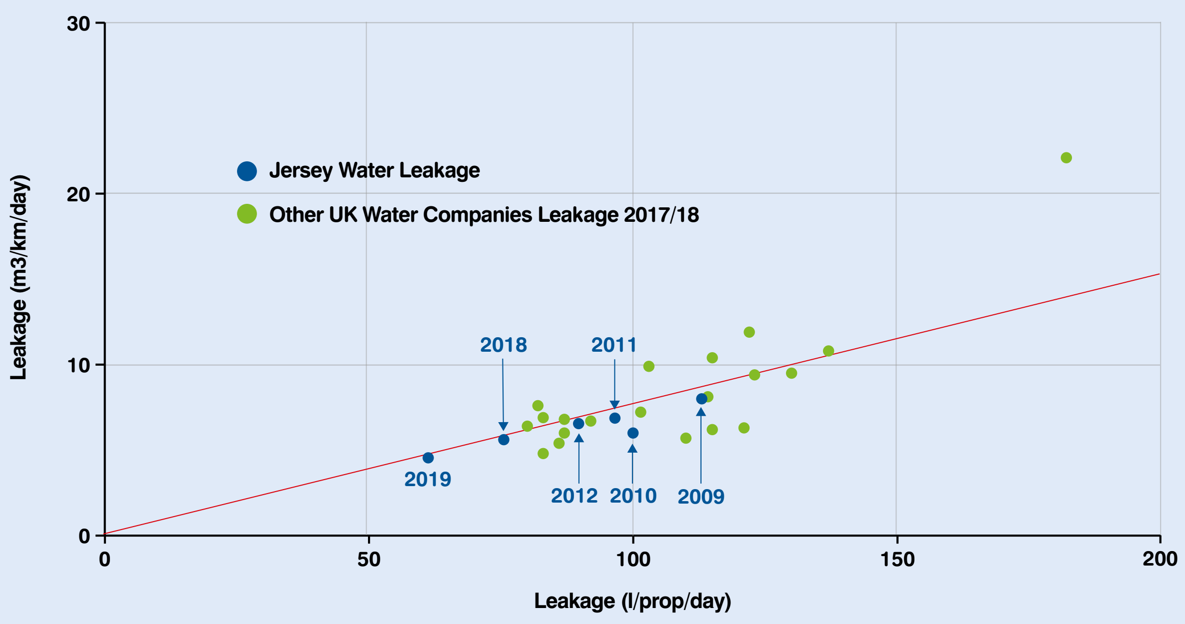
- **Estimated demand for water is forecast to increase by 17% to 24Ml/day in 2045. This growth in demand is driven primarily by the forecast population growth which assumes net inward migration of 700 people per year, in line with recent trends. The choice of population growth scenario has a substantial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

Phase 2 of the plan, which is currently underway, assesses 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. Supporting the work on phase 2 of the plan, the Company made recommendations to the consultation on the Island Plan, recommending that a Water Strategy should be incorporated as an explicit element of this Island Plan to sit alongside existing minerals, energy, waste and transport strategies.

The strategy would translate the Island's needs for additional water resources into land-use issues which can be woven-in to the Island Plan and balanced with other infrastructure needs to provide a robust and forward-looking strategic position which protects both the quantity and quality of water. The Company also recommended that the Island Plan include a review of the future of Gigoulande Quarry in St Peter's Valley as a potential water storage reservoir when extraction is complete. The quarry, which is currently earmarked for inert waste landfill, is estimated to have a capacity on completion of slightly less than Val de la Mare Reservoir, is well-located close to existing water infrastructure and is within a high yielding and reliable water catchment. The Company is due to publish its Water Resources and Drought Management Plan for consultation in early 2020.

Leakage reduced further during the period to 2.4Ml/day. This represents a reduction of 3% on the previous year. A review undertaken during the year indicates that Jersey Water has one of the lowest levels of leakage compared to the UK Water sector, as demonstrated in the chart below.

In 2019, the Company renewed 1.3km of water mains (31 December 2018: 2 km) slightly ahead of the planned total for the period. 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. The Company plans to replace 1.05km of mains during 2019/20 including 857m in La Route de Noirmont.



Water demand


JerseyWater
www.jerseywater.je
Ford
StansfieldSigns

High standard of service

Jersey Water has been a member of the Institute of Customer Service (ICS) since 2017 from which it commissions an independent annual customer satisfaction benchmarking survey. The results of the 2019 survey, shown in the table below, indicate that across the three key metrics, Jersey Water continues to outperform both the UK All-sector average and the Utilities sector in the UK Customer Satisfaction Index (UKCSI).

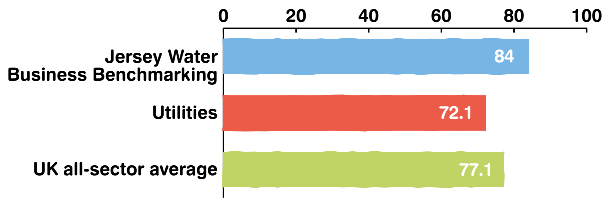
The results were confirmed in our own in-house text feedback service which scored 94% for the period (31 December 2018: 93%).

Jersey Water has historically applied a policy of limiting price increases to at or below inflation. This policy has been successfully applied in all but two of the previous 20 years.

Adjusting for the effects of inflation, the price of water has reduced, in real terms, by 16.5% over that period, made possible by the Company focussing on cost efficiency and sharing the benefit of those efficiencies with customers and shareholders. As reported in the 2018 report and accounts, the Company applied a below inflation price increase of 3.8% on 1 April 2019, representing an increase of just 4 pence per day for the average household. Looking to the future, charges for water will need to remain cost reflective and make appropriate provision for investment required in the Island's water infrastructure as a result of the forthcoming Water Resources and Drought Management Plan.

In the 9 months to 30 September 2019, the Company made 276 new connections to its mains network, consistent with the 277 connections made in the same period in 2018. Mains extensions in the period totalled 1.5km, including 0.4km funded by Jersey Water.

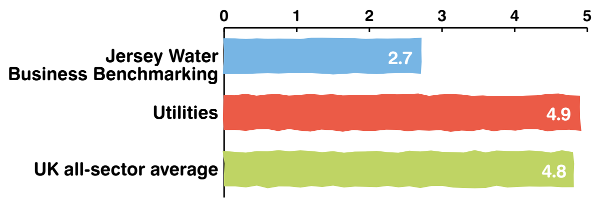
UK customer satisfaction index (UKCSI)



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

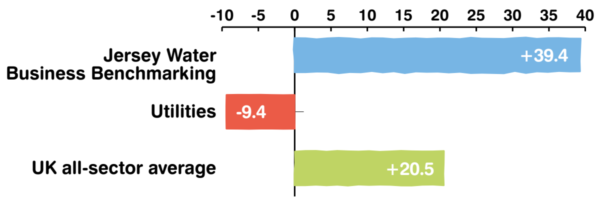
UKCSI September 2019 data sourced from nationwide ICS survey panel of 10,000 customers. The results are generated from a total of 407 customer respondents. The data (407 respondents) is from the Jersey Water business benchmarking[1]

Customer effort



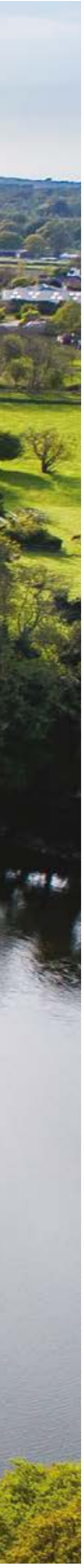
Customer Effort is based on the question: 'How much effort did you have to make to complete your transaction, enquiry or request on this occasion' (1-10 scale). A lower score signifies less effort required on the part of the customer.[1]

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]

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



Long-term stability

During 2018, the Company launched its Connect Programme aimed at digitally transforming its operations and accelerating business improvement in order to create new ways of working. The Programme is in support of the Company's strategy to use technology to help drive efficiency, manage business risks and enhance customer experience. During the period, the Company completed the planning and design of the End User Computing (EUC) project, which includes the implementation of desktop and mobile working solutions for all employees. Delivery of the EUC business benefits, which include improved connectivity, resilience and security are due to be realised from the go live date of November 2019. The Company also approved the Core project which aims to replace and upgrade the accounting and human resources systems during 2020, delivering significant business benefits including added asset management capability. The final software element of Connect, due for delivery in 2020, is a Laboratory Information Management System (LIMS) designed to manage, store and report on the thousands of water quality analyses currently undertaken by the Company but presently stored in Excel spreadsheets. Alongside the software elements of Connect are the introduction of new ways of working and the streamlining of existing processes using the Lean Six Sigma methodology. The Company undertook "yellow belt" training for 55 employees during the period and has developed efficiency targets for the Company to achieve through the rationalisation and review of workflows and processes, with the objective of saving one million minutes over the next five years.

> **The Company continues to work closely with stakeholders including suppliers and the States of Jersey to understand and plan for the possible impact of various Brexit scenarios**

Brexit

At the time of writing, the terms and timing of the UK's departure from the EU (Brexit) remain uncertain. Brexit does not give rise to a new principal strategic risk for Jersey Water. However, it does have the potential to impact risks in other areas of our operations and in particular our supply chain.

Preparation for the possibility of Brexit has continued during the period. Jersey Water has established a Brexit Local Response Planning Team which covers all aspects of the business including incident response, people, procurement, logistics, customer service, operations, capital programme delivery, communications and finance. The Company continues to work closely with stakeholders including suppliers and the Government of Jersey to understand and plan for the possible impact of various Brexit scenarios, including a 'no deal' exit from the EU. Whilst there remains significant uncertainty around the impact and timing of Brexit, the Company has in place a plan to mitigate Brexit related risks, with continuity of supply of chemicals being a key factor 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 Government of Jersey, along with food, fuel and medicine as top priorities for transportation to the island should logistical problems arise. We will continue to monitor progress in the delivery of Brexit and update and amend our plans as the risks and uncertainties evolve.

As previously reported, in order to better align the Company's reporting cycle with that of the majority shareholder, Jersey Water, has changed its financial reporting year end from 31 December to 30 September. This set of financial statements representing the transition period of the nine months to 30 September 2019.

During the period, Jersey Water continued its project to ensure compliance with the provisions of the General Data Protection Regulations Law and has substantially met all of the project milestones for the period. The project is now approaching a position where it can be closed down and transferred to business as usual processes.

In August 2019, the Company completed the statutory five yearly inspection of the Val de la Mare Reservoir as required under Article 10 of the Reservoirs (Jersey) Law 1996. The independent All Reservoirs Panel Engineer found the dam and reservoir to be in good condition, the issue of the formal report is pending but no recommendations in the interests of safety are anticipated.

A great place to work

Jersey Water had 91 employees as at 30 September 2019 compared to the 90 employees as at 31 December 2018. Employee turnover has reduced from 9.3% for the year ended 31 December 2018 to 5.6% for the period and our sickness absence rate reduced from 4.8% for the year ended 31 December 2018 to 2.1% for the current period.

The Company undertakes an employee engagement survey every other year in order to measure progress in delivery of employee initiatives and identify areas for improvement. The most recent survey undertaken in 2019 showed an overall increase in the engagement score to 90% and significant improvements in all of the lower scoring areas from the 2017 survey. The survey results, which were based on an employee feedback rate of 95%, were 13% over the benchmark score of 77%. Feedback from the survey is used to develop employee initiatives for the future.

During 2019, Jersey Water developed and began the implementation of its new People Strategy aimed at ensuring that the Company continues to be a great place to work (one of the Company's strategic objectives) and addresses the people-related risks faced by the Company now and in the future. The strategy, which was developed with full consultation of employees, focusses on culture and values, leadership, enabling performance, reward and recognition and building capability.

Delivery of the strategy is underpinned by the implementation of new HR systems (due to go live during 2020) and developing our people standards and processes.

Underpinning the People Strategy is the concept of empowered execution and enabling decision making at the appropriate levels within the organisation.

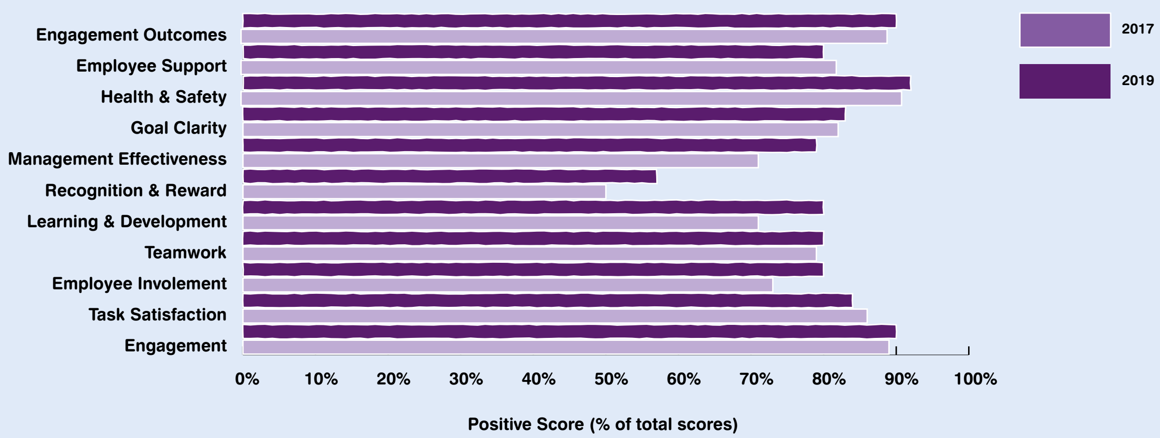
To this end, and as part of Jersey Water's Connect Programme, Jersey Water delivered a Lean Six Sigma Methodology Yellow Belt training programme to 55 employees during the period. The programme was designed to promote teamwork and communication and equip employees with a toolkit to support their involvement in changes to business processes.

The safety of our employees is paramount and during the period there were zero (31 December 2018: zero) 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 investigate all accidents and near misses reported to determine whether changes in practices or procedures are required to help prevent their recurrence.

During the period, the Company has been further developing its safety management system which is now deployed to all employees through an online, mobile device-friendly interface. Other initiatives include the development of a mental health safety management system which was rolled out in November 2019.

In May the Company was delighted to learn that Natalie Passmore was named as a finalist in the Young Director of the Year in this year's Institute of Directors (IoD) Jersey awards. These awards celebrate strong leadership and recognise excellence across the business community and public sector. Natalie was duly crowned winner in the awards ceremony and went on to represent Jersey Water at the National Awards in London. The Company would like to congratulate Natalie on this terrific achievement.

Employee engagement by theme



Community conscious

During the Period, the Company was very active in the local community, the highlight of which was a highly successful open day at Queen's Valley reservoir when 115 visitors were treated to a tour of the draw-off tower, inside the dam and the pumping station. From January to the end of September, Jersey Water supported more than 70 events around the Island, at which we supplied over 94,000 litres of water and more than 5,000 reusable water bottles to help raise money for charity. We received extensive media and social media coverage for these events, which included the JEP Coastal Clean-Up, the Island Walk, Jersey Sings, It's a Knockout, Jersey Marathon, the Super League Triathlon, the Dandara Colour Run, CI Pride Festival, the Relay for Life and a great many more.

Our Hydration Station featured at several major events including the Jersey Boat Show, Out There Festival, Weekender Festival and Jersey International Air Display, where employees promoted the benefits of refilling our reusable water bottles. To the end of September 2019 our employees have raised £11k for our Company-nominated charity, Friends of SCBU.

Our Hydration Station featured at several major events where employees promoted the benefits of refilling our reusable water bottles and by the end of the period raised £11k for our Company-nominated charity, Friends of SCBU.

Free water refills at Weekender Festival.

Volunteers hand out refillable bottles of water at Weekender Festival, with all donations going to Friends of SCBU.

H2O Heroes compete in 'It's a Knockout'.

We also welcomed several educational visits to our sites and permitted use of Company land for numerous third-party events run by the Jersey Freshwater Angling Association, Jersey Trees for Life, the Jersey Motorcycle and Light Car Club, the Battle of Flowers Association, the Caesarean Cycle Club and others.

In September, Jersey Water agreed a partnership with Jersey Electricity to joint fund one of the biggest tree-planting initiatives the Island has seen in a move to safeguard biodiversity, offset carbon and help Jersey towards its aim of being carbon neutral by 2030. Working together with the National Trust for Jersey and Jersey Trees for Life, the two utilities are providing £40,000 to plant around 6,000 trees on over eight hectares of land (20 acres), including land belonging to Jersey Water, next to existing ancient woodland at Mourier Valley.

Jersey Water encourages many local groups and associations to make use of the Company's land to pursue their chosen activities.

Having been in operation since 2008, the Jersey Water Bursary is now a well-established and popular scheme for students embarking on a degree course in a subject related to the supply of water (e.g. engineering, environmental sciences, chemistry). The scheme provides paid workplace experience and funding towards the cost of study for one student each year.

The Strategic Report was approved by the board on 12 December 2019 and signed on its behalf by

Helier Smith
Chief Executive


PURE WATER
DURAN
Jen

Corporate Governance

Compliance with the UK Corporate Governance Code

The Company 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 2018. The Board is of the opinion that, throughout the period under review, the Company has been in compliance with the main principles of the Code.

Directors and the Board

The Board

The Jersey Water (the Company) Board currently comprises of eight directors, two of whom are Executive Directors and six of whom are Non-Executive Directors. The Board has a schedule of regular meetings, normally between six and eight per calendar 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 Company. 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 Company. 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 Company 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.

	Board	Audit	Remuneration	Nomination
Number of meetings in 2019	**7**	**2**	**2**	**1**
Mary Curtis (retired on 16 May 2019)	2/2	-	1/1	-
Tim Herbert	7	-	2	1
Stephen Kay	7	2	-	1
Heather MacCallum	7	2	-	1
Daragh McDermott	7	2	-	1
Natalie Passmore	7	-	-	-
Michael Pocock	7	-	2	1
Helier Smith	7	-	-	-
Peter Yates	7	-	2	1

Meetings and Committee membership

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

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 Stephen Kay, Tim Herbert, Heather MacCallum, Daragh McDermott and Michael Pocock shall be deemed independent.

Peter Yates, as Chair of the Company, 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 the Chair and 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. In order to facilitate effective succession planning and development of a diverse board, Peter Yates's term as Chair was extended a further year. Directors appointed to fill a casual vacancy must seek formal appointment by the shareholders at the next Annual General Meeting.

Jersey Water uses events such as the Annual General Meeting to interact with and hear the views of all shareholders.

Workforce engagement

The Board has regular contact with the Jersey Water workforce. Engagement with the workforce is on an informal basis, with round-table style meetings taking place on an ad-hoc basis, when the need to consult on specific topics arises. Output from these meetings is reported back to the board as necessary.

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

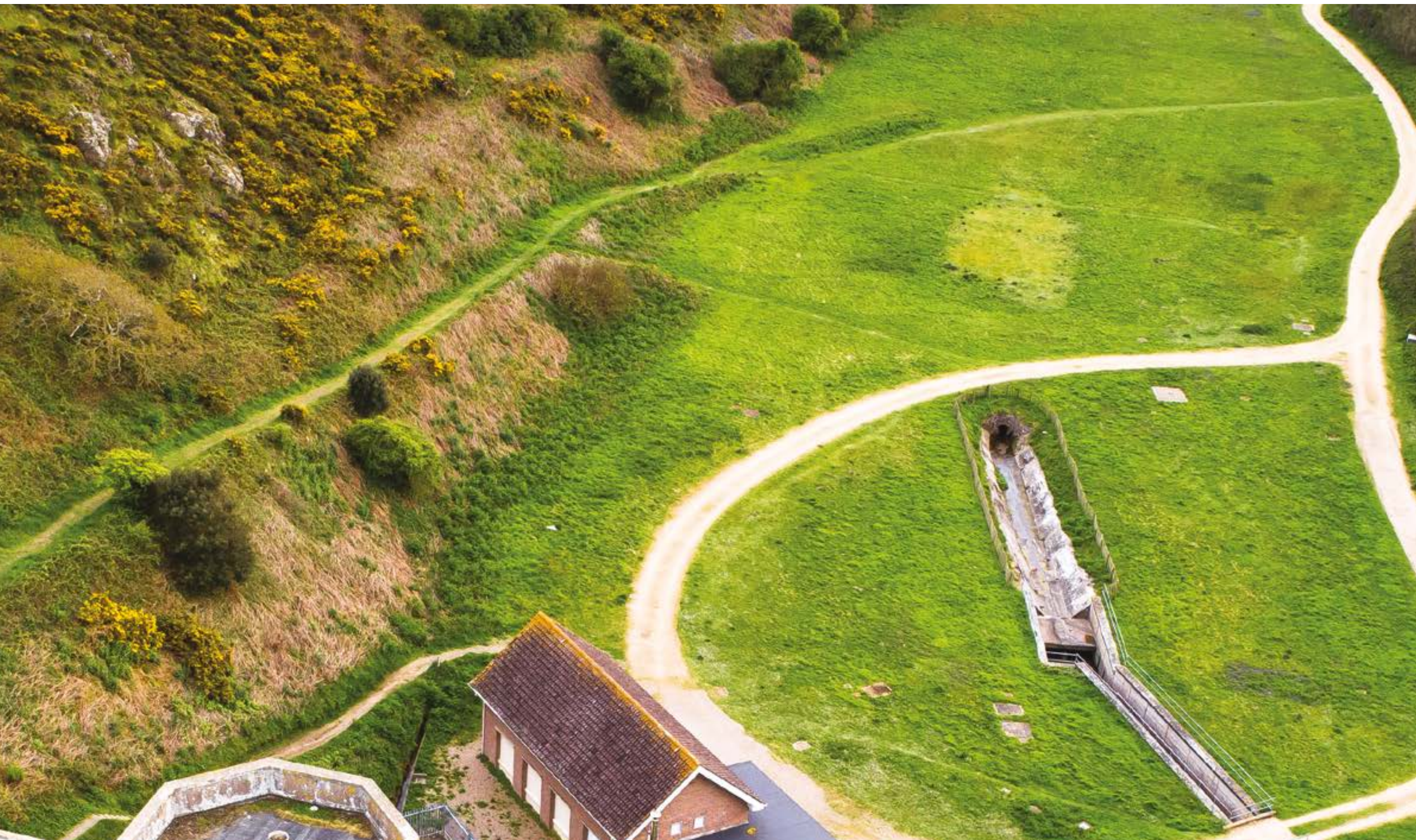
The Board is responsible for ensuring that there are effective systems of internal control in place to reduce the risk of misstatement or loss and to ensure that business objectives are met. These systems are designed to manage and mitigate (rather than to eliminate) the risk of failure to achieve business 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 Company. 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 reporting period, 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 of 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 period terms of reference of committees;**
- **Review and approve during the period 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 Company 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 reporting period, 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 Committee's responsibilities effectively. Biographical information and qualifications of each of the members can be found on page 3.

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 financial period. 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 Company and any formal announcements relating to the Company'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 Company'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 Company'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 meeting 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 is, at the present time, given the size and complexity of the Company, 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 42.

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 period 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. For the 2019 reporting period, these included, defined benefit pension scheme valuation, the interest rate swap, disposal of the investment property, accounting for Connect Programme costs and the implications of changing the Company's year-end. 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 period 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 end of the reporting period, 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 Company's position and performance, the business model and strategy.

External Auditors

Each period the Committee considers the external auditors' proposed approach and approves fees for the period 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 Company are detailed in note 17 of the financial statements.

The current auditor is Deloitte LLP with Kate Hadley as Lead Audit Partner, following the retirement of the previous Lead Audit Partner, Andrew Isham. This will be Deloitte LLP's third 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 Tim Herbert (formerly Mary Curtis who retired on 16 May 2019), with Michael Pocock 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 Executive Director is allowed to determine their own remuneration.

For the reporting period to 30 September 2019, the Remuneration Committee met twice.

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 manager remuneration and consider specific remuneration packages (including incentives) for individual executive directors and senior management, having regard to the risk appetite of the Company and alignment to the Company's long term strategic goals so that rewards are linked to improvements in overall performance (corporate and individual) and efficiency of the business;**
- **To review and approve not less than once a period 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 period, 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.**

In execution of its role the Remuneration Committee takes into account auditable external benchmarking data.

Nomination Committee

The Nomination Committee is chaired by Peter Yates, with, 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 the reporting period, the Nomination Committee met once.

The Committee is primarily responsible for the selection and appointment of the Company'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 Company and identifies the necessary skills and experience required by candidates for consideration. As a matter of policy, the Chair of the Board is not permitted to chair the Committee when it is dealing with the matter of succession to the Chair.

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 Company. 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**	5
Female	2	**1 – 3**	3	**51-60**	2	**Professional / Financial**	3
		4 – 9	2	**61-70**	3		
		9+	*2				
Total	8		8		8		8

**Peter Yates is retiring at the 2020 Annual General Meeting and will not be standing for re-election.*

Directors' Report

Activities of the Company

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 Company.

Dividends

Ordinary and 'A' ordinary shares

The Company paid an interim dividend of 5.353 pence per share on 19 September 2019 (31 December 2018: 7.137 pence). The Directors are proposing a final dividend on ordinary and 'A' ordinary shares for 2019 of 10.835 pence per share (31 December 2018: 14.447 pence), bringing the total dividend for the 9 month period to 16.188 pence per share (31 December 2018: 21.584 pence).

	9 months to 30 September 2019 £'000	12 months to 31 Dec 2018 £'000
Interim dividend paid	517	689
Final dividend proposed	1,047	1,396
	1,564	£2,085

Preference shares

In the 2019 reporting period, Jersey Water paid dividends on preference shares totalling £191k (31 December 2018: £381k).

Directors

Changes in Directors

The Directors of the Company on the date the consolidated financial statements were approved are detailed on page 2. With the exception of Mary Curtis, all Directors were Directors of the Company throughout the reporting period to 30 September 2019. Mary Curtis retired from the Board on 16 May 2019.

In accordance with the provisions of Article 49 of Jersey Water's Articles of Association, Heather MacCallum, Daragh McDermott, Helier Smith and Natalie Passmore will retire by rotation at the forthcoming Annual General Meeting ('AGM') and offer themselves for re-election.

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

The process of identifying a candidate to fill the casual vacancy arising following Peter's retirement is underway and the new Non-Executive Director successor will stand for election at the 2021 AGM.

As described on page 42, 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 30 September 2019 are:

	Ordinary shares	Preference shares
Tim Herbert	2,500	-
Stephen Kay	500	-
Heather MacCallum	18,000	1,397
Natalie Passmore	800	-
Helier Smith	700	589
Michael Pocock	150	-
Peter Yates	3,938	-

Since the end of the financial period Heather MacCallum purchased an additional 1,048 preference shares. There have been no other subsequent changes in Directors' interests up to the date of approval of the financial statements.

The States of Jersey is the Company'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 Company's board of directors resolved to change the Company'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 new year end is effective 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 12 December 2019:-

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

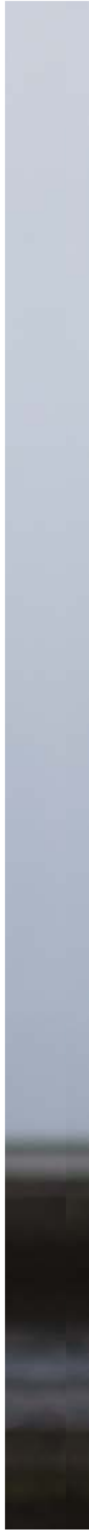
The States of Jersey owns 4,620,000 (100%) 'A' Ordinary shares, 2,520,000 (50%) Ordinary shares and 900,000 (100%) 10% cumulative fifth preference shares. The 'A' Ordinary shares, whilst in their ownership, have voting rights that confer twice the number of votes than those cast in respect of all other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

Independent Auditors

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

For and on behalf of the Board

Louisa McInnes
Company Secretary
12 December 2019




WATER

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 Company are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 Company 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 Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

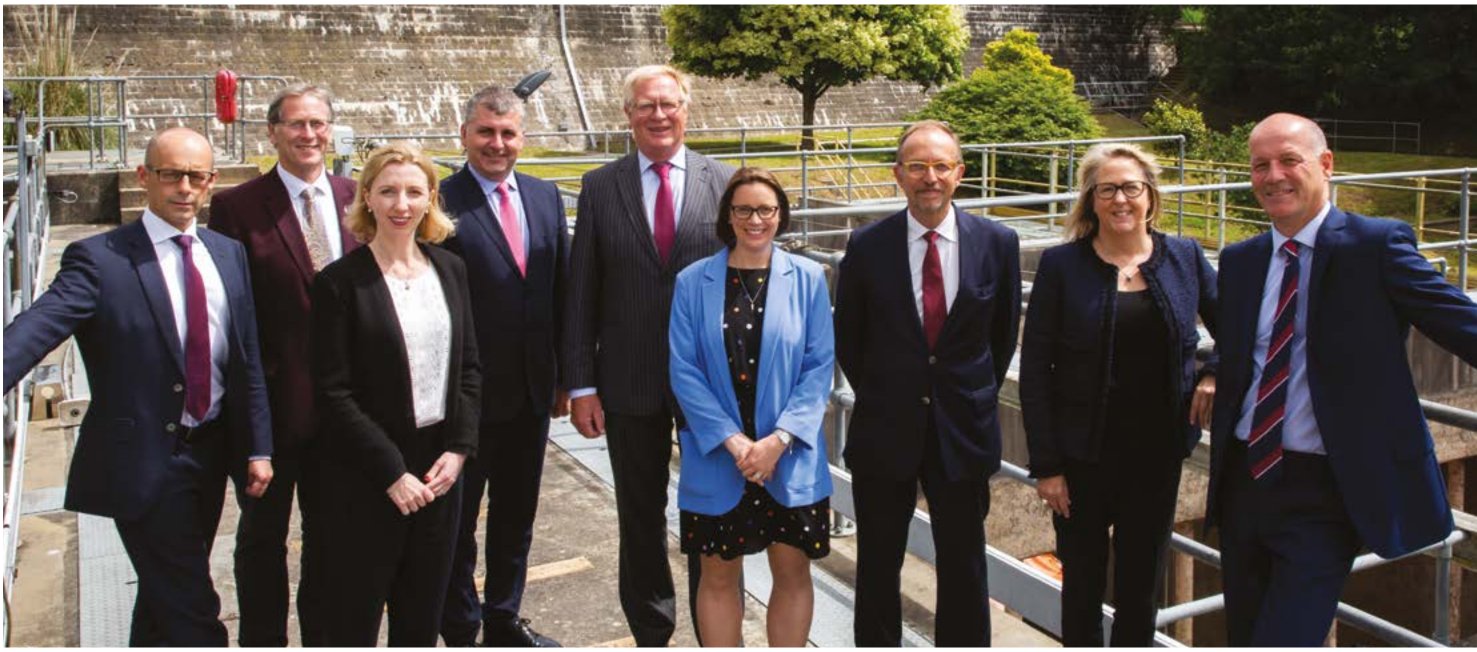
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Company'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 Company'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 Company 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 Company taking into account the Company'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 Company over a longer period than the 12 months required by the 'Going Concern' provision. The Board considered a number of factors in determining the period to be covered by assessment. This included balancing the long term nature of the business, it's relatively stable revenue and its financial resources with the uncertainty that can arise in forecasts due the variability of outcomes as the period extends. The Board concluded that a review of five years in line with the Company's five year strategic business plan would be an appropriate period on which to assess its viability. Within the five year plan there are sufficiently robust financial forecasts which 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 20 to 22. 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 Company's liquidity or operation.

The following sensitivities were used in stress testing the forecasts:

- A climate event resulting in the need to restrict water use;
- An operational failure impacting our ability to produce water. Thus requiring 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;
- Persistently low profitability resulting from higher than anticipated costs; and
- The potential impact of Brexit upon turnover and operating expenses.

These were considered along with the Company'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.

The Board have also considered the impacts of both Brexit and Climate Change for the period under review.

Based on the assessment of prospects and viability described, we confirm that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period ending 30 September 2024.

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 12 December 2019 and signed on its behalf by

Peter Yates
Chair

Independent auditor's report to the members of The Jersey New Waterworks Company Limited

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 30 September 2019 and its financial performance and its cash flows for the period from 1 January 2019 to 30 September 2019 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 statement of cash flows; and
- the related notes 1 to 30.

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'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 group 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 Fund'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 Fund'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 Fund 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 by the parent company, 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 Company's (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.

Kate Hadley
For and on behalf of Deloitte LLP
Birmingham, UK
13 December 2019

Consolidated Financial Statements

Consolidated statement of financial position
30 September 2019

	Note	30 September 2019 £'000	30 September 2019 £'000	31 December 2018 £'000	31 December 2018 £'000
Fixed assets					
Intangible assets	5	302		311	
Tangible assets	6	76,500		76,179	
Freehold investment property	7	-		780	
Goodwill	5	170		208	
			76,972		77,478
Current assets					
Inventories	8	535		509	
Trade receivables	9	4,415		3,941	
Cash		4,206		3,867	
		9,156		8,317	
Creditors - Amounts falling due within one year					
Creditors and accruals	10	(3,381)		(2,765)	
Income tax		(583)		(716)	
		(3,964)		(3,481)	
Net current assets			5,192		4,836
Total assets less current liabilities			82,164		82,314
Creditors - Amounts falling due after more than one year					
Bank loans	11	(14,900)		(14,900)	
Derivative financial liability	12	(180)		(174)	
Non-equity preference shares	13b	(5,382)		(5,382)	
			(20,462)		(20,456)
Provisions for liabilities and charges					
Deferred taxation	14		(6,739)		(6,856)
Net assets excluding pension asset			54,963		55,002
Pension asset	15		420		1,013
Net assets			£55,383		£56,015
Capital and reserves					
Called up equity share capital	13a		4,830		4,830
Reserves			50,553		51,185
Total equity			£55,383		£56,015

The financial statements on pages 56 to 83 were approved by the Board of Directors on 12 December 2019 and were signed on its behalf by:

Peter Yates, Chair

Consolidated income statement
For the period ended 30 September 2019

	Note	9 months to 30 September 2019*		12 months to 31 December 2018	
		£'000	£'000	£'000	£'000
Turnover	16		13,229		17,199
Operating expenditure	17		(10,643)		(12,633)
Operating profit			2,586		4,566
Interest					
- receivable and similar income	19a	38		15	
- payable and similar charges	19b	(342)		(379)	
Net interest expense		(304)		(364)	
Non-equity dividends	20	(285)		(381)	
			(589)		(745)
Profit before taxation			1,997		3,821
Income tax	21a		(404)		(852)
Profit for the reporting period			£1,593		£2,969
Basic and diluted earnings per ordinary share of £0.50	22		£0.16		£0.31

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

Consolidated statement of comprehensive income
For the period ended 30 September 2019

	Note	9 months to 30 September 2019* £'000	12 months to 31 December 2018 £'000
Profit for the reporting period		1,593	2,969
Fair value movement on swap	12	(6)	96
Period / annual re-measurements of defined benefit obligations	15	(379)	1,499
Total income tax on components of other comprehensive income	21b	73	(319)
Other comprehensive income for the period / year net of tax		(312)	£1,276
Total comprehensive income for the period / year		£1,281	£4,245

A nine month comparison figure can be found on page 84.

Consolidated statement of changes in equity
For the period ended 30 September 2019

	Note	Called-up equity share capital £'000	Revaluation reserve £'000	Cash flow hedge reserve £'000	Retained earnings £'000	Total £'000
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**
Balance as at 1 January 2019		4,830	675	(139)	50,649	56,015
Profit for the reporting period		-	-	-	1,593	1,593
Other comprehensive income for the period		-	-	(9)	(303)	(312)
Total comprehensive income for the period		-	-	(9)	1,290	1,281
Equity dividends	23	-	-	-	(1,913)	(1,913)
Balance as at 30 September 2019		**£4,830**	**£675**	**£(148)**	**£50,026**	**£55,383**

Consolidated cash flow statement
For the period ended 30 September 2019

	Note	9 months to 30 September 2019* £'000	12 months to 31 December 2018 £'000
Net cash inflow from operating activities	24	5,003	7,186
Income tax paid		(582)	(612)
Net cash generated from operating activities		4,421	6,574
Cash flow from investing activities			
Purchase of fixed assets	5,6	(3,019)	(3,385)
Purchase of subsidiary		(87)	(199)
Disposal of fixed assets		906	-
Net cash used in investing activities		(2,200)	(3,584)
Cash flow from financing activities			
Interest paid		(297)	(382)
Interest received		14	15
Non-equity dividends paid		(191)	(381)
Equity dividends paid		(1,396)	(2,035)
Net cash used in financing activities		(1,870)	(2,783)
Net increase in cash and cash equivalents	25	347	207
Cash and cash equivalents at the beginning of the period/year		3,867	3,652
Effect of foreign exchange rate changes		(8)	8
Cash and cash equivalents at the end of the period/year		£4,206	£3,867

		9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Reconciliation of net cash flow to movement in debt			
Increase in cash	25	347	207
Movement in liquid resources	25	(6)	96
Effect of foreign exchange rate changes	25	(8)	8
Movement in net debt	25	333	311
Net debt as at 1 January	25	(16,589)	(16,900)
Net debt as at 30 September	25	£(16,256)	£(16,589)

**A nine month comparison figure can be found on page 84.*

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 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.

In order to accommodate a change in the year-end reporting timetable of our majority shareholder, the States of Jersey, the financial year-end of the Company was changed during the year. The financial statements present the results for the 9 month period ended 30 September 2019 and the comparative period represents the year to 31 December 2018. As a result these two periods are not directly comparable.

2 Statement of compliance

The financial statements of the Company 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 Companies (Jersey) 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 periods presented, unless otherwise stated.

Basis of preparation

The financial statements are prepared on the 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 Company'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 Triennial review 2017 amendments are effective for accounting periods beginning on or after 1 January 2019.

The Company early adopted the amendments in the financial statements for the year-ended 31 December 2018. It was impacted by three of the amendments:

- **Section 5: Changes to the presentation of the Income Statement.** The Company 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 Company 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 Company 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.

Going concern

The Company'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 Company, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 10 to 39 and in notes 11 and 12. The Company has a wide and varied customer base within Jersey, steady demand for the supply of drinking water and services and a stable and well established treatment and distribution network. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore selected the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

The Company'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 Company. 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 Company and no adjustments are required to be made to those subsidiary financial statements to apply the Company's accounting policies when preparing the consolidated financial statements.

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

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

Under Article 105 (11) of the Companies (Jersey) Law 1991, the directors of a company need not prepare separate company financial statements, if consolidated accounts for the Company 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 Company financial statements are presented in pound sterling and rounded to thousands.

The Company'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 nine month period to 30 September 2019 (2018: for the 12 month period to 31 December 2018). All water meters are read on a cyclical basis approximately every 12 weeks, as a result there will be an element of water charges which are accrued for at the end of the financial period. All accrued water income is estimated based on historic consumption plus or minus a seasonal adjustment factor.

(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 period.

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 Company'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 amortisation 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. Expenditure on intangible assets under construction or development will only be recognised once it has meet the development criteria under FRS 102. Upon completion, 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 Company 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

Freehold investment property

Certain of the Company's properties originally acquired for business purposes, or otherwise used within the business, were no longer so used and were held for investment purposes (to earn rental income and or capital appreciation). These properties were classified as investment properties and were accounted for at fair value at the reporting date with changes in fair value recognised in the income statement. The Company engaged an independent qualified valuer to provide a full valuation of investment properties at least once every three to five years, and these valuations were reviewed annually by management for appropriateness in light of market movements. The investment properties were sold in September 2019 and the gain arising on disposal has been recognised in the income statement.

Cash and cash equivalents

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

Financial instruments

The Company 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 such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when a) the contractual rights to the cash flows from the asset expire or are settled, or b) substantially all the risks and rewards of the ownership of the assets are transferred to another part or c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(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.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

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 Company 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 period or prior periods.

(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 pension scheme for its employees. A defined contribution pension 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 pension scheme for certain employees. A defined benefit pension 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 pension scheme is a pension plan that is not a defined contribution pension scheme.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension 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 pension 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.

Share capital

Ordinary and 'A' ordinary shares are classified as equity. Incremental costs directly attributable to the issue of any new ordinary or 'A' ordinary shares would be shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the shareholders. These amounts are recognised in the statement of changes in equity.

Related party disclosures

The Company is applying the exemption available under FRS 102 section 33.11, which exempts the Company 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 Company's accounting policies the critical judgements applied by the Company in the current reporting period are detailed on the next page.

(i) Tangible or intangible assets ready for use

Due to the nature of certain projects including timing delays, specific contractual obligations or payment schedules and the nature of the assets in question, the Company 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.

(ii) Recognition criteria surrounding the Connect Programme

The Company initiated the Connect Programme in 2018 with the aim of enhancing the Company's digital landscape. This included upgrading, replacing and purchasing new software systems. These projects involve both research and development phases which, under FRS 102, must be treated as either expenditure or a directly attributable cost of the asset. Using clearly defined milestones and decision points the Company has applied judgement in determining when a project moved from the research phase to the development phase. See note 17 for details of the expenditure on the Connect Programme.

The Company 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.

(iii) 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.

Unbilled income and useful economic lives of tangible and intangible assets have been removed from this note in 2019 as the Directors do not consider there is a significant risk of a material adjustment arising.

5 Intangible assets

	Goodwill	Software	Intangible uncompleted works	Total
	£'000	£'000	£'000	£'000
Cost				
As at 1 January 2019	252	742	18	1,012
Additions	-	42	10	52
Disposals	-	-	(1)	(1)
Transfers	-	11	(27)	(16)
As at 30 September 2019	£252	£795	£-	£1,047
Amortisation				
As at 1 January 2019	(44)	(449)	-	(493)
Charge for the period	(38)	(44)	-	(82)
Disposals	-	-	-	-
As at 30 September 2019	£(82)	£(493)	£-	£(575)
Net book value				
As at 1 January 2019	£208	£293	£18	£519
As at 30 September 2019	£170	£302	£-	£472

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

Please see note 17 for details of the pre-development costs incurred on the Connect Programme.

6 Tangible assets

	Property and completed works	Tangible uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	£'000	£'000	£'000
Cost				
Brought forward	111,814	1,404	2,785	116,003
Additions	1,267	1,325	174	2,766
Disposals	(2)	(174)	(256)	(432)
Transfers	115	(150)	51	16
Carried Forward	**£113,194**	**£2,405**	**£2,754**	**£118,353**
Amortisation				
Brought forward	(37,854)	-	(1,970)	(39,824)
Charge for the year	(1,988)	-	(254)	(2,242)
Disposals	1	-	212	213
Carried Forward	**£(39,841)**	**£-**	**£(2,012)**	**£(41,853)**
Net book value				
Brought forward	£73,960	£1,404	£815	£76,179
Carried Forward	**£73,353**	**£2,405**	**£742**	**£76,500**

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

Included within fixed assets is £151k (31 December 2018: £194k) relating to internal labour costs capitalised in the period.

At 30 September 2019 capital commitments contracted for amounted to £949k (31 December 2018: £766k).

7 Freehold investment property

	Freehold investment property
	£'000
Valuation	
As at 1 January 2019	780
Additions	-
Disposals	(890)
Revaluation	110
As at 30 September 2019	**£-**

The Company sold its freehold residential investment property containing two units in September 2019 for net proceeds of £890k realising a gain of £110k.

The licence income arising from the properties during the period was £19k (31 December 2018: £35k), with maintenance and repair costs of £3k (31 December 2018: £3k).

8 Inventories

	30 September 2019 £'000	31 December 2018 £'000
Inventory as at 1 January	**800**	912
Inventory purchased in period / year	**600**	486
Inventory consumed in period / year	**(569)**	(596)
Inventory as at 30 September / 31 December	**831**	800
Provision for impairment as at 1 January	**(291)**	(296)
Movement in provision in period / year	**(5)**	5
Provision for impairment as at 30 September / 31 December	**(296)**	(291)
Net inventory balance as at 30 September / 31 December	**£535**	£509

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

	30 September 2019 £'000	31 December 2018 £'000
Trade debtors	**1,240**	973
Prepayments	**576**	390
Accrued income	**2,370**	1,986
Other debtors	**229**	592
	£4,415	£3,941

Accrued income relates solely to unbilled measured water. The significant movement in the accrued income balance is a result of the impact of cyclical billing and the impact of the seasonal adjustment figure (+1.43% consumption compared with –8.13% consumption at 31 December 2018).

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

	30 September 2019 £'000	31 December 2018 £'000
Trade payables	**997**	1,276
GST, taxation and social security	**269**	234
Other creditors	**603**	402
Contract retentions	**252**	246
Accruals and deferred income	**1,260**	607
	£3,381	£2,765

Trade payables and accruals relate to amounts owed to various suppliers through the normal course of business. There was no deferred income at 30 September 2019 (31 December 2018: nil).

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

11 Bank loans

	Interest Rates	Repayment Dates	30 September 2019 £'000	31 December 2018 £'000
Facilities drawn down				
HSBC Bank plc	2.00%	2021	**5,250**	5,250
HSBC Bank plc	1.58%	2023	**6,000**	6,000
HSBC Bank plc	1.95%	2025	**3,650**	3,650
			£14,900	£14,900

	30 September 2019 £'000	31 December 2018 £'000
Loans falling due within one year	**-**	-
Loans falling due between one and two years	**5,250**	-
Loans falling due after two years but less than five years	**6,000**	5,250
Loans falling due after five years	**3,650**	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:

	30 September 2019 £'000	31 December 2018 £'000
Financial assets that are debt instruments measured at amortised cost	**1,785**	1,891
Financial liabilities at fair value through profit or loss	**180**	174
Financial liabilities that are measured at amortised cost	**23,656**	22,908

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. In accordance with FRS 102 no adjustment is made to cash flows to reflect credit risk.

HSBC Bank plc valued the derivative on 30 September 2019 as a liability of £180k (31 December 2018: £174k), generating a fair value movement of £6k (31 December 2018: £96k) 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 period (31 December 2018: 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 (31 December 2018: 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	30 September 2019 £'000	31 December 2018 £'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

		30 September 2019 £'000	31 December 2018 £'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	30 September 2019 £'000	31 December 2018 £'000
Accelerated capital allowances		**6,687**	6,688
Derivative financial liabilities		**(32)**	(34)
Asset arising from pension surplus		**84**	202
Net liability		**£6,739**	£6,856
As at 1 January 2019		**6,856**	6,394
Amounts charged in the income statement	21a	**(1)**	192
Amounts charged in comprehensive income	21b	**(116)**	270
At 30 September / 31 December		**£6,739**	£6,856

15 Pensions

During the period 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 30 September 2019 totalled £139k (31 December 2018: £180k). There are no unpaid contributions at period end (31 December 2018: nil).

Defined benefit section and unfunded scheme

The FRS 102 valuation as at 30 September 2019 shows a net asset of £420k (31 December 2018: £1,013k).

The major assumptions used by the independent actuary were:

	30 September 2019	31 December 2018
Rate of increase in salaries	3.30%	3.15%
Rate of increase in pensions accrued after 1 January 1999	3.15%	3.05%
Discount rate	1.83%	2.92%
Inflation assumption	3.30%	3.15%
Life expectancy assumptions		
Current pensioners at 65 - Male	87	87
Current pensioners at 65 - Female	88	88
Future pensioners at 65 - Male	88	88
Future pensioners at 65 - Female	90	90

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.

Reconciliation of the present value of scheme assets and liabilities	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2019	26,090	(25,077)	1,013
Benefits paid	(685)	685	-
Employer contributions	121	-	121
Current service costs	-	(351)	(351)
Employee contributions	43	(43)	-
Past service costs	-	-	-
Interest income / (expense)	564	(540)	24
Life assurance premiums	(8)	-	(8)
Re-measurement gains / (losses)			
- Actuarial losses	-	(4,025)	(4,025)
- Return on plan assets excluding interest income	3,646	-	3,646
As at 30 September 2019	£29,771	£(29,351)	£420

Analysis of funded and wholly unfunded scheme assets and liabilities	Assets £'000	Liabilities £'000	Total £'000
Funded scheme	29,771	(29,346)	425
Wholly unfunded scheme	-	(5)	(5)
Total present value of scheme liabilities	£29,771	£(29,351)	£420

Total cost recognised as an expense within the income statement

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Current service cost	(351)	(401)
Life assurance premiums	(8)	(13)
Expense/(income) within net interest expense/(income)	24	(3)
Total	£(335)	£(417)

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 (31 December 2018: nil) were included in the cost of the assets.

Total income recognised within other comprehensive income

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Re-measurement (losses)/gains		
- Actuarial losses/gains	(4,025)	3,255
- Return/(loss) on plan assets excluding interest income	3,646	(1,756)
Total re-measurement (losses)/gains	£(379)	£1,499

Analysis of scheme assets	9 months to 30 September 2019 % of total fair value of scheme assets	12 months to 31 December 2018 % of total fair value of scheme assets
Equities	31%	30%
Property	0%	7%
Corporate bonds	62%	62%
Cash and receivables	7%	1%
	100%	100%

The fair value of the plan assets was:	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Equities	9,155	7,922
Property	0	1,768
Corporate bonds	18,759	16,341
Cash and receivables	1,857	59
	£29,771	£26,090

Return on plan assets:	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Interest income	564	685
Return/(loss) on plan assets excluding interest income	3,646	(1,756)
Total return/(loss) on plan assets	£4,210	£(1,071)

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 period, the Company made scheduled retirement benefit contributions into the defined benefit scheme totalling £121k (31 December 2018: £167k).

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.

Discount rate sensitivity

The following tables show the impact on the statement of financial position and income statement of adopting a discount rate of 0.5ppt per annum higher and lower than the current assumption of 1.83ppt which is considered to be a reasonable approximation of a potential change in the assumptions. The discount rate is considered to be the key assumption and accordingly a sensitivity analysis has only been presented for this assumption.

Sensitivity Analysis

Value at the end of the 30 September 2019 if:

	Base Position	Discount rate increased by 0.50% p.a.	Discount rate decreased by 0.50% p.a.	Inflation increased by 0.50%* p.a.	Inflation decreased by 0.50%* p.a.	Life expectancy increased by approx. one year	Life expectancy decreased by approx. one year
	£'000	£'000	£'000	£'000	£'000	£'000	
Fair value of scheme assets	29,771	28,202	31,340	29,771	29,771	29,771	29,771
Present value of funded defined benefit obligations	(29,346)	(26,906)	(32,124)	(30,059)	(28,666)	(30,614)	(28,098)
Funded status at end of period	**425**	**1,296**	**(784)**	**(288)**	**1,105**	**(843)**	**1,673**
Amount not recognised as asset due to limit in FRS102 paragraph 28.22	-	-	-	-	-	-	-
Net defined benefit asset / (obligation)	**£425**	**£1,296**	**£(784)**	**£(288)**	**£1,105**	**£(843)**	**£1,673**
Impact on the income statement to 30 September 2020							
Service cost	375	330	426	398	353	388	362
Death in service premiums	10	10	10	10	10	10	10
Interest on the net defined benefit liability / (asset)	(10)	(33)	9	3	(22)	14	(33)
Total expense / (income) recognised in the income statement	**£375**	**£307**	**£445**	**£411**	**£341**	**£412**	**£339**

16 Turnover

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Measured water charges	**11,771**	14,891
Unmeasured water charges	**285**	390
Service charges and other charges for water	**512**	656
Total water supply charges	**12,568**	15,937
Rechargeable works income	**301**	327
Insurance compensation	**39**	511
Other income	**321**	424
Turnover	**£13,229**	£17,199

17 Operating expenditure

	Note	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Included in operating expenditure are the following:			
Net employment costs	18	**3,564**	4,432
Impairment of inventory	8	**5**	(5)
Amortisation & depreciation	5/6	**2,095**	2,737
Accelerated depreciation		**229**	185
Pre-development expenditure on Connect Programme including employee time*		**227**	103
(Gain)/loss on disposal of fixed assets		**(11)**	54
Gain arising on the revaluation of investment property	7	**-**	(105)
Gain on disposal of investment property	7	**(110)**	-
Materials, consumables, hired in services and other costs		**4,439**	5,006
Directors' fees		**110**	141
Auditors' fees - Statutory audit		**66**	80
- Other services (Tax compliance)		**13**	5
- Other services (Pension scheme audit)		**8**	8
Foreign exchange loss/(gain)		**8**	(8)
Total operating expenditure		**£10,643**	£12,633

**Connect Programme expenditure includes £79k (31 December 2018: £9k) of employee time.*

18 Net employment costs

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Wages, salaries and other payments	3,110	3,829
Social Security	180	224
Pension costs of defined benefit scheme	351	402
Pension costs of defined contribution scheme	139	180
	3,780	4,635
Less amount capitalised within fixed assets	(137)	(194)
Net employment costs	£3,643	£4,441

As at 30 September 2019 the Company had 91 employees (31 December 2018: 90).

19 Net interest expense

a) Interest receivable

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Bank interest received	14	15
Net interest income on pension obligations	24	-
Total interest receivable and similar charges	£38	£15

b) Interest payable and similar charges

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Bank loans and overdrafts	272	299
Net interest expense on pension obligations	-	3
Interest rate swap contract	70	77
Total interest payable and similar charges	£342	£379

20 Non-equity dividends

	9 months to 30 September 2019			12 months to 31 December 2018		
	Paid	Payable	Charge for the period	Paid	Payable	Charge for the year
	£'000	£'000	£'000	£'000	£'000	£'000
Dividend - 5% Cumulative Preference	3	0	3	3	1	4
Dividend - 3.5% Cumulative 2nd Preference	2	0	2	2	1	3
Dividend - 3% Cumulative 3rd Preference	1	1	2	3	-	3
Dividend - 3.75% Cumulative 3rd Preference	1	1	2	2	-	2
Dividend - 5% Cumulative 3rd Preference	0	1	1	2	-	2
Dividend - 2% Cumulative 4th Preference	4	1	5	7	-	7
Dividend - 7.5% Cumulative 5th Preference	180	90	270	360	-	360
Total interest payable and similar charges	£191	£94	£285	£379	£2	£381

21 Income tax

a) Tax expense included in the income statement

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Current tax		
Income tax on the profit for the period / year	**405**	660
Deferred tax		
Charge for the period / year	**(1)**	192
Total tax on profit on ordinary activities	**£404**	£852

b) Tax expense included in other comprehensive income

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Current tax		
Movements relating to pension surplus	**43**	49
Deferred tax		
Movement on deferred tax relating to interest rate swap	**3**	20
Movement on deferred tax relating to pension surplus	**(119)**	250
Total tax (income) / expense included in other comprehensive income	**£(73)**	£319

Reconciliation of tax charge for the period

The tax assessed for the period is higher than the standard rate of Jersey income tax (20%) (2018: 20%) applicable to utility companies. The differences are explained below:

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Consolidated profit before tax	**1,997**	3,821
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	**399**	764
Tax at 20% on:		
Depreciation for the period in excess of capital allowances	**92**	182
Capital expenditure, deductible for tax purposes	**(198)**	(198)
(Gain) / Loss on disposal of fixed assets	**(24)**	11
Dividends on non-equity shares - non deductible	**57**	76
Non deductible (income) / expenses	**1**	17
Adjustment for prior year tax charge	**77**	-
Total tax charge for period/year	**£404**	£852

22 Basic and diluted earnings per ordinary share

Basic and diluted earnings per ordinary share of £0.16 (31 December 2018: £0.31) is based on earnings of £1,593k (31 December 2018: £2,969k), being the profit available for distribution to equity shareholders and 9,660,000 (31 December 2018: 9,660,000) ordinary and 'A' ordinary shares of £0.5 in issue.

23 Equity dividends

Ordinary and 'A' Ordinary shares	**9 months to 30 September 2019 Pence per share**	12 months to 31 December 2018 Pence per share	**9 months to 30 September 2019 £'000**	12 months to 31 December 2018 £'000
Dividends paid				
Final dividend for the previous year	**14.447**	13.932	**1,396**	1,346
Interim dividend for the current period/year	**5.353**	7.137	**517**	689
	19.800	21.069	**£1,913**	£2,035
Dividends proposed				
Final dividend for the current period/year	**10.835**	14.447	**£1,047**	£1,396

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

	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Profit for the reporting period	**1,593**	2,969
Tax on profit on ordinary activities	**404**	852
Non-equity dividends	**285**	381
Net interest expense	**304**	364
Operating profit	**2,586**	4,566
Gain on revaluation of investment property	**(110)**	(105)
Loss/ (gain) on disposal of fixed assets	**(11)**	54
Depreciation and amortisation	**2,324**	2,922
Change in order to bring pension charges onto a contribution basis	**226**	235
Decrease in inventories	**(26)**	107
Increase in trade receivables	**(398)**	(1,040)
Increase in creditors	**412**	447
Net cash inflow from operating activities	**£5,003**	£7,186

25 Analysis of changes in net debt

	At 1 January 2019 £'000	Cash Flows £'000	Derivative Movement £'000	Foreign Exchange Movement £'000	At 30 September 2019 £'000
Bank and cash	867	(453)	-	(8)	406
Term deposit	3,000	800	-	-	3,800
Debt due within one year	-	-	-	-	-
Debt due after one year	(20,456)	-	(6)	-	(20,462)
Total	**£(16,589)**	**£347**	**£(6)**	**£(8)**	**£(16,256)**

26 Directors' emoluments

	Salary	Bonus	Fee	Benefits	Total emoluments (Excluding pension contributions)	
	£'000	£'000	£'000	£'000	9 months to 30 September 2019 £'000	12 months to 31 December 2018 £'000
Executives						
Helier Smith	129	22	-	6	157	199
Natalie Passmore	87	14	-	3	104	135
Non-Executives						
Tony Cooke	-	-	-	-	-	7
Mary Curtis	-	-	8	-	8	19
Tim Herbert	-	-	15	-	15	19
Stephen Kay	-	-	16	-	16	19
Heather MacCallum	-	-	18	-	18	19
Daragh McDermott	-	-	16	-	16	19
Michael Pocock	-	-	15	-	15	12
Peter Yates	-	-	22	-	22	27

During the 9 month period the Company made pension contributions of £20k (31 December 2018: £25k) in respect of Helier Smith and £14k (31 December 2018: £12k) 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.

Mary Curtis resigned as a non-executive director on 16 May 2019.

27 Related parties

The Company shares a common controlling shareholder, the States of Jersey, with Jersey Post Company, Jersey Telecom, Jersey Electricity, Andium Homes, Ports of Jersey and Jersey Development Company. During the period / year the Company 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 Company, Ports of Jersey and Jersey Telecom. All transactions were undertaken on an arm's length basis during the normal course of business.

During the period / year the Company paid pension benefits on behalf of the Defined Benefit Jersey Water Pension Scheme amounting to £205k (31 December 2018: £284k) on the basis it would be fully reimbursed by the Scheme. At 30 September 2019, the net balance owed by the scheme is £166k (31 December 2018: £75k).

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

There were no reportable events after the end of the reporting date.

30 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	9 months to 30 Sep 2019[1]	9 months to 30 Sep 2018[1,2]	12 months to 31 Dec 2018[1]	12 months to 31 Dec 2017	12 months to 31 Dec 2016	12 months to 31 Dec 2015
Statement of financial position							
Total equity	£'000	**55,505**	55,249	56,015	53,805	49,978	52,043
Net Debt	£'000	**16,256**	16,672	16,589	16,900	18,105	17,119
Income statement							
Turnover	£'000	**13,229**	12,669	17,199	15,960	15,720	15,373
Operating profit (before exceptional items)	£'000	**2,586**	3,438	4,566	4,852	5,024	4,841
Profit before tax	£'000	**1,997**	2,869	3,821	4,107	4,256	4,074
Profit for the reporting period	£'000	**1,593**	2,325	2,969	3,296	3,334	3,336
Equity dividends paid	£'000	**1,913**	1,863	2,035	1,978	1,936	1,902
Financial statistics & ratios							
Capital expenditure	£'000	**2,818**	2,060	3,910	3,275	4,589	6,611
Net cash inflow / (outflow)	£'000	**347**	329	215	1,061	(860)	(2,383)
Earnings per share	£	**0.16**	0.24	0.31	0.34	0.35	0.35
Dividend cover	Times	**0.8**	1.2	1.5	1.7	1.7	1.8
Interest cover	Times	**4.4**	6.0	6.1	6.1	7.2	6.3
Gearing[3]	%	**36**	37	37	38	41	40
Operational statistics							
Total water supplied	Ml	**5,309**	5,489	7,180	7,327	7,567	7,294
Maximum daily demand	Ml	**23.8**	25.1	25.1	25.9	25.6	25.0
Annual rainfall	mm	**554**	601	862	1,027	986	964
New mains laid	km	**1.3**	0.3	2.5	1.9	2.3	0.2
Mains re-laid/relined	km	**0.7**	1.7	2.0	2.1	2.0	2.5
New connections	No.	**276**	277	340	303	374	506
Live unmeasured supplies	'000	**0**[4]	0[4]	0[4]	0[4]	2	5
Live metered connections	'000	**33**	33	33	33	33	32
Employees	No.	**91**	92	90	83	81	80
Water quality							
% Compliance with water quality parameters		**99.97%**	N/A	99.99%	99.98%	99.99%	99.99%

[1] *For 2019 and 2018 the results are presented on a consolidated basis.*

[2] *9 month comparative period including prorated adjustments to present a like for like comparison*

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

[4] *Fewer than 500 unmeasured supplies in 2019, 2018 and 2017*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