Jersey Water

2015

Annual Report and Financial Statements

The Jersey New Waterworks Company Limited

www.jerseywater.je

R.53/2016

Contents

Directors, officers and advisers

Non-Executive Directors

Chairman
Peter Yates
BSc, FCA

Senior Independent Director
Anthony Cooke
BA(Hons) Econ, CEnv, FCIWEM, HIWater

Mary Curtis
MA, Chartered FCIPD, CDir

Timothy Herbert
MA(Oxon)

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

Elizabeth Vince
BA (Hons), CPFA, MICA, Dip IoD

Executive

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

Officers and Advisers

Secretary

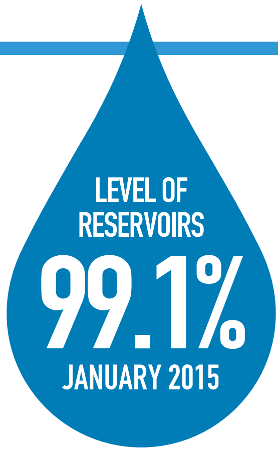
Natalie Passmore
MA(Hons), ACA, CMgr MCMI, Dip IoD

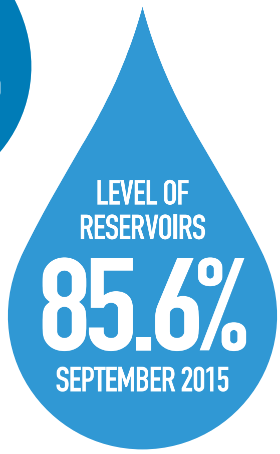
Independent Auditors

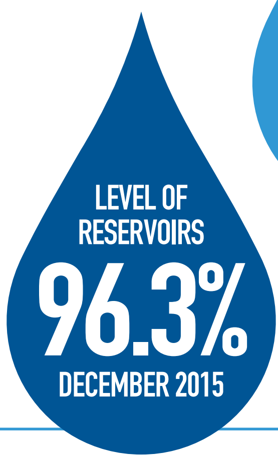
PricewaterhouseCoopers CI LLP
37 Esplanade, St Helier, Jersey, JE1 4XA

Registered Office

Mulcaster House, Westmount Road
St Helier, Jersey, JE1 1DG







Board of directors

Peter Yates
BSc, FCA

Peter Yates was appointed to the Board in May 2009. Mr Yates, a Chartered Accountant, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for over thirty-one years. He is a Non-Executive Director and Chairman of the Audit Committee of Invesco Perpetual Enhanced Income Fund Plc and also a Non-Executive Director of Bathroom Brands Plc and Bathroom Brands Distribution Ltd.

Mr Yates is Chairman of the Board and chairs the Nomination Committee.

Tony Cooke
BA (Hons) Econ, CEnv, FCIWEM, HIWater

Tony Cooke became a Non-Executive Director of the Company in June 2008. Mr Cooke is an economist by background and he is the former Managing Director of Bournemouth & West Hampshire Water Plc. He has previously held a number of chief executive and senior management roles in the United Kingdom and internationally. Mr Cooke is a Trustee of Utilities and Service Industries Training Ltd, a Trustee of a pension fund and an independent utilities consultant.

Mr Cooke is the Board's Senior Independent Director and is a member of the Audit and Nomination Committees.

Mary Curtis
MA, Chartered FCIPD, CDir

Mary Curtis joined the Board as a Non-Executive Director in June 2008. Mrs Curtis is a Fellow of the Chartered Institute of Personnel & Development and is a Director of a privately owned consultancy business, Calmera Business Consultancy. She formerly worked in London before moving to Jersey in the roles of Offshore Island Regional Human Resources Manager at Deloitte & Touche (now Deloitte LLP) and then Director of Human Resources at Mourant du Feu & Jeune (now Mourant Ozannes).

Mrs Curtis chairs the Remuneration Committee and is a member of the Nomination Committee.

Tim Herbert
MA(Oxon)

Tim Herbert was appointed to the Board in January 2015 as a Non-Executive Director. Mr Herbert is a Jersey Advocate. He was a partner at Mourant Ozannes for over twenty-five years including a term as Managing Partner and since July 2012 has been retained as a consultant to the firm. He chairs the Jersey Innovation Fund Advisory Board and holds a number of other positions in the community.

Mr Herbert is a member of the Remuneration Committee and the Nomination Committee.

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

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

Mr Kay is a member of the Audit Committee and the Nomination Committee.

Liz Vince
BA (Hons), CPFA, MICA, Dip IoD

Liz Vince was appointed to the Board in January 2015 as a Non-Executive Director. Mrs Vince is a qualified accountant and the former Finance Director and Company Secretary for Jersey Post. Previously Mrs Vince was the Chief Internal Auditor for the States of Jersey and originally qualified as an accountant with the National Audit Office in London. Mrs Vince holds a number of qualifications including both the Institute of Directors Certificate and Diploma in Company Direction.

Mrs Vince chairs the Audit Committee and is a member of the Nomination Committee.

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

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

Chairman's statement

From a water resources perspective, 2015 was an unusual year for Jersey Water. Reservoir levels tracked both the 2014 and five-year average very closely until June, when the heavens opened and the Island was subject to an extremely wet summer, causing reservoir levels to pick up quickly and remain above average levels for the remainder of the year. In other respects, 2015 was a busy and productive year.

Work got underway on the extension of the desalination plant, we laid 3.8km of new and replacement mains, connected 506 new properties to the network, completed our Island wide metering rollout, installed two new treatment processes and received the Gold Standard Investors In People Award.

For the year ended 31 December 2015, Jersey Water has adopted the new Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS102"). The new standard replaces previous UK Financial Reporting Standards and has resulted in certain changes in disclosure, differences in accounting treatment and changes in the naming convention of certain items within the financial statements. A reconciliation of the financial effects of the change can be seen in note 27 on page 46.

Turnover for the year increased by 1.2% to £15,373k, mainly as a result of a below inflation tariff increase of 1.75% in April 2015 and an increase in rechargeable works income. Operating costs for the year were £10,532k, in line with budget and 3% above the previous year, driven largely by additional pumping costs from managing water resources during the construction of the desalination plant, the introduction of new treatment processes and market driven pension cost increases.

The Company is reporting a profit before tax of £4,076k, slightly down on the previous year of £4,242k. The reduction of £166k (4%) is due to an increase in turnover of £189k offset by a planned increase in operating costs of £319k and higher finance charges of £44k.

Your Board is pleased to be recommending a final dividend for 2015 of 13.260 pence per share ("pps") for shareholder consideration and approval at the forthcoming Annual General Meeting. This is in addition to the interim dividend of 6.686 pence which was declared and paid during the year. The total declared and proposed dividend for 2015 is 19.946pps, an increase of 2% on the 2014 dividend of 19.555pps.

The Company continues to support the market for Jersey Water shares through its sponsorship of an over the counter share trading scheme operated by Jersey stockbrokers, Vestra Wealth (Jersey) Limited. Willing buyers and sellers of Jersey Water shares register their details and are then matched when shares become available. In 2015 there were 23 trades in equity shares and 4 trades in preference shares of the Company.

In 2015, the Company invested a total of £6,611k (2014: £2,880k) in its capital programme. The majority of this was spent on the refurbishment and extension of our desalination plant, mains and service renewals, water quality enhancement projects and the metering programme.

During 2015, we substantially completed the installation of water meters on all properties across the Island and are working on transferring the remaining 10% of already metered properties to paying for water on a measured basis. The completion of the meter programme has been a significant milestone for Jersey Water in its endeavour to minimise waste and manage the demand for water. Customers have also benefitted from being in control of their water bills, often paying less than they were before being metered. With the installation largely completed, the effects of our metering programme will be monitored closely to determine the longer term impact metering will have on the demand for water and our water resources.

During 2015, we substantially completed the installation of water meters on all properties across the Island.

£6,611k

Total invested in our capital programme

Chairman's statement continued

One of our objectives is to reduce leakage to minimise waste and safeguard water resources. Significant progress has been made in this area as a result of our mains renewal programme, leakage detection work and our metering programme. It was therefore disappointing that in 2015, leakage increased as a result of a small number of large leaks in the town outskirts. Work is ongoing to separate the mains network in town and neighbouring areas into discrete District Metered Areas (DMAs) which will facilitate the identification and location of leaks in the future.

I am pleased to report that during 2015, we undertook a feasibility study into extending the mains water network into areas of the Island not currently served by the existing network. From 2016, depending on customer demand for mains water connections, we shall be extending the mains water network by approximately 2km each year in order to enable properties along the routes of the new mains to connect to mains water for the first time.

The last few years (and the start of 2016) have been much wetter than normal, making it easier to overlook the vital role our desalination plant plays in safeguarding the Island's water resources in times of drought. In 2015, we began an important project to upgrade the Company's reverse osmosis desalination plant. The £6m project is on track and due for completion in the summer of 2016 and will increase the capacity of the plant from 6.4Ml/day to 10.8Ml/day. An added benefit of using the latest desalination technology is that the new plant will use 36% less energy to run than the old plant.

Water quality in 2015 was very high. Overall compliance with water quality regulations stood at 99.99%, based on over 14,000 individual tests for water quality.

For the second consecutive year nitrates in the treated water supply remained within the regulatory limit of 50mg/l. Accordingly, we did not need to rely on the dispensations under the Water (Jersey) Law 1972 which permit a small number of samples for nitrates to exceed the 50mg/l limit, subject to an overriding maximum concentration of 65mg/l. Whilst nitrate levels in raw water sources were significantly higher than this limit for much of the period between January and May 2015, the Company was able to take advantage of having full reservoirs at the start of the year and send high nitrate water to waste during the potato growing season. Our limited ability to blend and dilute water resources to achieve the 50mg/l regulatory limit is dependent on many factors outside of the Company's control. The dispensation expires at the end of 2016 and we are in discussions with the States of Jersey regarding its renewal.

The small size of the water catchments in Jersey and the intensity of farming and other activities within those catchments mean that water resources in Jersey are vulnerable to persistent diffuse and point source pollution from nitrates and pesticides. An example of this problem presented itself in the catchments after the year end.

In early 2016, the Company detected a number of pesticides in surface water streams at concentrations greater than the EU regulatory limit of 0.1ug/l, in addition to the annual cycle of high nitrates during the potato growing season. The situation presents no risk to public health as levels in raw water sources are well below health based limits and Jersey Water is blending resources to ensure regulatory compliance in the treated water supply. Nevertheless, the existence of fertilisers and pesticides in any quantity in water resources presents the Company with serious operational constraints in its ability to supply consistently high quality water in the normal, cost effective manner. Treatment solutions for pesticides and the removal of nitrates are costly and technically challenging. Instead, efforts should be focussed on effective catchment management measures. For many years the Company has advocated the implementation of such measures to control the activities that contribute to pollution better. We believe that the time has now come for a fresh look at the way water resources are protected to ensure that the needs of all stakeholders are satisfied. We therefore welcome the recent pledge by the Minister for Planning and Environment to introduce measures to help resolve the situation.

At the Company's AGM in April, Stephen Kay and I shall be retiring from the Board by rotation and shall be seeking re-election. In addition, owing to her moving away from Jersey, Liz Vince will be retiring from the Board on 31 March 2016 and will not be seeking re-election. On behalf of the Company, I should like to thank Mrs Vince for her hard work and the contribution that she put into her role, both on the Board and as Chair of the Audit Committee. The Company is currently in the process of recruiting a replacement non-executive director to take Mrs Vince's place and chair the Audit Committee and for the first time has used open advertising to identify candidates. A further announcement will be made once a new director is appointed and the appointment will be subject to ratification by shareholders at a future AGM.

In recognition of the fact that it is our people on which the success of Jersey Water depends, one of our principal strategic objectives is to ensure that Jersey Water is a great place to work. During 2015, we were delighted with the results of our second employment engagement survey in which staff returned an employee engagement score of 93%. We were equally satisfied with the news in 2015 that Jersey Water had achieved Gold Investors in People status two years ahead of schedule. We couldn't have achieved either of these accolades without the hard work and diligence of the team at Jersey Water and on behalf of the Board and shareholders I should like to thank them all for their contribution in 2015.

Peter Yates
18 March 2016

99.99%

Overall compliance with water quality regulations

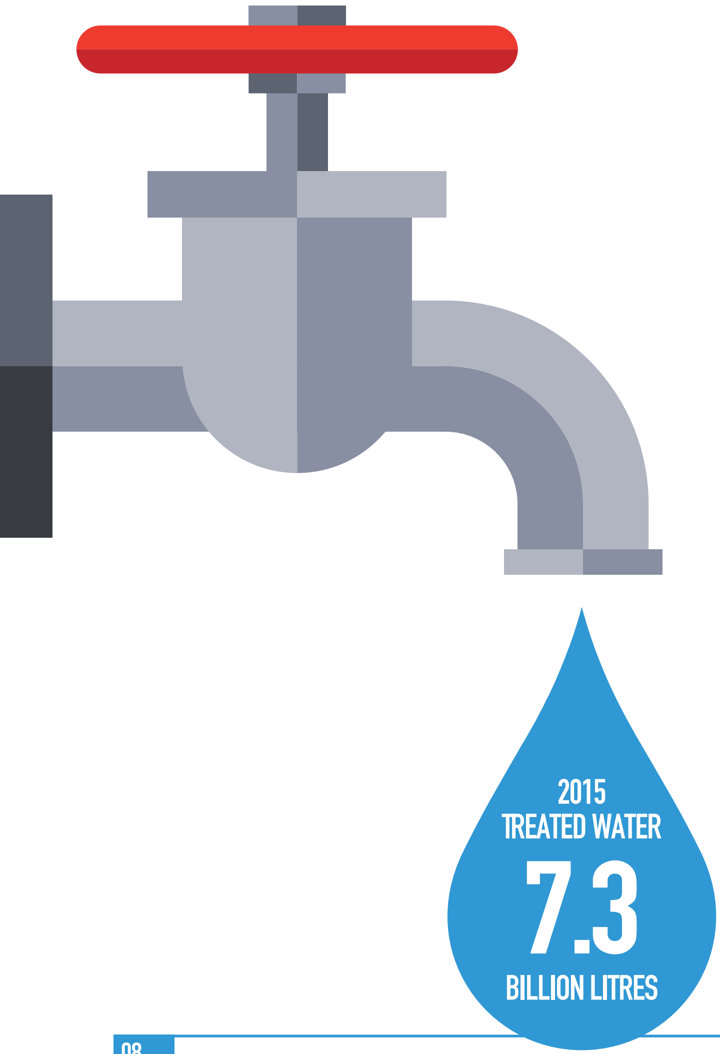
Strategic report

Our objectives

Jersey Water's purpose 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.

- We work hard to supply consistently high quality water to **our customers** and manage water resources to meet reasonable demand. We keep increases in prices as low as we can and ensure that we provide a high level of customer service.
- We manage the business prudently and aim to provide a sustainable real term return for **our shareholders**.
- **Our staff** are fundamental to our success. Ensuring Jersey Water continues to be a great place to work is a key ingredient in our future.
- Jersey is a close knit **community** in which we play an important role. We aim to make a positive contribution to the Jersey way of life and minimise the effect that our operations may have on the environment.



Our business

Jersey Water is the sole supplier of treated mains water to the Island of Jersey, supplying approximately 40,000 homes and businesses across the Island. In 2015, the Company's two water treatment works treated 7.3 billion litres of water for supply to customers through its 580km network of treated water mains.

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 2,687 million litres (Ml), which holds approximately 120 days of useable 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 is currently being extended to produce 10.8Ml/day – approximately half of daily demand, is operated where there is a risk that other water resources will be insufficient to meet demand.

Strategic report continued

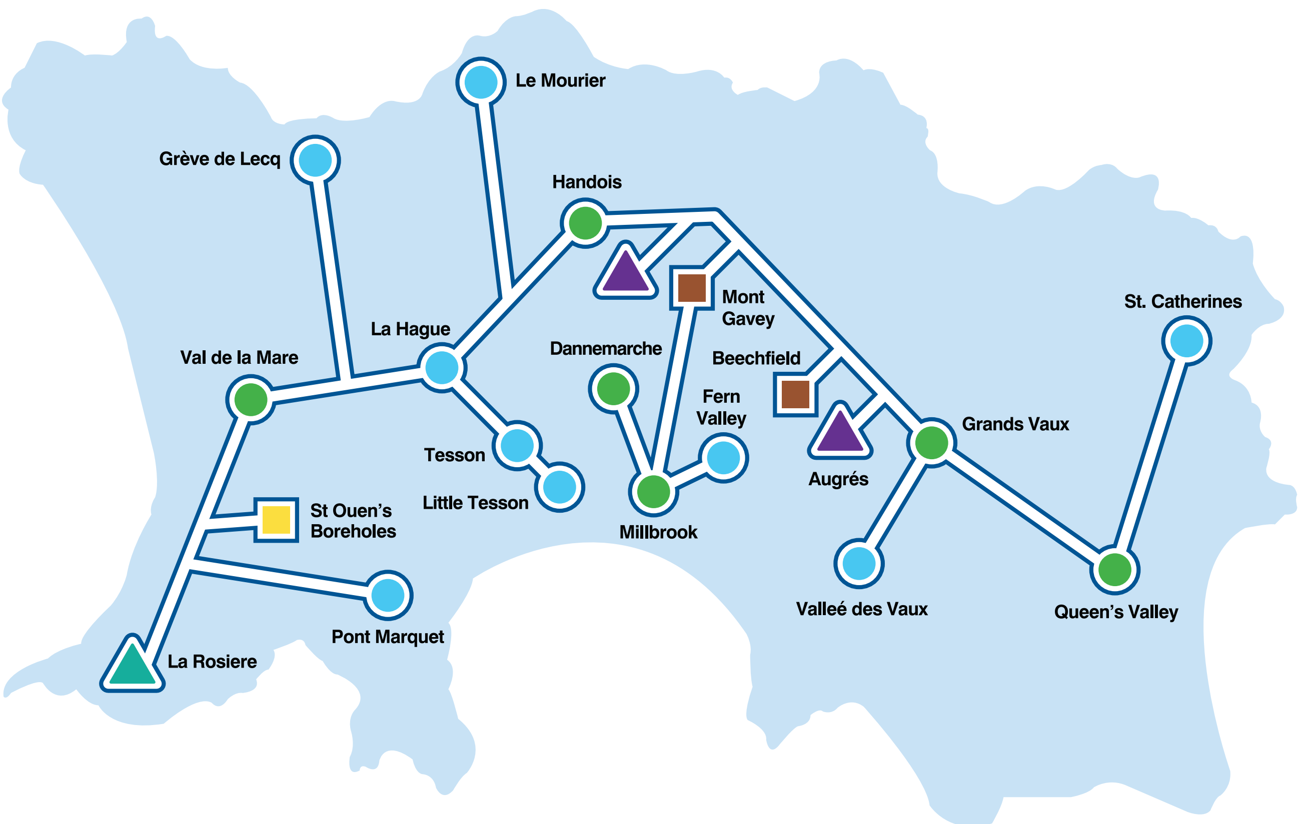
Jersey Water's plan for meeting the Island's future demand for water is set out in its 2010 25 year Water Resource Management Plan. The plan predicts that in 2035, if no action is taken, there will be a shortfall in water available for use equivalent to approximately 26% of the forecast daily demand (6.5Ml/day). This shortfall arises from a forecast reduction in water available for use due to global warming of 11% and an increase in demand of 15% driven by population growth and lifestyle improvements. The Company has in place a number of projects to reduce this shortfall including its island wide metering programme, leakage reduction and demand management measures and the extension of the desalination plant referred to above. The plan is scheduled to be updated in 2017, once the metering programme has been completed and its long term effects on demand and leakage are known.

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 which is susceptible to high concentrations of nitrates at certain times of the year and reasonably frequent detection of pesticides in raw water sources.

Both of our treatment works are designed to operate in the same manner; comprising chemically assisted sedimentation and rapid gravity filtration followed by two stages of disinfection using Ultra Violet (UV) radiation and then using chlorine and ammonia. Additional processes are in place to control taste, odour and plumbosolvency.

The treated water supply is vulnerable to the effects of diffuse nitrate pollution across the Island. Driven principally by agricultural activity, nitrates in water resources regularly exceed the regulatory limit for treated water of 50mg/l. Jersey Water manages this risk through careful blending and dilution. However, on occasion, circumstances can be such where minor, short term exceedences in treated water are unavoidable. The Company has in place a dispensation from the States of Jersey for compliance with water quality parameters relating to nitrates which expires in December 2016. Jersey Water works closely with the Planning & Environment Department of the States of Jersey to look at ways in which raw water quality can be improved and is in discussions regarding the renewal of the dispensation limits for a further period. The Company's objective is to supply water that meets all regulatory parameters so that it is not reliant on any quality dispensations.



Stream Abstraction Point
Raw Water Storage Reservoir
Desalination Plant
Water Treatment Plant
Raw Water Storage Tank
Ground Water Resource

Strategic report continued

Regulation

The supply of water in Jersey is regulated by the States of Jersey through various laws and regulations.

The Water (Jersey) Law 1972 sets out the service standards by which the Company must operate, the way in which it may charge for water and the minimum standards of the quality of the water that it must supply.

In addition, the Company's activities are 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, impact on our operations, performance and future prospects. The risks and uncertainties described in the box below 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 page 19). 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.

Risk	Description	Risk management
Demand for water	The 2010 Water Resources Management Plan identifies a shortfall in water available for use against projected demand developing to 6.5Ml/day over 25 years. 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 without sufficient storage, or desalination capacity, Jersey Water may be unable to meet the demand for water in the future.	The Water Resources Management Plan sets out the way in which the Company expects to meet projected demand. The existing plan describes the steps necessary to increase resources (either through storage or desalination) and reduce demand (through metering, leakage reduction and demand management) to maintain an adequate security of supply. The plan will next be reviewed starting in 2017 when the effects of updated assumptions and the actions taken by the Company since the last plan will be incorporated.
Raw water quality	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 the risk of persistent and point source pollution from the use of fertilisers and pesticides in the catchments resulting 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.	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 risks associated with surface water catchments. Jersey Water has a dispensation for nitrates under the Water (Jersey) Law 1972, which allows a limited number of samples to exceed the statutory 50mg/l limit. The dispensation runs from 1 January 2014 to 31 December 2016. Discussions are underway with a view to extending the dispensation for a further period. Jersey Water has for a long time been advocating for additional regulatory measures to manage the use of fertilisers and pesticides in the catchments.
Drought	The Company's reservoirs have sufficient capacity to store approximately 120 days' average demand for water. The relatively low reservoir storage capacity coupled with the reliance of the Island on rainfall means that water resources in Jersey is particularly susceptible to periods of drought.	The Company manages its water resources prudently, ensuring that reservoirs are filled quickly in periods of rainfall. 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, leakage control and mains renewals.

"Customers have also benefitted from being in control of their water bills, often paying less than they were before being metered."

Strategic report continued

Financial results

This is the first year the Company has presented its results under the new accounting standards known as FRS 102. The last financial statements were prepared under the old UK accounting standards. The date of transition was 1 January 2014. Full details of the changes in accounting policies and presentation as a result of the adoption of FRS 102 can be found in note 27.

Turnover

Jersey Water's turnover in 2015 increased by 1.24% to £15,373k (2014: £15,184k). Income from the sale of water was £14,447k compared to £14,342k in 2014.

Measured water income now accounts for 87% of water revenue in 2015 compared to 85% in 2014. This is an increase of 3.4% in 2015 to £12,552k (2014: £12,140k). This increase in metered water revenue is due to an increase in metered properties arising from 506 new connections (2014: 403), the island wide metering programme and a 1.75% tariff increase.

Consequent to the metering programme unmeasured water income only accounts for 9% of water revenue compared to 11% in 2014. This revenue totalled £1,258k in 2015, compared to £1,639k in 2014.

Rechargeable works income totalled £533k in 2015 (2014: £484k). Increasing activity in the construction sector has contributed to the additional £49k with a 25% increase in the number of new connections to the network.

Operating expenditure

Operating costs in 2015 were £10,532k, an increase of £319k or 3.12% compared with £10,213k in 2014. The increase is attributable to additional water quality and compliance costs, increased electricity usage, higher pension costs and increases in hired in services expenditure.

Operating profit

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

Net finance costs

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

Profit before taxation

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

Income tax

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

Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 13.260 pence per share (2014: 13.000 pence). This brings the total paid and proposed dividend for 2015 to 19.946 pence per share, an increase of 2% on the previous year's dividend of 19.555 pence.

Dividends declared and paid	**2015 £'000**	2014 £'000
Previous year - final dividend	**1,256**	1,209
Current year - interim dividend	**646**	633
	£1,902	£1,842
Dividends proposed		
Current year - final dividend	**£1,281**	£1,256

Cash flow

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

Capital expenditure

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

Strategic report continued

Fixed assets

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

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

Investment properties

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

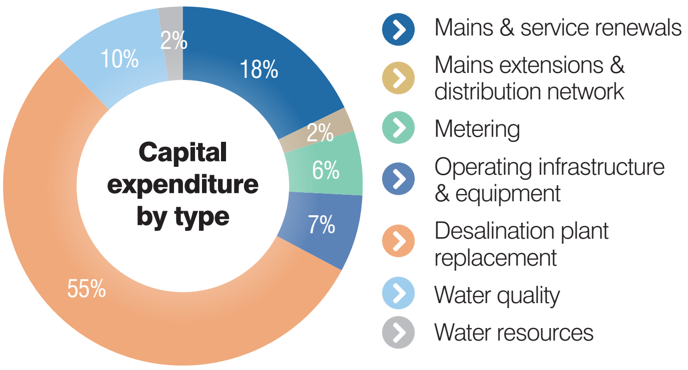
Loans and borrowing

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

In order to hedge against interest rate exposure on £5,250k of the borrowing due to mature in 2021, the Company holds an interest swap contract for the same nominal value and maturity. Under FRS 102 this derivative liability is stated at fair value at the reporting date on the statement of financial position at £286k, with a gain in the fair value of £65k being recognised in other comprehensive income for the year (2014: £328 loss on recognition of the liability).

Defined benefit pension scheme

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



Water quality

The quality of water supplied by the Company in 2015 was of a very high standard with an overall compliance rate of 99.99% with the water quality requirements of the Water (Jersey) Law 1972 (2014: 99.99%). During 2015, the Company carried out 14,246 regulatory analyses of treated water. Of these, just two were outside their respective regulatory parameter but posed no threat to health.

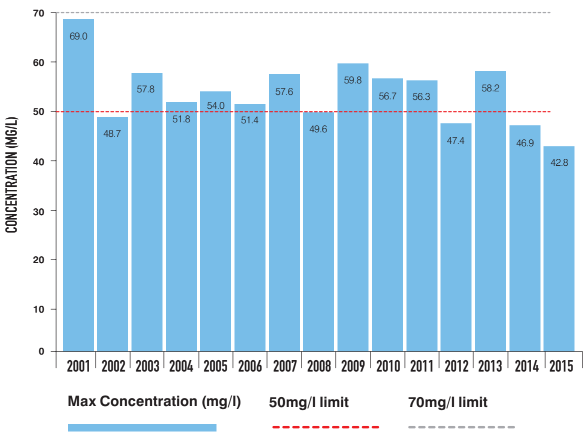
The bacteriological compliance of water leaving the treatment works was 100% (2014: 100%) and there were no instances of herbicides or pesticides exceeding regulatory limits in the treated water supplied.

During 2015, the maximum concentration of nitrates detected in treated water was 42.8mg/l; below the regulatory limit of 50mg/l and lower than the 2014 maximum of 46.9mg/l. The reduction in the maximum concentration was made possible by the careful dilution and blending of water resources and having a sufficient capacity of low nitrate water in store at the start of the year to enable concentrations in the treated water supply to be managed.

Whilst there have been two consecutive years where full compliance of nitrate limits in potable water has been achieved, the underlying problem is far from resolved. Nitrate pollution of stream water remained persistently high with the average concentration peaking at 65.7mg/l during March 2015.

During 2015, the Nitrate Working Group (comprising representatives from Jersey Water, the Environment Department, the Public Health Department, the Jersey Farmers Union, the Farming Community and the Royal Jersey Agricultural & Horticultural Society) concluded its work on identifying ways in which the nitrates pollution in Jersey could be reduced. The group made a number of recommendations that are to be taken forward by the States of Jersey under the Rural Economy Strategy and the Water Management Plan for Jersey (both due for publication during 2016). Given the significant impact that nitrates pollution has on water quality in the Island, it is vitally important that sufficient funding and resources are secured to implement the proposed measures to bring this long running issue to a close.

Maximum nitrates in treated water (mg/l)



Strategic report continued

Jersey Water has dispensations for nitrates under the Water (Jersey) Law 1972, which allows for a maximum concentration of 65mg/l and places additional restrictions on the number of samples exceeding the 50mg/l limit. The dispensation expires on 31 December 2016. Discussions are underway with the Environment Department regarding the potential for renewal of the dispensations for a further period pending the introduction and success of the measures referred to above.

During 2015, the Company detected pesticides in raw water sources at concentrations exceeding the regulatory limit of 0.1ug/l in 14 instances (2014: 15). Subsequent to the year end the Company changed its analyst laboratory which resulted in the inclusion, for the first time, of oxadixyl within the suite of pesticides that the Company analyses for.

Results indicate the presence of oxadixyl in water resources across the Island in concentrations of up to 0.582ug/l. Readings taken at the treatment works indicate that concentrations reached a maximum of 0.1008ug/l at Handois Water Treatment Works. Just over the regulatory limit of 0.1ug/l and presenting no risk to health. In addition to the presence of oxadixyl, the Company has also identified the presence of 3 other pesticides in raw water sources since the beginning of the year. The Company continues to manage the quality of the treated water supply through the careful selection and blending of water resources to ensure compliance with the 0.1ug/l regulatory limit.

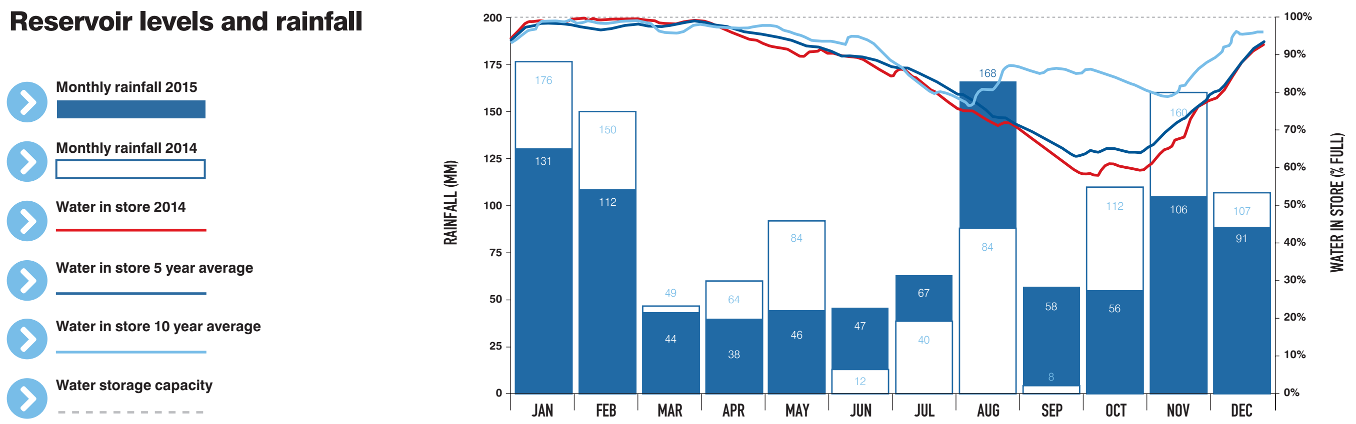
During the year, Jersey Water installed treatment processes at both water treatment works to help manage the risks to water quality arising from the historic use of lead in supply pipes and private pipework in customer properties. This follows a reduction in the limits for lead concentrations in supply from 25ug/l to 10ug/l. Jersey Water will continue to replace lead communication pipes whenever water mains are renewed and the Company will also replace lead communication pipes free of charge at the request of the customer, if the customer has or is in the process of removing lead pipework from their side of the stop tap.

Following on from the commissioning of the ultraviolet (UV) treatment plant at Handois Water Treatment Works in 2014, the plant at Augrès Water Treatment Works was commissioned in April 2015. UV treatment forms an integral part of the multi-stage water treatment and disinfection process to protect against organisms including pathogens and cryptosporidium.

During 2015, there were 131 water quality contacts (2014: 143) from customers relating to concerns about the quality of water supplied and 27 contacts (2014: 23) requesting information. Over 60% of contacts related to incidences of discoloured water which, whilst aesthetically displeasing, presents no risk to health. Discoloured water generally occurs when rust sediments from unlined cast iron and galvanised water mains are disturbed as a result of planned works or bursts. The primary purpose of the Company's mains renewal programme is the replacement of pipework that causes these problems.

In 2015, the Company Water Regulations Enforcement Officer undertook 483 inspections (2014: 515) of new and existing plumbing installations to assess and advise on compliance with the Water Fittings Byelaws. During 2015, a total of 27 rectification notices were issued (2014: 33).

Reservoir levels and rainfall



Strategic report continued

Water supply

Demand for water in 2015 was 7,294Ml, 3% higher than the previous year and a 2.7% increase on the five-year average. The increase can be attributed to the combined effects of a drier year than 2014, additional connections to the mains network and an increase in leakage in the year.

Rainfall in 2015 was 964mm, in line with the five year average but nearly 8% lower than the prior year. Rainfall patterns during the year were in line with the five year average until August when rainfall for the month was nearly three times the average. Thereafter, a drier than normal autumn and early winter ensued. With reservoirs at 93% capacity at the start of 2015, stocks of water remained in a healthy condition throughout the year and generally tracked the five year average until the heavy rainfall in August. After reaching a minimum level of 76% full in August, reservoir levels remained well above the average for the remainder of the year and reached 96% full by the end of December 2015.

As reported previously, during 2015 the Company began the replacement of the ageing standby reverse osmosis (RO) desalination plant which had reached the end of its operational life. The new plant will have 80% more capacity at 10.8Ml/day than the previous plant and takes advantage of the latest desalination technology enabling a 36% improvement in energy efficiency. The works include the installation of an additional pressure filter, replacement RO membranes, high pressure pumps and energy recovery equipment. The £6 million project will be completed in the early summer of 2016. The additional capacity of the plant will mean that it will be capable of supplying up to half of the Island's average daily demand for water.

Mains network

In 2015, we renewed 2.5km of water mains, predominantly in St Helier, the oldest part of our network. The renewal of mains involves not only the replacement of old, end of life, unlined cast iron or galvanised iron pipework, but also the service connections where they are made from old lead or galvanised material.

During the year Jersey Water made 506 new connections to its mains network, an increase of 25% on the previous year.

In 2015, we also extended the network through the addition of 1.3km of new mains feeding new connections. Of this 1.1km was funded by third parties and the balance by Jersey Water.

During 2015, the Company undertook a feasibility study into the extension of the mains water network into areas not previously supplied by the Company. As a result of the review, the Company has identified a number of schemes which would enable Jersey Water to resume a mains extension programme of approximately 2km per year for the foreseeable future, depending on the commitment from those properties along the proposed routes to connect to mains water when it is installed.

The number of burst mains on Jersey Water's network is very low. In 2015, there were 12 bursts, below the 5-year average and just one more than the prior year. The burst frequency can be attributed to the good condition of the mains network, favourable ground conditions in Jersey and the relatively mild weather.

During 2015, we began the process of zoning St Helier and the surrounding areas into District Metered Areas (DMA's). The creation of DMA's permits the measurement of water entering each zone and helps identify leakage and manage consumption. During this work we have also been renewing and installing new isolation valves, permitting more targeted and localised shut-offs in the event of planned maintenance or bursts.

Over the past five years, the Company has had considerable success in the reduction of leakage. In the five years to the end of 2014, leakage had reduced by 40% or nearly 10% of average daily demand. This reduction was achieved through a combination of the effects of metering, mains renewals, pressure reduction and active leakage detection. In 2015, leakage increased to an average of 3.22Ml/day compared to 3.01Ml/day in 2014. The increase of 7% on the prior year is largely attributed to the combined effects of several large leaks which went undetected for some time. Despite the increase in the year, leakage rates remain low relative to industry standards.

Strategic report continued

Customer service

In 2015, Jersey Water substantially completed the installation of meters on all mains water connections across the Island. During the year the Company installed 66 new meters as part of the metering programme, bringing the proportion of customers paying by meter or assessed volume charge to 89% in line with expectation. Work will continue to transfer the remaining customers onto metered tariffs or an assessed charge in 2016. Customers continue to benefit from metering; many customers have seen their bills reduce when transferring to meter, leakage on customer pipework is now easier to identify and all metered customers have the ability to control their bills by managing water consumption.

Now that the island wide metering programme is complete, the time has come when many of the early meters installed since the start of the metering programme in 2003 are reaching the end of their operating life. Accordingly in 2016 a programme of cyclical meter replacement will begin using more sophisticated meters with remote read technology.

In last year's annual report, the Company reported a tariff increase of 1.75% for 2015. The increase represented the 13th consecutive year in which tariff increases have been maintained at or below the prevailing rate of inflation. In February 2016, the Company announced a 2% increase in tariff, effective from April 2016. Whilst the increase is above the prevailing rate of inflation of 0.9%, it represents just an additional 2 pence per day for the average household and is necessary in order to counter the upward pressure on Jersey Water's costs which is not reflected in the retail price index. After taking the increase into account the real terms price of water has fallen by 10% in the previous 10 years.

During 2015, Jersey Water introduced a range of water saving devices that are available free of charge through its website. The Company offers customers a water saving pack including a shower timer, tap aerators, a shower head flow regulator and a toilet cistern bag. Included within the pack are detailed fitting instructions with links to videos on our website advising on water savings and the use of the free items. By using the water saving devices, customers are able to not only reduce their water bills but also control their energy bills by heating less water.

Customer satisfaction remained high during 2015. Based on the feedback from our SMS text messaging feedback tool we scored an average satisfaction rate of 95%, an increase on the 88% in 2014.

Employees

Jersey Water had 80 employees at the end of 2015 (2014:82) of which four work part time. Staff turnover remains low at 7.4% (2014:6.1%) and our short-term sickness absence rate in 2015 was 2% (2014: 5%).

During the year the Company had its biennial Investors in People (IIP) assessment. Whilst the Company had previously been awarded Silver standard accreditation in 2013, it had been our objective to achieve Gold standard before the end of 2017. Following the assessment, Jersey Water was awarded Gold Standard IIP status two years ahead of plan.

One of our key objectives is to ensure that Jersey Water is a great place to work. The Company carries out a staff satisfaction survey every two years and one was carried out in the summer of 2015. All Jersey Water employees were surveyed and 96% responded. They gave the Company a 93% employee engagement rating, one of the highest seen by the company undertaking the surveys on our behalf. As a result of the high level of employee engagement, Jersey Water entered, and was shortlisted as a finalist in the Employee Choice category of the national Employee Engagement Awards.

Jersey Water has a loyal workforce where the average length of service is 15 years. During 2015, long service awards were presented to David Bloomfield, our Business Systems and Project Manager who has completed 10 years' service; Terence Gosselin, a Treatment Works Plant Operator, who celebrated 20 years with the Company; David Connon, our Water Treatment Works Manager who has served 30 years; and Richard Harvey, an Operations Assistant, with 40 years' service.

With a long serving workforce there isn't always the opportunity for younger employees to develop and progress through the ranks. In order to avoid this potential issue, during 2015, Jersey Water launched its Talent Pipeline programme. The scheme provides employees with the tools and skills to take charge of their personal development, enabling them to maximise their potential in their existing role and their future career progression.

In addition to in-house employee development, Jersey Water also actively supports staff working towards professional qualifications. In 2015, Nadia Butel, our Office Administrator gained a CIPD Foundation certificate in Human Resources practice. Natalie Passmore, our Company Secretary and Chief Financial Officer, was the recipient of a "Business Skills Award" by Utilities and Service Industries Training Limited (USIT), a UK charity providing grants and bursaries for education and training for the utilities industry.

Strategic report continued

The nature of our work can sometimes be hazardous, so providing a safe working environment is our primary concern. During the year there were two minor 'time lost accidents' (defined in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR)). We review the circumstances surrounding all accidents to determine whether changes in practices or procedures are required to help prevent their reoccurrence. As part of our processes for continuous improvement, in 2015, the Company created a new post of Safety and Risk Manager whose role it is to consolidate Jersey Water's health & safety and contingency response processes.

Environment

Jersey Water is one of the largest landowners in Jersey, with property around the reservoirs and in our catchment areas. Many of these areas of land are open to the public or used by local clubs and associations for special events. We are proud to support organisations including Jersey Trees for Life, who manage the Arboretum at Val De La Mare, the Jersey Motor Cycle and Light Car Club, who use our tracks to stage events, and the Jersey Fresh Water Angling Association whose members use the Company's main reservoirs for fishing.

Community

Our David Norman Bursary Award is now in its seventh year and becoming increasingly popular. In 2015, we received a record number of applicants. The Company has now supported 7 students through their university studies to graduation and provided them with valuable paid work experience. The scheme is designed to assist local people embarking on a degree course in a subject related to the supply of water (e.g. engineering, environmental sciences, chemistry) and provides funding for one student each year for the duration of their degree course.

In 2015, the Company provided work experience placements and interview experience to clients of the Jersey Employment Trust, Project Trident, Workwise and Advance to Work scheme.

Music made a return to Val De La Mare Reservoir in 2015. The Folklore Festival was held in the area below the dam in June and proved to be a popular and well run event. The 2016 Folklore Festival is scheduled for 12th June and will again be hosted at Val De La Mare Reservoir.

Over the summer of 2015, the Island of Jersey hosted the Natwest Island Games. As an official partner of the games, Jersey Water, supplied over 5,500 commemorative drinking water bottles for all of the athletes and officials.
The Company also ensured that all venues and sporting events had ample supplies of water throughout the Games period. The Company continued its popular practice of supporting schools and charity events through the provision of drinking water bottles and logistical support in providing water at events.

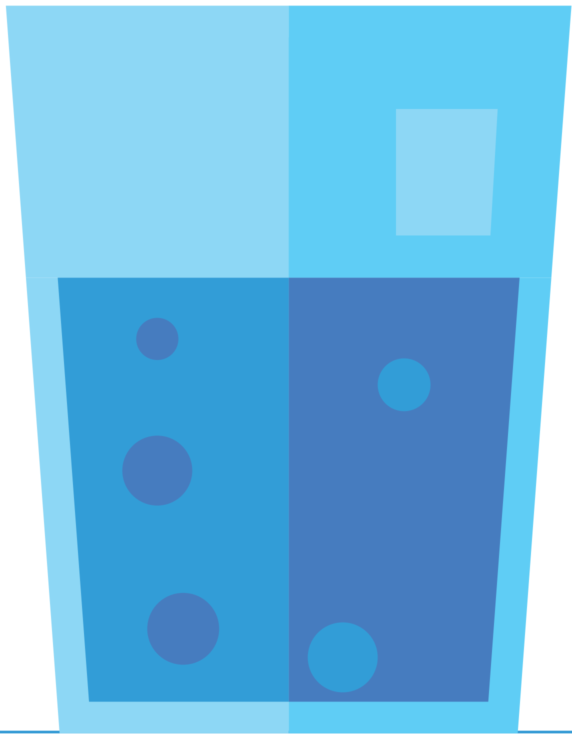
For 2015, Jersey Water staff selected the Donna Annand Melanoma Charity as the Company's 'Charity of choice' for the year. The Charity promotes the early detection of and protection against melanoma in Jersey. During the year Jersey Water employees raised a total of £3.85k for the charity which, after being matched by the Company meant a donation to them of £7.70k.

Jersey Water staff have selected Diabetes Jersey as their chosen charity for 2016. Diabetes Jersey works tirelessly to support the work of the Jersey Diabetes Centre and is the only Diabetes charity in Jersey.

For the second year running, Jersey Water will sponsor the National Trust for Jersey's 2016 Explore booklet which showcases the activities of the Trust and promotes their extensive calendar of events in 2016.

The Strategic Report was approved by the board on 18 March 2016 and signed on its behalf by

Helier Smith
Chief Executive



Corporate governance

Compliance with the UK Corporate Governance Code 2014

The Company has adopted the principles of good corporate governance and best practice set out in the UK Corporate Governance Code 2014 (the "Code"). The Board is of the opinion that, throughout the year under review, the Company has been in compliance with the main principles of the Code.

Directors and the Board

The Board

The Board comprises seven directors, one of whom is executive (Howard Snowden retired on 30 April 2015 resulting in only one executive director) and six of whom are non-executive directors. The Board has a schedule of regular meetings, normally between six and eight per year, with any additional meetings convened as and when required.

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.

Whilst maintaining oversight at regular meetings of the Board, the day to day operation of the Company has been delegated to the Executive. The Board is supplied with a sufficient level of regular, detailed and timely management information to allow it to discharge its functions efficiently.

Meetings and Committee membership

During the year, the Board met eight times. Details of attendance at Board meetings are provided in the table below:

	Board Meetings
Number of meetings in 2015	**8**
Tony Cooke	8
Mary Curtis	8
Tim Herbert (appointed 1 January 2015)	8
Stephen Kay	8
Helier Smith	8
Howard Snowden (retired 30 April 2015)	3
Liz Vince (appointed 1 January 2015)	8
Peter Yates	8

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. The Board has concluded that Tony Cooke, Mary Curtis, Stephen Kay, Tim Herbert and Liz Vince shall be deemed independent.

Peter Yates, as Chairman 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 the Company.

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. The Company has adopted a policy of requiring non-executive directors who have served on the Board for nine years or more to retire from the Board and seek re-election on an annual basis. Directors appointed to fill a casual vacancy must seek formal appointment by the shareholders at the next Annual General Meeting.

Relations with shareholders

The Company 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. The Company uses events such as the Annual General Meeting to interact with and hear the views of all shareholders. The Company monitors and reviews votes received and considers the need to further engage with shareholders in the event of significant opposing votes.

Corporate governance continued

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.

The Company 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 Turnbull guidance, and has been in place for the whole of the year, up to and including the date on which the financial statements are approved.

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

- **The review of 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;**
- **The receipt of confirmation from senior management of the proper operation of controls throughout the period of the review;**
- **The review and approval during the year of terms of reference of committees;**
- **The review and approval during the year of the schedule of matters specifically reserved for its attention;**
- **The review of 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 comprises Liz Vince (Chair appointed 1 January 2015), Tony Cooke and Stephen Kay.
The auditors, PricewaterhouseCoopers CI LLP, Executive Director(s), Helier Smith and Howard Snowden (retired 30 April 2015), and the Chief Financial Officer also attend the meetings by invitation. Details of meetings and attendance in 2015 are provided below:

	Audit Committee
Number of meetings in 2015	**3**
Tony Cooke	3
Stephen Kay	3
Liz Vince (appointed 1 January 2015)	3
Helier Smith*	3
Howard Snowden (retired 30 April 2015)	1

*by invitation

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

- **To monitor the integrity of the financial statements of the 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;**
- **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 internal financial and other controls and make recommendations for improvement where necessary;**
- **To oversee the external audit process and manage the relationship with the external auditors;**
- **To make recommendations to the Board as to the re-election and remuneration of the auditors at the annual general meetings based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.**

Corporate governance continued

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, not cost effective. This function is considered by the Committee on an annual basis.

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 Chief Financial Officer in advance of the year end on the significant issues pertaining to the financial statements and how they will be dealt with. These issues are generally focused on the areas of subjectivity in the financial statements (these include income recognition, pension scheme valuation assumptions, deferred tax and property valuations), changes in accounting or disclosure requirements and the accounting or disclosure implications of one-off events occurring in the year. Where necessary, the Committee considers evidence and independent third party advice on the key matters for consideration.

At the year end, the Committee reviews the financial statements and related announcements 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 whole 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 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.

Auditor reappointment and additional services

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.

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 the 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 16 of the financial statements.

Remuneration Committee

The Remuneration Committee currently comprises Mary Curtis (Chair), Tim Herbert (appointed 1 January 2015) and Peter Yates (appointed 1 January 2015). The Executive Director(s), Helier Smith and Howard Snowden (retired 30 April 2015), may also attend the meeting by invitation.

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

Details of meetings and attendance in 2015 are provided below:

	Remuneration committee
Number of meetings in 2015	**3**
Mary Curtis	3
Tim Herbert	3
Peter Yates	3
Helier Smith*	3
Howard Snowden* (retired 30 April 2015)	2

*by invitation

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

- **Review and determine the level of remuneration of executive director(s). Executive directors' remuneration is designed to promote the long term success of the Company and performance related elements are designed to be relevant and stretching, with the long-term success of the Company in mind;**
- **Review and determine the level of remuneration of the Senior Leadership Team;**
- **Review periodically the terms and conditions of employment of the Executive Director(s) and Senior Leadership Team;**
- **Make recommendations to the Board on the Company's overall framework of salaried staff remuneration and costs;**
- **Review and make recommendations to the Board concerning the remuneration of the Chairman (subject to approval by shareholders at the Annual General Meeting).**

Corporate governance continued

Nomination Committee

The Nomination Committee currently comprises Peter Yates (Chair), Tony Cooke, Mary Curtis, Stephen Kay, Tim Herbert (appointed 1 January 2015), and Liz Vince (appointed 1 January 2015). The Executive Director(s), Helier Smith and Howard Snowden (retired 30 April 2015) may also attend the whole or parts of meeting by invitation.

Details of meetings held and attendance in 2015 are included in the following table:

	Nomination committee
Number of meetings in 2015	**1**
Tony Cooke	1
Mary Curtis	1
Tim Herbert	1
Stephen Kay	1
Liz Vince	1
Peter Yates	1
Helier Smith*	1
Howard Snowden* (retired 30 April 2015)	0

*by invitation

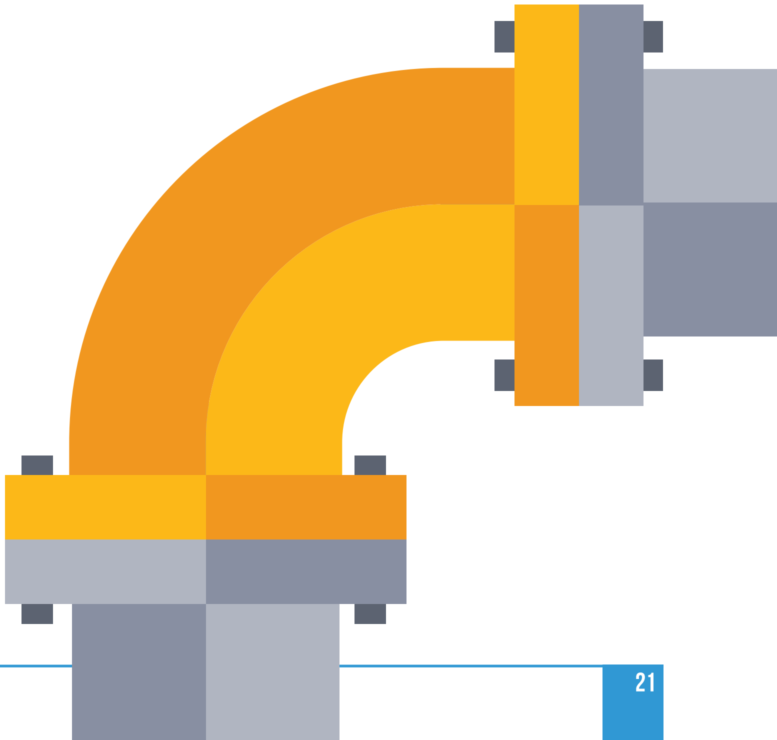
The Committee is primarily responsible for the selection and appointment of the Company's executive and non-executive directors as and when required.

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;**
- **Reviewing and making recommendations to the Board as to the succession planning for executive and non-executive directors;**
- **Regularly reviewing the structure, size and composition including the balance of skills and attributes required of the Board compared to its current position and making recommendations to the Board with regard to any changes;**
- **Keeping under review the leadership needs of the organisation, both executive and non-executive, including succession plans, with a view to ensuring the continued ability of the organisation to operate effectively.**

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. 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.

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 gender balance.



Directors' report

For the year ended 31 December 2015

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.

Dividends

Ordinary and 'A' ordinary shares

The Company paid an interim dividend of 6.686 pence per share on 25 November 2015 (2014: 6.555p). The Directors are proposing a final dividend on ordinary and 'A' ordinary shares for 2015 of 13.260 pence (2014: 13.000p), bringing the total dividend for 2015 to 19.946 pence per share (2014: 19.555p).

	2015 £'000	2014 £'000
Interim dividend paid	646	633
Final dividend proposed	1,281	1,256
	£1,927	£1,889

Preference shares

In 2015, the Company paid dividends on preference shares totalling £379k (2014: £381k).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved are detailed on page 3. All Directors were Directors of the Company throughout the year ended 31 December 2015.

Howard Snowden retired as an Executive Director on 31 March 2015 and retired as Non-Executive Director at the AGM held 30 April 2015.

In accordance with the provisions of Article 49 of the Company's Articles of Association, Peter Yates and Stephen Kay will retire by rotation at the forthcoming Annual General Meeting and offer themselves for re-election. Liz Vince is retiring from the Board and will not be seeking re-election.

As described on page 18, 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 Chairman. Following this review, the Chairman and Senior Independent Director have confirmed that the Directors standing for re-election at the Annual General Meeting continue to perform effectively and demonstrate commitment to their roles.

Directors' interests

Particulars of the holdings of the Directors, including family and beneficial interests, in the share capital of the Company as at 31 December 2015 are:

	Ordinary shares	Preference shares
Mary Curtis	3,938	-
Tony Cooke	4,080	-
Stephen Kay	500	-
Helier Smith	3,450	-
Peter Yates	3,938	-

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

Insurance of Directors and Officers of the Company

The Company 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 Company.

Significant shareholdings

Set out below are details of the significant voting rights (3% or more) in shares of the Company as at 18 March 2016.

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 PricewaterhouseCoopers CI LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

For and on behalf of the Board

Natalie Passmore
Company Secretary
18 March 2016

Directors' statements

Statement of Directors' responsibilities

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

Jersey Company Law 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 judgments and estimates that are reasonable and prudent;**
- **specify which generally accepted accounting principles have been adopted in their preparation; 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 financial 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 conducted this review for a period of three years in line with the Company's strategic business plan, for which the Company has sufficiently robust financial forecasts.

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 page 10. These were considered along with Company's financial resources, 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. Where relevant, 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.

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 three year period ending 31 December 2018.

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 18 March 2016 and signed on its behalf by

Peter Yates
Chairman

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

Report on the financial statements

We have audited the accompanying financial statements of The Jersey New Waterworks Company Limited (the "Company") which comprise the statement of financial position as of 31 December 2015, the income statement and statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards, including Financial Reporting Standards 102 "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with United Kingdom Accounting Standards, including FRS 102 and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

Report on other legal and regulatory requirements

We read the other information contained in the Annual Report and Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Directors, Officers and Advisors, Board of Directors, Chairman's Statement, Strategic Report, Corporate Governance, Directors' Report, Directors' Statements and Five Year Summary.

In our opinion the information given in the Directors' Report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Mark James
For and on behalf of
PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands

18 March 2016

Financial statements

Statement of financial position
31 December 2015

	Note	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Fixed assets					
Intangible assets	5	186		147	
Tangible assets	6	73,059		68,746	
			73,245		68,893
Current assets					
Inventories	7	480		476	
Trade receivables	8	3,100		3,226	
Cash		3,451		5,834	
		7,031		9,536	
Creditors - Amounts falling due within one year					
Creditors and accruals	9	(2,006)		(1,790)	
Bank loans	10	-		(3,650)	
Income tax		(674)		(781)	
		(2,680)		(6,221)	
Net current assets			4,351		3,315
Total assets less current liabilities			77,596		72,208
Creditors - Amounts falling due after more than one year					
Bank loans	10	(14,900)		(11,250)	
Derivative financial liability	11	(286)		(351)	
Non-equity preference shares	12b	(5,382)		(5,382)	
			(20,568)		(16,983)
Provisions for liabilities and charges					
Deferred taxation	13		(6,264)		(5,616)
Net assets excluding pension liability			50,764		49,609
Pensions asset / (liability)	14		1,279		(1,226)
Net assets			£52,043		£48,383
Capital and reserves					
Called up equity share capital	12a		4,830		4,830
Reserves			47,213		43,553
Total equity			£52,043		£48,383

The financial statements on pages 25 to 47 were approved by the Board of Directors on 18 March 2016 and were signed on its behalf by:

Peter Yates
Chairman

Financial statements

Income statement
For the year ended 31 December 2015

	Note	2015 £'000	2015 £'000	2014 £'000	2014 £'000
Turnover	15		15,373		15,184
Operating expenditure	16		(10,532)		(10,213)
Operating profit			4,841		4,971
Profit on disposal of fixed assets			9		1
Interest					
- receivable and similar income		15		22	
- payable and similar charges		(408)		(371)	
Net interest expense	18	(393)		(349)	
Non-equity dividends	19	(381)		(381)	
			(774)		(730)
Profit before taxation			4,076		4,242
Jersey income tax	20		(740)		(852)
Profit for the reporting period			£3,336		£3,390
Earnings per ordinary share of £0.5	21		£0.35		£0.35

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

Statement of comprehensive income
For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Profit for the reporting period		3,336	3,390
Fair value movement on swap	11	65	(328)
Re-measurements of net defined benefit liability/asset	14	2,716	(1,465)
Total income tax on components of other comprehensive income	20	(555)	358
Other comprehensive income for the year net of tax		£2,226	£(1,435)
Total comprehensive income for the year		£5,562	£1,955

Financial statements

Statement of changes in equity
For the year ended 31 December 2015

	Note	Called-up share capital	Revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
		£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2014		4,830	1,049	(19)	42,410	48,270
Profit for the reporting period		-	-	-	3,390	3,390
Other comprehensive income for the year		-	-	(262)	(1,173)	(1,435)
Total comprehensive income for the year		-	-	(262)	2,217	1,955
Equity dividends	22	-	-	-	(1,842)	(1,842)
Balance as at 31 December 2014		**£4,830**	**£1,049**	**£(281)**	**£42,785**	**£48,383**
Balance as at 1 January 2015		4,830	1,049	(281)	42,785	48,383
Profit for the reporting period		-	-	-	3,336	3,336
Other comprehensive income for the year		-	-	52	2,174	2,226
Total comprehensive income for the year		-	-	52	5,510	£5,562
Equity dividends	22	-	-	-	(1,902)	(1,902)
Balance as at 31 December 2015		**£4,830**	**£1,049**	**£(229)**	**£46,393**	**£52,043**

Financial statements

Cash flow statement
For the year ended 31 December 2015

	Note	2015 £'000	2014 £'000
Net cash from operating activities	23	**7,389**	7,493
Jersey income tax paid		**(755)**	(675)
Net cash generated from operating activities		**6,634**	6,818
Cash flow from investing activities			
Purchase of fixed assets			
Disposal of fixed assets		**(6,388)**	(3,009)
Net cash used in investing activities		**9**	1
		(6,379)	(3,008)
Cash flow from financing activities			
Interest paid			
Interest received		**(372)**	(371)
Term deposit		**15**	20
Non-equity dividends paid		**-**	3,500
Equity dividends paid		**(379)**	(381)
Net cash (used in) / generated from in financing activities		**(1,902)**	(1,842)
		(2,638)	926
(Decrease) / increase in cash and cash equivalents		**(2,383)**	4,736
Cash and cash equivalents at the beginning of the year		**5,834**	1,098
Cash and cash equivalents at the end of the year		**£3,451**	£5,834

Notes to the financial statements

1 General information

The Jersey New Waterworks Company Limited (the "Company") supplies potable mains water to the Island of Jersey.

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.

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 Jersey Company Law.

3 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The Company has adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 27.

Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention, as modified for the revaluation of investment properties and 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.

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 Section on pages 8 to 17 and in notes 10 and 11. The Company has a wide and varied customer base within Jersey, steady demand for its products and services and a stable and well established treatment and distribution network.
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore selected the going concern basis of accounting in preparing the financial statements.

Turnover

Revenue is measured at the fair value of the consideration received or receivable. Turnover represents the total value of water charges net of goods and service tax (GST), together with minor contracts and rental income. Income from minor contracts 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.

Water charges

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

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. Inventory is recognised as an expense in the period in which the related revenue is recognised.

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.

Intangible assets

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

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

Intangible fixed assets under construction or development are recognised as 'Intangible Uncompleted Works' until such time as they are first brought into use. At this point the asset is transferred to 'Software' and amortisation commences. Subsequent qualifying expenditure is transferred directly to 'Software'.

Notes to the financial statements continued

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 first brought into use. At this point the asset is transferred to 'Property and Completed Works' and depreciation commences. Subsequent qualifying expenditure is transferred directly to 'Property and Completed Works'.

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	10 years

In 2015 the Company reviewed the useful economic lives of certain assets within 'Property and Completed Works'. Following the review, fittings with a cost of £3,988k and net book value of £2,732k were re-categorised to extend their useful economic lives to reflect the expected date of replacement of the assets, reducing the depreciation charge on these assets by £52k in 2015 and £207k in 2016 (representing the annual decrease in depreciation charge). In addition, the useful economic life of certain water meters was decreased in line with expected usage, increasing the depreciation charge by £44k in 2015 with an anticipated increase of £177k in 2016 (representing the annual increase in depreciation charge). The revisions were accounted for prospectively with effect from 1 October 2015.

Investment property

Certain of the Company's properties originally acquired for business purposes, or otherwise used within the business, are no longer so used and are now held for investment purposes. These properties are treated as investment properties and are accounted for at fair value at the reporting date with changes in fair value recognised in the income statement. The fair value at the reporting date is the open market value of each investment property. No depreciation is provided in respect of freehold investment property.

Cash and cash equivalents

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

Notes to the financial statements continued

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. The impairment reversal is recognised in the income statement.

(ii) Financial liabilities

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

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

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

(iii) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in 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 directly in equity. 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 statement of other comprehensive income.

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

(iv) Offsetting

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

Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

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

(ii) Deferred tax

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

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

Notes to the financial statements continued

Employee Benefits

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

(i) Short term benefits

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

(ii) Defined contribution pension scheme

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

(iii) Defined benefit pension scheme

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

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

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

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

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

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

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

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

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

Exceptional items

The Company classifies certain one-off charges or credits that have material impact on the Company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Company.

4 Critical accounting 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.

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.

(i) Useful economic lives of tangible assets

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

(ii) Inventory provision

Inventory is assessed at the end of each reporting period for impairment, recognising an impairment loss where there is evidence of damage, obsolescence or decline in recoverable value. The item will be measured at its selling price less costs to sell. See note 7 for the carrying amount of inventory and associated provision.

(iii) Unbilled income accrual

The Company invoices its customers daily on a cyclical basis. On average customers will receive a bill covering a 90 day period. The Company makes an estimate of income due on unbilled water consumption at the reporting date. See note 8 for the carrying amount of accrued income.

(iv) 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 depend 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 14 for disclosures relating to the defined benefit pension scheme and estimates used.

Notes to the financial statements continued

5 Intangible assets

	Software	Intangible uncompleted works	Total
Cost	**£'000**	**£'000**	**£'000**
Brought forward	470	79	549
Additions	56	28	84
Disposals	(17)	-	(17)
Transfers	42	(42)	-
Carried forward	**£551**	**£65**	**£616**
Amortisation	**£'000**	**£'000**	**£'000**
Brought forward	(402)	-	(402)
Charge for the year	(45)	-	(45)
Disposals	17	-	17
Carried forward	**£430**	**£ -**	**£430**
Net book value			
Bought forward	£68	£79	£147
Carried forward	**£121**	**£65**	**£186**

There are no individually material software assets within intangible assets as at 31 December 2015 (2014: nil).

6 Tangible assets

	Property and completed works	Freehold investment property	Tangible uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Cost or valuation					
Brought forward	97,395	1,070	640	2,236	101,341
Additions	1,793	-	4,541	193	6,527
Disposals	(315)	-	-	(124)	(439)
Transfers	377	-	(377)	0	-
Carried forward	**£99,250**	**£1,070**	**£4,804**	**£2,305**	**£107,429**
Depreciation					
Brought forward	(30,842)	-	-	(1,753)	(32,595)
Charge for the year	(2,027)	-	-	(187)	(2,214)
Disposals	315	-	-	124	439
Carried forward	**£(32,554)**	**£ -**	**£ -**	**£(1,816)**	**£(34,370)**
Net book value					
Brought forward	£66,553	£1,070	£640	£483	£68,746
Carried forward	**£66,696**	**£1,070**	**£4,804**	**£489**	**£73,059**

Included within fixed assets is £160k (2014: £145k) relating to internal labour costs capitalised in the year.
At 31 December 2015 capital commitments contracted for amounted to £1,388k (2014: £212k).

Notes to the financial statements continued

Market value of freehold investment properties

The Company owns two freehold residential investment properties.

The freehold investment properties were valued in 2013 by an external valuer, CB Richard Ellis Limited, on the basis of open market value in accordance with the requirements of the RICS Appraisal and Valuation Standards. The properties, which had a combined net book value of £1,241k, were revalued as at 31 December 2013 at £1,070k.

Based on an assessment of the condition of the properties and of market conditions as at 31 December 2015, the Company has determined that there is no indication of any material change in value of any of the investment properties since the 2013 valuation.

7 Inventories

	2015 £'000	2014 £'000
Inventory	**1,008**	1,006
Provision for impairment	**(528)**	(530)
	£480	£476

8 Trade receivables

	2015 £'000	2014 £'000
Trade debtors	**1,203**	1,479
Prepayments	**422**	276
Accrued income and other debtors	**1,475**	1,471
	£3,100	£3,226

9 Creditors and accruals

	2015 £'000	2014 £'000
Trade payables	**639**	574
Other creditors	**348**	472
Contract retentions	**252**	4
Accruals and deferred income	**767**	740
	£2,006	£1,790

Notes to the financial statements continued

10 Bank loans

	Repayment Dates	2015 £'000	2014 £'000
Facilities drawn down			
HSBC Bank plc	2015	-	3,650
HSBC Bank plc	2021	5,250	5,250
HSBC Bank plc	2023	6,000	6,000
HSBC Bank plc	2025	3,650	-
		£14,900	£14,900

	2015 £'000	2014 £'000
Loans falling due within one year	-	3,650
Loans falling due between one and two years	-	-
Loans falling due after two years but less than five years	-	-
Loans falling due after five years	14,900	11,250
	£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.

In 2015 facilities totalling £3,650k due for repayment in February 2015 were renewed for a further period of ten years and are now due for repayment in 2025.

11 Financial instruments

The Company has the following financial instruments:

	2015 £'000	2014 £'000
Financial assets at fair value through profit or loss	-	-
Financial assets that are debt instruments measured at amortised cost	1,231	1,523
Financial assets that are equity instruments measured at cost less impairment	-	-
Financial liabilities at fair value through profit or loss	286	351
Financial liabilities that are measured at amortised cost	21,835	21,587
Financial assets that are equity instruments measured at cost less impairment	-	-

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 of the swap at reporting date is £286k (2014: £351k).

HSBC Bank plc valued the derivative on 31 December 2015 as a liability of £286k (2014: £351k), generating a gain in comprehensive income in the year of £65k. (2014: £328k loss).

Notes to the financial statements continued

12 Share capital

a) Equity share capital

	Shares of £0.5 each '000	2015 £'000	2014 £'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

		2015 £'000	2014 £'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.

Notes to the financial statements continued

13 Deferred taxation

	Note	2015 £'000	2014 £'000
Accelerated capital allowances		6,067	5,930
Derivative financial liabilities		(62)	(75)
Liability / (asset) arising from pension surplus/deficit		254	(244)
Net liability		£6,259	£5,611
Brought forward		5,612	5,872
Amounts charged in the income statement	20a	134	106
Amounts charged in comprehensive income	20b	513	(367)
At 31 December		£6,259	£5,611

The net deferred tax liability expected to reverse in 2016 is £312k. This relates to the reversal of timing differences on fixed assets.

14 Pensions

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

The defined contribution scheme and defined benefit scheme are both sections of The Jersey Water Pension 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.

Following the year end the defined contribution scheme was transferred into the Blue Riband Channel Islands Retirement Plan. The new arrangement is established and administered under a "Master Trust" arrangement by BWCI Pension Trustees Limited.

Defined contribution section

The defined contribution section of the plan was opened to new members on 1 May 2003. Employer contributions during the period to 31 December 2015 totalled £155k (2014: £86k). The defined contribution scheme section of closed to new entrants with effect from 31 December 2015, at which point contributions into the scheme ceased. Contributions following the year end were made to the Blue Riband Channel Islands Retirement Plan.

Defined benefit section and unfunded scheme

The full actuarial valuation as at 31 December 2015 shows a net surplus of £1,279k compared to a deficit of £1,226k at 31 December 2014.

Notes to the financial statements continued

The major assumptions used by the actuary were:

	2015	2014
Rate of increase in salaries	2.48%	3.61%
Rate of increase in pensions accrued after 1 January 1999	2.48%	3.36%
Discount rate	3.77%	3.46%
Inflation assumption	2.48%	3.61%
Life expectancy assumptions		
Current pensioners at 65 - Male	88	88
Current pensioners at 65 - Female	91	91
Future pensioners at 65 - Male	91	91
Future pensioners at 65 - Female	93	94

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

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

	Assets £'000	Liabilities £'000	Total £'000
Reconciliation of the present value of scheme assets and liabilities			
At 1 January 2015	24,485	(25,711)	(1,226)
Benefits paid	(959)	959	-
Employer contributions	246	-	246
Current service costs	-	(420)	(420)
Employee contributions	72	(72)	-
Past service costs	-	-	-
Interest income / (expense)	836	(873)	(37)
Re-measurement gains/ (losses)			
- Actuarial gains / (losses)	-	3,085	3,085
- Return on plan assets excluding interest income	(369)	-	(369)
As at 31 December 2015	£24,311	£(23,032)	£1,279

	Assets £'000	Liabilities £'000	Total £'000
Analysis of funded and wholly unfunded scheme assets and liabilities			
Funded scheme	24,311	(22,994)	1,317
Wholly unfunded scheme	-	(38)	(38)
Total present value of scheme liabilities	£24,311	£(23,032)	£1,279

Notes to the financial statements continued

Total cost recognised as an expense within the income statement

	2015 £'000	2014 £'000
Current service cost	(420)	(332)
Interest (expense) / income within net interest expense	(37)	3
Total	£(457)	£(329)

Current service costs, 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 (2014: nil) were included in the cost of the assets.

Total income/(expense) recognised with other comprehensive income

	2015 £'000	2014 £'000
Re-measurement gains / (losses)		
- Actuarial gains / (losses)	3,085	(3,845)
- Return on plan assets excluding interest income	(369)	2,380
Total re-measurement gains / (losses)	£2,716	£(1,465)

Analysis of scheme assets	2015 % of total fair value of scheme assets	2014 % of total fair value of scheme assets
Equities	32%	33%
Property	7%	6%
Corporate bonds	58%	58%
Cash and receivables	3%	3%
	100%	100%

The fair value of the plan assets was:	2015 £'000	2014 £'000
Equities	7,848	7,959
Property	1,621	1,512
Corporate bonds	14,198	14,263
Cash and receivables	644	751
	£24,311	£24,485

Notes to the financial statements continued

Return on plan assets:	2015 £'000	2014 £'000
Interest income	836	951
Return on plan assets less interest income	(369)	2,380
Total return on plan assets	£467	£3,331

Funding of the defined benefit pension scheme
The actual funding of the defined benefit pension scheme is determined by the triennial actuarial valuation and this differs from the amount that is required to be charged to the income statement under FRS 102. During the year, the Company made scheduled retirement benefit contributions into the defined benefit scheme totalling £246k (2014: £272k).

Following the results of the last actuarial valuation as at 1 January 2015, the contribution rate for 2015, 2016 and 2017 was set at 14.9% of pensionable salaries (after an initial three month period of 15.1%).

15 Turnover

	2015 £'000	2014 £'000
Measured water charges	12,552	12,140
Unmeasured water charges	1,258	1,639
Service charges and other charges for water	637	563
Total water supply charges	14,447	14,342
Rechargeable works income	533	484
Other income	393	358
Turnover	£15,373	£15,184

16 Operating expenditure

	2015 £'000	2014 £'000
Included in operating expenditure are the following:		
Net employment costs	3,806	3,668
Impairment of inventory	(2)	81
Amortisation & depreciation	2,259	2,209
Materials, consumables, hired in services and other costs	4,290	4,094
Directors' fees	120	104
Auditors' fees - Statutory audit	48	46
- Other services (Tax compliance)	5	5
- Other services (Pension scheme audit)	6	6
Total operating expenditure	£10,532	£10,213

Notes to the financial statements continued

17 Net employment costs

	2015 £'000	2014 £'000
Wages, salaries and other payments	3,199	3,203
Social Security	192	192
Pension contributions	575	418
	3,966	3,813
Less amount capitalised within fixed assets	(160)	(145)
Net employment costs	£3,806	£3,668

18 Net interest expense

a) Interest receivable

	2015 £'000	2014 £'000
Bank interest received	15	19
Net interest income on pension obligations	-	3
Total interest payable and similar charges	£15	£22

b) Interest payable and similar charges

	2015 £'000	2014 £'000
Bank loans and overdrafts	275	275
Net interest expense on pension obligations	37	-
Interest rate swap contract	96	96
Total interest payable and similar charges	£408	£371

Notes to the financial statements continued

19 Non-equity dividends

	2015			2014		
	Paid	Payable	Charge for the year	Paid	Payable	Charge for the year
	£'000	£'000	£'000	£'000	£'000	£'000
5% cumulative preference shares	2	-	4	4	-	4
3.5% cumulative second preference shares	1	2	3	2	1	3
3% cumulative third preference shares	3	-	3	3	-	3
3.75% cumulative third preference shares	2	-	2	2	-	2
5% cumulative third preference shares	2	-	2	2	-	2
2% cumulative fourth preference shares	7	-	7	7	-	7
10% cumulative fifth preference shares	360	-	360	360	-	360
Total dividends on non-equity shares recognised in the year	£379	£ 2	£381	£380	£ 1	£381

20 Jersey income tax

a) Tax expense included in the income statement

	2015 £'000	2014 £'000
Current tax		
Income tax on the profit for the year	606	746
Deferred tax		
Charge for the year	134	106
Total tax profit on ordinary activities	£740	£852

b) Tax expense / (income) included in other comprehensive income

	2015 £'000	2014 £'000
Current tax		
Current tax movement allocated to actuarial gains	42	9
Deferred tax		
Movement on deferred tax relating to interest rate swap	13	(66)
Movement on deferred tax relating to pension deficit	500	(301)
Total tax expense / (income) included in other comprehensive income	£555	£(358)

Notes to the financial statements continued

Factors affecting tax charge for year

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

	2015 £'000	2014 £'000
Profit before tax	£4,076	£4,242
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	815	848
Tax at 20% on:		
Depreciation for the period in excess of capital allowances	(22)	22
Capital expenditure, deductible for tax purposes	(261)	(200)
Profit on sale of fixed assets	(2)	-
Dividends on non-equity shares non-deductible	76	76
Current tax charge for year	£606	£746

21 Earnings per ordinary share

Earnings per ordinary share of £0.35 (2014: £0.35) is based on earnings of £3,336k (2014: £3,390k), being the profit available for distribution to equity shareholders and 9,660,000 (2013: 9,660,000) ordinary and 'A' ordinary shares of £0.5 in issue.

22 Equity dividends

Ordinary and 'A' Ordinary shares

	2015 Pence per share	2014 Pence per share	2015 £'000	2014 £'000
Dividends paid				
Final dividend for the previous year	13.000	12.516	1,256	1,209
Interim dividend for the current year	6.686	6.555	646	633
	19.686	19.071	£1,902	£1,842
Dividends proposed				
Final dividend for the current year	13.260	13.000	£1,281	£1,256

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.

Notes to the financial statements continued

23 Notes to the statement of cash flows

	2015 £'000	2014 £'000
Profit for the reporting period	3,336	3,390
Tax on profit on ordinary activities	740	852
Non-equity dividends	381	381
Net interest expense	393	349
Profit on sale of fixed assets	(9)	(1)
Operating profit	4,841	4,971
Depreciation	2,259	2,209
Change in order to bring pension charges onto a contribution basis	174	48
(Increase) / decrease in inventories	(4)	79
Decrease in trade receivables	57	382
Increase / (decrease) in creditors	62	(196)
Net cash from operating activities	£7,389	£7,493

24 Directors' emoluments

	Salary	Bonus	Fee	Benefits	Total emoluments (Excluding pension contributions)	
					2015	2014
	£'000	£'000	£'000	£'000	£'000	£'000
Executives						
Howard Snowden	36	-	2[1]	11	49	187
Helier Smith	138	23	-	5	166	158
Non-Executives						
Tony Cooke	-	-	19	-	19	18
Mary Curtis	-	-	19	-	19	18
Tim Herbert			19		19	-
Stephen Kay	-	-	19	-	19	18
Kevin Keen	-	-	-	-	-	25
Liz Vince			19	-	19	-
Peter Yates	-	-	26	-	26	18

During the year the Company made pension contributions of £5k in respect of Mr Snowden and £13k in respect of Mr Smith.

Benefits for Mr Snowden consisted of full expenses for the motor car, private health care, prolonged disability and death in service insurance. Benefits for Mr Smith consist of motor fuel, private health care, prolonged disability and death in service insurance.

[1]Mr Snowden retired as an Executive on 31 March 2015 and retired from the Board at the Annual General Meeting on 30 April 2015.

Notes to the financial statements continued

25 Related party transactions

The Company has identified the following material related party transactions:

Counterparty	Value of goods & services supplied by Jersey Water		Value of goods & services purchased by Jersey Water		Amount due to Jersey Water		Amount due by Jersey Water	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000	**2015 £'000**	2014 £'000
The States of Jersey	**878**	1,031	**57**	46	**55**	152	**1**	1
Andium Homes Limited	**1,143**	1,124	**-**	-	**223**	296	**-**	-
The States of Jersey Development Company Limited	**20**	27	**-**	-	**-**	4	**-**	-
Jersey Electricity Plc	**107**	113	**987**	886	**10**	10	**113**	88
JT Group Limited	**21**	23	**58**	67	**1**	2	**-**	5
Jersey Post International Limited	**5**	5	**140**	98	**-**	-	**2**	2
Ports of Jersey*	**144**	167	**-**	-	**9**	17	**-**	-

*registered company September 2015. Comparative amounts were previously included as part of The States of Jersey.

The States of Jersey is the Company's majority and controlling shareholder. Jersey Electricity Plc is majority owned and controlled by the States of Jersey. Andium Homes Limited, JT Group Limited and Jersey Post International Limited are all wholly owned by the States of Jersey. All transactions are undertaken on an arm's length basis.

In addition to the transactions included above with the States of Jersey, the Company made payments of income tax, social security, GST, water resource licence fees and other statutory payments.

The Company leases the site of the La Rosière Desalination plant from the States of Jersey on a 99 year lease ending in 2067. Under the terms of the lease, the rental, which for 2015 was £30k (2014: £30k) (included in the above table), increases every five years in line with the movement on the Jersey Retail Price Index.

26 Ultimate controlling party

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

Notes to the financial statements continued

27 Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under the old UK accounting standards were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the reporting period ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between old UK accounting standards as previously reported and FRS 102.

Reconciliation of equity

	Note	At 1 January 2014 £'000	At 31 December 2014 £'000
Equity as previously stated		48,289	48,665
Recognition of derivative financial instruments	i	(23)	(351)
Deferred tax impact of adjustments			
- Derivative financial instruments	i	4	70
Rounding on conversion		-	(1)
FRS 102 equity		£48,270	£48,383

Profit for the reporting period

	Note	2014 £'000
Profit as previously reported		3,656
Defined benefit pension scheme	ii	(332)
Current tax impact of defined pension scheme adjustment	ii	66
FRS 102 profit for the reporting period		£3,390

(i) Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK accounting standards the Company did not recognise these instruments in the financial statements. In October 2011 the Company entered into an interest rate swap contract with HSBC in order to hedge against interest rate exposure on the £5,250k loan. The swap meets the criteria in section 12 of FRS 102 for hedge accounting, which has been applied on the date of transition.

Accordingly at transition a liability of £23k (representing the fair value of the interest rate swap) and a cash flow hedge reserve within equity was recognised. During the transition year a loss of £328k was recognised in the statement of comprehensive income of £328k increasing the liability to £351k as at 31 December 2014.

Deferred tax credit of £4k representing 20% of the liability was recognised at 1 January 2014. In the year ending 31 December 2014 a further £66k was recognised in the statement of comprehensive income, increasing the total credit to £70k.

(ii) Defined benefit pension scheme

Under previous UK accounting standards the Company recognised an expected return on defined benefit plan assets in the income statement. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the income statement. There has been no change in the defined benefit liability at either 1 January 2014 or 31 December 2014. The effect of the change has been to reduce the credit to income statement in the year to 31 December 2014 by £332k and reduce the current tax relief from reserves by £66k and increase the net credit in other comprehensive income by an equivalent amount of £266k.

Notes to the financial statements continued

Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year, the following adjustments have arisen which have had no effect on net equity or comprehensive income but which have affected the presentation of these items in the statement of financial position.

(a) Intangible fixed assets

Computer software and intangible uncompleted works, with a net book values of £69k and £79k respectively at 1 January 2014, have been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the Company's net assets nor on the profit for the year except that the previous depreciation charge is now described as amortisation.

(b) Cash and statement of cash flows

The Company's cash flow statement reflects the presentation requirements of FRS 102, which are different to those under FRS1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK accounting standards the cash flow statement reconciled to cash. Under FRS 102, the definition of cash and cash equivalents is less restrictive than the definition under FRS 1 of old UK accounting standards, and includes fixed terms deposits and highly liquid investments where these are readily convertible and unlikely to change significantly in value. Under FRS 102 the Company includes cash and cash equivalents amounts held on deposit for fixed terms of up to 3 months. This has no effect on the Company's equity or profit for the year.

(c) Pension liability

Under FRS 102 the deferred tax liability of £56k at 1 January 2014 arising on the defined benefit pension liability is now included within deferred tax on the statement of financial position. Under the previous UK accounting standards, and applying FRSs 17 and 19, the deferred liability was offset against the liability. This has no effect on the Company's equity or profit for the year.

(d) Statement of changes in equity

A statement of changes in equity is now presented as a primary financial statement.

(e) Terminology

The terminology used in FRS 102 is different to the terminology used in old UK accounting standards. The main differences are listed below:

Old UK accounting standards	FRS 102
Balance sheet	Statement of financial position
Capital and reserves	Equity
Profit and loss account	Income statement & Statement of comprehensive income
Stock	Inventory
Debtors	Trade receivables

Five year summary

	Units	2015[1]	2014[1]	2013	2012	2011
Statement of financial position						
Total equity	£'000	**52,043**	48,383	48,289	46,384	44,756
Net debt	£'000	**17,119**	14,780	15,684	17,629	18,885
Income statement						
Turnover	£'000	**15,373**	15,184	14,916	14,609	14,811
Operating profit (before exceptional items)	£'000	**4,841**	4,971	4,800	4,760	4,858
Profit before tax	£'000	**4,074**	4,242	4,318	4,486	4,961
Profit for the reporting period	£'000	**3,336**	3,390	3,438	3,697	4,581
Equity dividends paid[2]	£'000	**1,902**	1,842	1,789	1,744	1,671
Financial statistics & ratios						
Capital expenditure	£'000	**6,611**	2,880	2,878	2,905	5,574
Net cash inflow / (outflow)	£'000	**(2,385)**	4,736	(1,555)	1,257	(252)
Earnings per share[3]	£	**0.35**	0.35	0.36	0.38	0.47
Dividend cover[2]	Times	**1.8**	1.8	1.9	2.1	2.7
Interest cover	Times	**6.3**	6.6	5.6	5.7	6.2
Gearing[4]	%	**40**	42	42	44	45
Operational statistics						
Total water supplied	Ml	**7,294**	7,080	7,047	7,015	7,152
Maximum daily demand	Ml	**25.0**	24.0	24.8	23.4	24.7
Annual rainfall	mm	**964**	1,045	939	1,089	773
New mains laid	km	**0.2**	1.6	1.5	1.5	2.0
Mains re-laid/ relined	km	**2.5**	3.5	2.5	2.1	4.0
New connections	No	**506**	403	406	349	492
Live unmeasured supplies	'000	**5**	6	10	13	18
Live metered connections	'000	**32**	31	28	24	20
Employees	No	**80**	82	80	79	83
Water quality						
% Compliance with water quality parameters		**99.99%**	99.99%	99.84%	99.99%	99.81%

[1] Current and prior year results have been calculated using FRS 102; results for 2011, 2012 & 2013 are based on the previous UK accounting standards.

[2] Equity dividends and the calculation of dividend cover exclude the special dividend paid in 2010.

[3] Comparatives have been restated to reflect the bonus dividend and share subdivision in 2011.

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

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