Jersey Water

2017

Annual Report and Financial Statements

The Jersey New Waterworks Company Limited

R.81/2018

Contents

Board of Directors

Non-Executive

Chairman
Peter Yates
BSc, FCA

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

Mary Curtis
MA, Chartered FCIPD, CDir

Tim Herbert
MA (Oxon)

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

Heather MacCallum
BA,CA

Daragh McDermott
BBS, FCA, FCIS, GDL, CDir

Executive

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

Finance Director
Natalie Passmore
MA (Hons), ACA, CMgr MCMI, Dip IoD
(appointed 11 May 2017)

Officers and Advisers

Secretary

Louisa McInnes
TEP
(appointed 11 May 2017)

Natalie Passmore
MA (Hons), ACA, CMgr MCMI, Dip IoD
(resigned 11 May 2017)

Independent Auditor

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

Registered Office

Mulcaster House
Westmount Road
St Helier
Jersey, JE1 1DG

Peter Yates *BSc, FCA*

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

Peter 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. Tony 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. Tony is a Trustee of Utilities and Service Industries Training Ltd, a Trustee of a pension fund and an independent utilities consultant.

Tony 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. Mary 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). She is a Trustee for the Durrell Wildlife Conservation Trust.

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

Tim Herbert *MA (Oxon)*

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

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

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

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

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

Heather MacCallum *BA, CA*

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

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

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

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

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

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

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

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

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

Chairman’s Statement

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

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

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

In 2015, we began the £6.6 million upgrade of the desalination plant, increasing the capacity of the plant from 6.4Ml/day to 10.8Ml/day and improving the energy efficiency by 36%. During 2017, final commissioning works were completed by the contractor and in May 2017, takeover tests were passed, subject to the resolution of a number of matters. The remaining contractual performance tests, which will mark the completion of the project, are scheduled to take place during 2018.

In 2017, we laid 2.1km of replacement mains, installed 1.9km of new mains extensions and added 303 connections to the network.

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

We continue to work closely with the States of Jersey Environment Department and the Farming Community through the Action for Cleaner Water group. We welcomed a number of voluntary initiatives by farmers to reduce the volume of nitrates and restrict the use of pesticides in Jersey Water catchments. Nitrates in both untreated and treated water during 2017 were at lower levels than 2016 and there were fewer incidents of pesticides in untreated water than during 2016. These positive results will also have been as a consequence of the unusually low rainfall during the 2017 growing period. Sustained improvements over a number of years (of all-weather types) will be needed before the effectiveness of the initiatives can be assessed. In 2017, the States of Jersey made amendments to the Water (Jersey) Pollution Law 2005 to introduce the regulatory measures necessary to protect catchments from diffuse nitrate pollution as set out in the Water Plan for Jersey. We welcome these changes and look forward to a prompt implementation of catchment orders, the appointment of a States of Jersey Catchment Officer and an update of the Pesticides (Jersey) Law 1991, all included as actions within the plan for 2017/18. In addition to our work with external stakeholders, we also made progress on a number of internal water quality initiatives including planning for the reservoir bypass at Val de la Mare, the installation of water quality monitoring equipment and enhancements to our water quality policies and processes.

We were very pleased to announce the agreement to purchase the water tankering business, De La Haye Plant Limited, towards the end of 2017.

I can report that following regulatory approval, the purchase was successfully completed in February 2018. Whilst only a modest acquisition in terms of size, the business will provide an opportunity to expand the range of services provided by Jersey Water, increase our water supply resilience and add financial value.

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

"Nitrates in both untreated and treated water during 2017 were at lower levels than 2016 and there were fewer incidents of pesticides in untreated water than during 2016."

Your Board is pleased to be recommending a final dividend for 2017 of 13.932 pence per share ("pps") for shareholder consideration and approval at the forthcoming Annual General Meeting. This is in addition to the interim dividend of 6.922 pence which was declared and paid during the year. The total declared and proposed dividend for 2017 is 20.854 pps, an increase of 2.5% on the 2016 dividend of 20.345 pps.

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, LGT Vestra (Jersey) Limited. Willing buyers and sellers of Jersey Water shares register their details and are then matched when shares become available. In 2017 there were 14 trades in equity shares and 3 trades in preference shares of the Company.

At the 2018 AGM in May, it will be the turn of Tim Herbert, Mary Curtis, Tony Cooke and myself, Peter Yates, to retire by rotation. Mary and I have both served on the Board for a total of more than nine years and as such will each seek re-election for a term of one year. Tim will seek re-election for a term of three years. Tony has indicated that he will retire from the Board at the 2018 AGM and not seek re-election.

Tony was our first Non-Executive Director appointed from within the UK water sector. During his 10 years on the Board, he has held the position of Senior Independent Director and member of the Audit Committee and has made a significant contribution to the development of the Company. We have benefited a great deal from his extensive knowledge and expertise in the water sector, his wide ranging commercial experience and sound advice. The water industry sector knowledge of our UK based Non-Executive Directors has proved invaluable and in the last quarter of 2017 we started the formal process of recruiting a new Non-Executive Director from the UK water industry to succeed Tony. We have identified a successor for Tony who will seek election to the Board at the AGM. Mike Pocock is Director of Asset Strategy of Affinity Water and is a chartered civil engineer with over forty years' experience in the water industry with Affinity Water and predecessor companies, Veolia and Three Valleys Water. He will make a fine addition to your Board and I look forward to welcoming him.

Jersey Water's long term prosperity and success depends almost entirely on the hardworking and diligent team of people who work for the Company. In return, one of our key objectives is to ensure that Jersey Water is a great place for them to work, providing safe, interesting and fulfilling employment. We were once again delighted with the results of our third employee engagement survey which showed an overall engagement score of 89%, well above the benchmark reference. We have further initiatives planned to support workplace communication and engagement and look forward to our triennial assessment for Investors in People during 2018.

Finally, I would like to thank my fellow directors, the leadership team and colleagues throughout the business, for their significant and ongoing contribution to the Company's success. 2017 was another very busy year across all departments as we pushed ahead in delivering our business plan, operational improvements and capital expenditure programme; all the while maintaining high standards of water quality and ensuring our customers continue to receive the great customer service that they have grown to expect. All of this could not have been achieved without the hard work and loyal commitment of the whole team at Jersey Water.

Peter Yates
Chairman
15 March 2018

One of our key objectives is to ensure that Jersey Water is a great place for staff to work, providing safe, interesting and fulfilling employment.

Strategic Review

Our objectives

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

High quality water

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

High standard of service

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

A great place to work

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

Long term stability

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

Community conscious

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


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

High Quality Water

Strategic Objective

Safe, high quality drinking water	Sufficient water resources to meet demand

Outcomes for 2017

Safe, high quality drinking water	Sufficient water resources to meet demand
• 99.98% water quality compliance • Reduction of nitrates in raw and treated water from 2016 • Zero pesticide failures in treated water • 100% bacteriological compliance at treatment works • Network model commissioned • Resmix installation at Grands Vaux reservoir • Filter turbidity monitors at Grands Vaux	• Takeover tests completed on extended desalination plant • Leakage reduced by 14% on prior year • Water resources management plan commissioned

Key initiatives for 2018

Safe, high quality drinking water	Sufficient water resources to meet demand
• Catchment initiatives with Action for Cleaner Water Group • Upgrade of carbon dosing plant at Handois Water Treatment Works • Determination of planning application on Val de la Mare bypass • Development of live distribution network model • Resmix installation at Queen's Valley and Handois reservoirs	• Performance trials and project completion for desalination extension • Phase one of water resources management plan and drought management plan

High Standard of Service

Strategic Objective

Charges that are fair, affordable and value for money	High customer satisfaction

Outcomes for 2017

Charges that are fair, affordable and value for money	High customer satisfaction
• 94% of customers paying for water by meter • 30% of customers now receiving ebills • At inflation tariff increase of 2%	• ICS benchmarking survey 83.2% satisfaction rating

Key initiatives for 2018

Charges that are fair, affordable and value for money	High customer satisfaction
• Development of assessed tariff for commercial properties that cannot be metered • Below inflation tariff increase of 2.75%	• Reconfiguration for disabled access to Mulcaster House

A Great Place to Work

Strategic Objective

Safety and wellbeing come before everything else	Engaged, empowered and effective people
Outcomes for 2017	
• 3 time lost accidents (2016: 5)	• 89% employee engagement score • Low turnover • Roll out of leadership development programme
Key initiatives for 2018	
• Enhancement to health & wellbeing programme	• Investors in People Assessment

Long Term Stability

Strategic Objective

Efficient, financially secure and generating a fair profit	Good governance with a focus on long term resilience and stability
Outcomes for 2017	
• Profit for the year of £3,296k • Purchase of De La Haye Plant Limited water tankering business	• A competitive tender process was initiated in line with best practice on the rotation of audit firm resulting in Deloitte LLP's appointment as auditor • Cyber security strategy developed
Key initiatives for 2018	
• Planned extension of mains water network by 2.1km • Tender of civil engineering term agreement	• Ongoing preparation for GDPR compliance • Information systems strategy implementation

Community Conscious

Strategic Objective

A positive impact on Island life and our local community	Environmentally responsible and sustainable business
Outcomes for 2017	
• £15.5k raised for Mind Jersey • Supported Jersey Sings, Weekender and many other events	• 100% compliance with environmental regulation • Love Theatre "Every Last Drop" production for 1,000 school children
Key initiatives for 2018	
• Stroke Association Jersey selected as charity for 2018 • Ongoing support for Jersey Sings and other events	• Reusable water bottles to schools and events • Electric vehicles to be added to Jersey Water fleet

Our business

Jersey Water is the sole supplier of treated mains water to the Island of Jersey. In 2017, we supplied 7.3 billion litres of mains water to approximately 40,000 homes and businesses across the Island. Our two water treatment works feed our 580km network of mains where we supply the population with an average of 20.7 million litres (Ml) of water per day.

Water resources

Jersey's water resources are nearly all derived from rainfall dependent surface waters. We capture and store raw (untreated) water in six storage reservoirs with a capacity of 2,687 million litres (Ml), which is 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 can now produce 10.8Ml/day - approximately half of daily demand - is operated when there is a risk that other water resources will be insufficient to meet demand.

Jersey Water's plan for meeting the Island's future demand for water is set out in its 25-year Water Resource Management Plan, last updated in 2010. The plan predicted that in 2035, if no action was taken, there would be a shortfall in water available for use amounting to approximately 6.5Ml/day or 26% of the forecast daily demand. The Company has implemented a number of measures to address this shortfall, including the doubling in capacity of the desalination plant and the implementation of Island wide water metering. The Company has commissioned the preparation of a new water resources management plan. The first phase of the plan will be completed in 2018 and will measure the long term effects of changing weather patterns, population and demographics on the supply demand balance.

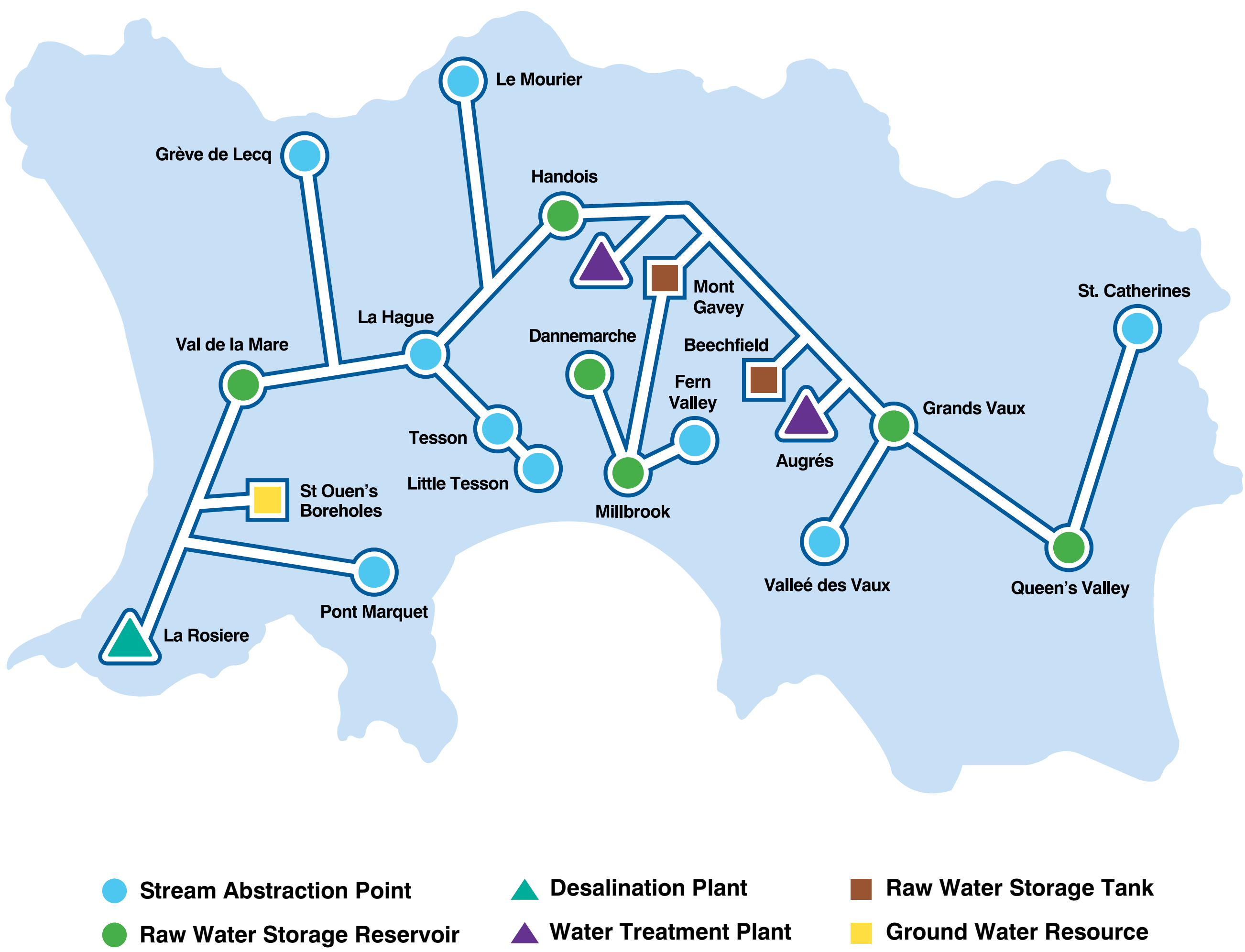
Water quality

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

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

The treated water supply is vulnerable to the effects of diffuse nitrate and pesticide pollution across the Island. Driven principally by agricultural activity, the levels of these agro-chemicals in water resources regularly exceed the regulatory limits for treated water. Jersey Water manages this risk through careful blending, dilution and treatment (where possible). However, on occasion, circumstances can be such where minor, short-term exceedances in treated water are unavoidable. The Company has in place a dispensation from the States of Jersey for compliance with water quality parameters relating to oxadixyl and nitrates that expire in 2019 and 2021 respectively. The dispensations were not used during 2017 and the Company manages water quality in order to avoid the need for their use in all but exceptional circumstances. In addition, Jersey Water works closely with the Planning & Environment Department of the States of Jersey and the local farming community looking at ways in which raw water quality can be improved.

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



Regulation

The supply of water in Jersey is mainly regulated through the Water (Jersey) Law 1972 which sets out, amongst other things, acceptable charging practices, service standards and the minimum water quality standards. In addition, the Company's activities are also regulated through mechanisms within the Reservoirs (Jersey) Law 1996, the Water Resources (Jersey) Law 2007 and the Water Pollution (Jersey) Law 2000.

Principal strategic risks and uncertainties

Jersey Water's operations are subject to a number of risks and uncertainties that could, either individually or in combination, impact on our operations, performance and future prospects. The risks and uncertainties described in the table 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 30). 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: Demand for Water	
Description 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.	**Risk Management** The Water Resources Management Plan sets out the way in which the Company expects to meet projected demand. Actions following the 2010 plan include the roll out of Island-wide metering and the extension of the desalination plant, (doubling its capacity). The Company has recently commissioned a new water resources management plan, the first phase of which will be completed in 2018. The work includes the development of a drought management plan and a model to determine the optimum use of the desalination plant. The second phase (due in 2019) will determine the actions required to address any shortfall from the forecast supply demand balance from phase one.

RISK: Raw Water Quality	
Description Agriculture is the main economic activity within the catchment areas of Jersey Water's reservoirs and abstraction points. In the absence of sufficient regulatory control, there is a risk of persistent point source and diffuse pollution from the use of fertilisers and pesticides in the catchments. This could result in the need for costly and technically challenging treatment to remove nitrates and/or pesticides in order to achieve consistent compliance with water quality regulations.	**Risk Management** Jersey Water manages its water resources prudently; regularly testing raw water sources, selecting the best quality water to be taken for treatment and blending water from multiple sources. The measures are designed to manage the known risks present in Jersey Water's surface water catchments. Jersey Water is proactively involved with the States of Jersey and farming sector to develop initiatives to improve water quality in catchments. In order to mitigate the risk of short term minimal exceedences of water quality parameters for both oxadixyl and nitrates caused by factors outside of the Company's control Jersey Water has secured dispensations (under the Water (Jersey) Law, 1972) which permit a limited number of samples for each substance to exceed the statutory limit but remain within the health based limit. The dispensations expire in 2019 and 2021 respectively.

RISK: Drought

Description

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 water resource in Jersey are particularly susceptible to periods of drought.

Risk Management

The Company manages its water resources prudently, ensuring that reservoirs are filled quickly in periods of rainfall. 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.

RISK: Cyber Security

Description

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

Risk Management

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

During 2017, the Company developed a cyber security strategy and implemented a cyber-awareness programme to train employees. A continuous improvement programme of investment in cyber risk mitigation measures is underway. The Company regularly tests its disaster recovery processes and procedures.

RISK: People Succession

Description

Jersey Water has an ageing workforce with an average remaining working life of approximately 18 years. Jersey Water's success depends upon the professional and technical skills of the Company's employees. Without effective succession planning there is the risk that business objectives may not be met in the long term.

Risk Management

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

Financial results

Turnover

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

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

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

Operating expenditure

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

Operating profit

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

Net interest expense

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

Profit before taxation

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

Income tax

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

Returns to shareholders

Earnings per share for 2017 was £0.34 for each ordinary share compared to £0.35 in the prior year, a small reduction arising from the £38k decrease in profit for the year to £3,296k (2016: £3,334k). 76.44% of the ordinary share capital of the Company is owned by the States of Jersey (representing 83.33% of voting rights) with the remaining 23.56% held by around 158 private and institutional investors.

Transactions with the States of Jersey

The total cash paid to the States of Jersey by Jersey Water during the year, including dividends was £4,440k (2016: £4,131k)

	2017 £'000	2016 £'000
Dividends	1,830	1,789
GST collected	614	530
Jersey income tax paid	769	648
Social security contributions	378	388
Rent and rates	212	213
ITIS	528	454
Water resource licence fee	109	109
	£4,440	£4,131

Equity dividends

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

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

Cash flow

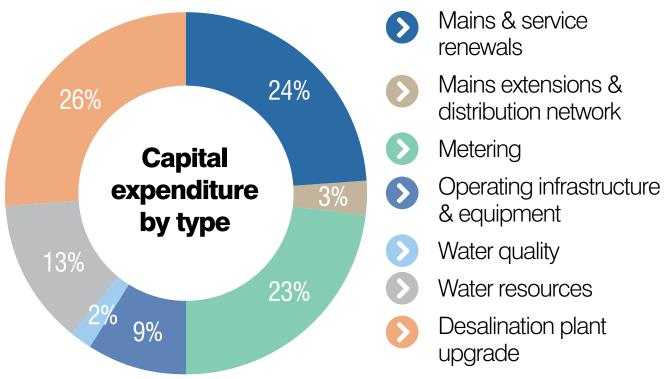
There was a net cash inflow of £1,061k in the year compared to a prior year outflow of £860k.

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

Capital expenditure

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

The graph below provides an analysis of the expenditure in 2017 by type.



Fixed assets

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

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

Investment properties

At the year end, the Company undertook an internal valuation of its investment property which concluded the market value remained at £675k (2016: £675k).

Loans and borrowing

Loans and borrowing at 31 December 2017 remained unchanged at £20,282k (2016: £20,282k).

In order to hedge against interest rate exposure on £5,250k of the borrowing due to mature in 2021, the Company holds an interest swap contract for the same nominal value and maturity. Under FRS 102 this derivative liability is stated at fair value at the reporting date on the statement of financial position at £270k (2016: £414k) with a gain in the fair value of £144k being recognised in other comprehensive income for the year (2016: £128k loss).

Defined benefit pension scheme

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

Deferred tax liability

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

Over the past five years, the Company has had considerable success in the reduction of leakage through a combination of the effects of metering, mains renewals, pressure reduction and active leakage detection.

Water quality

The quality of water supplied by the Company in 2017 was, once again, of a very high standard with an overall compliance rate of 99.98% with the water quality requirements of the Water (Jersey) Law 1972 (2016: 99.99%). There were no instances of pesticides or nitrates exceeding regulatory limits in the treated water during the year and the bacteriological compliance of water leaving the treatment works was 100% (2016: 100%).

During 2017, the Company carried out nearly 15,000 regulatory analyses of treated water. Of these, just three were outside their respective regulatory parameter but posed no threat to health. Full details are available in Jersey Water's 2017 Water Quality Report available from the Company's website.

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

During 2017, the maximum concentration of nitrates detected in treated water was 36.6mg/l; below the regulatory limit of 50mg/l and lower than the 2016 maximum of 40.7mg/l. This was the lowest level of nitrates recorded in treated water and the 4th consecutive year in which nitrate concentrations in treated water remained within regulatory limits. The reduction was certainly, in some part due to the much drier conditions during the growing season reducing run off and ground water discharge. However, a further element will be due to the initiative by the Jersey Royal Potato Company to trial the use of GPS controlled tractors and in-furrow precision application of fertilisers to reduce the volumes of nitrates applied to the land. It is understood that in 2018, the Company will be using the technology on around 90% of its fields under cultivation, a significant step towards the reduction of fertiliser use in nitrate sensitive catchments. The impact of nitrate reduction measures on raw water quality and the ongoing need for dispensations for nitrates under the Water (Jersey) Law 1972 can only be assessed over an extended multi-year period, taking in many different weather types. Consistent, year on year reductions in nitrates in raw water sources will be needed before the project can be hailed a success.

In 2016, the Company identified the presence of oxadixyl, a pesticide last used in 2003, in raw water sources across the Island. Given the prevalence of oxadixyl in the Island's ground and surface water, the Company was granted a precautionary dispensation under the Water (Jersey) Law 1972, which increases the permitted regulatory limit for oxadixyl from 0.1ug/l to 0.3ug/l (one tenth of the health based limit) for a period of three years. The dispensation for oxadixyl has not been used to date. The Company continued to manage oxadixyl effectively through selection and blending of raw water and treatment.

In 2017, we undertook over 47,000 analyses, looking for over 90 different pesticides. Our testing identified 249 instances (of which 136 were for oxadixyl) where concentrations exceeded the limit for drinking water quality, this was down by 34% on the previous year's total of 376. The improvement can be attributed to two significant factors; low rainfall (the 2017 growing season was unusually dry) and the efforts made by the farming community to manage water quality risks by restricting the use of certain pesticides in Jersey Water's catchment areas. Subsequent to the year end, Jersey Water had to take both Handois Reservoir and Queen's Valley out of service (separately) due to pollution incidents involving the pesticides azoxystrobin and metribuzin respectively. These incidents demonstrate that there is still some way to go to protect the Island's water resources from pollution risk.

"Jersey Water continues to work closely with the farming community and the Environment Department as part of the Action for Cleaner Water Group"

Jersey Water continues to work closely with the farming community and the Environment Department of the States of Jersey, as part of the Action for Cleaner Water Group. The pesticide and fertiliser management initiatives referred to above were implemented in 2017, the group agreed further measures to safeguard water catchment areas, including the refinement of risk gradings for catchments and implementing further voluntary controls over the use of pesticides in catchments for 2018.

In 2017, the Company supported the States of Jersey's Water Plan for Jersey as well as amendments to the Water Pollution (Jersey) Law 2005. It is hoped that the regulatory measures promised under the Water Plan can be implemented by the States of Jersey in order to support and keep up with the voluntary measures implemented by the farming sector.

In 2017, the Company commissioned the development of a live distribution network management system. The system will allow the distribution network to be monitored in real time to allow operatives to understand pressures, flows, the age of water in the mains and numerous other parameters. The system will facilitate the modelling of effects of changes to the network on water quality, pressure and quality of service. The system will be developed in phases over the coming years to add functionality in stages.

During 2017, Jersey Water submitted a planning application to install a bypass on the western stream at Val de la Mare reservoir. The purpose of the bypass being to protect the body of water within the reservoir from pesticide and fertiliser pollution from the stream. The planning process has been the subject of consultation with numerous stakeholders and is due to complete during 2018. Further water quality initiatives during 2017 included the installation of a Resmix, reservoir water mixer, to manage manganese and dissolved oxygen levels in Grands Vaux and the installation of individual filter turbidity meters at Augrès Water Treatment Works to better monitor filter performance and water quality.

Water resources

During 2017, Jersey Water supplied a total of 7,327Ml of water. This represents a reduction of 3.2% on the previous year (2016: 7,567Ml) but a 2.1% increase on the five year average of 7,174Ml. The lower volume supplied is principally attributed to the management of leakage (see Mains Network) coupled with the effects of a relatively wet summer, reducing demand.

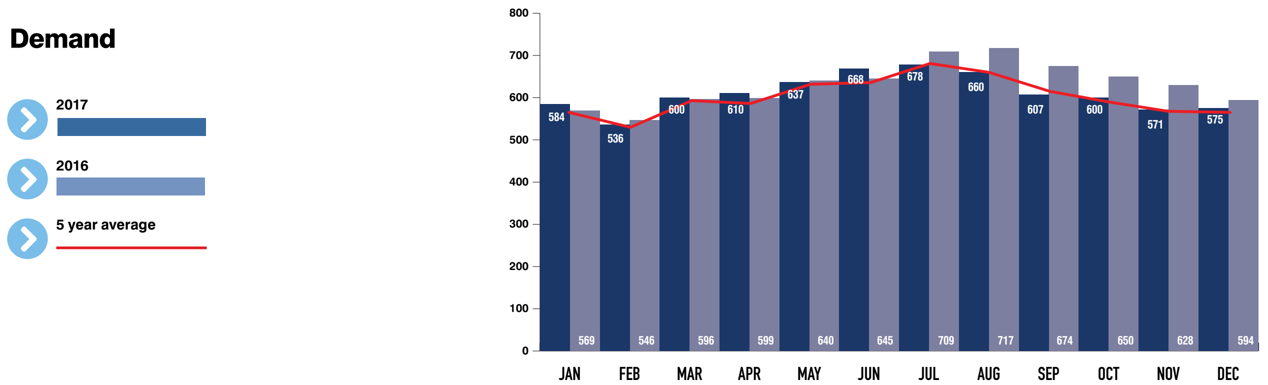
Rainfall in 2017 totalled 1,027mm (2016: 986mm), an increase of 4.2% on the previous year and 2% on the five year average. Rainfall patterns during the year were unusual in that the first quarter was dry with just over half of the rainfall of the previous year and around 75% of the average. This was then compensated for in the spring, late summer and autumn with some with higher than average (and prior year) rainfall.

Water in store began the year at 63% full, the lowest since 2001. Levels recovered until reservoirs reached full in early March. Thereafter, water resources maintained a similar pattern to the average, recovering in months of heavy rainfall but reducing through the year to a minimum of 70% full in November. Reservoirs were replenished during November and December and at the year end stood at capacity and well above the average of 89% for that time of year.

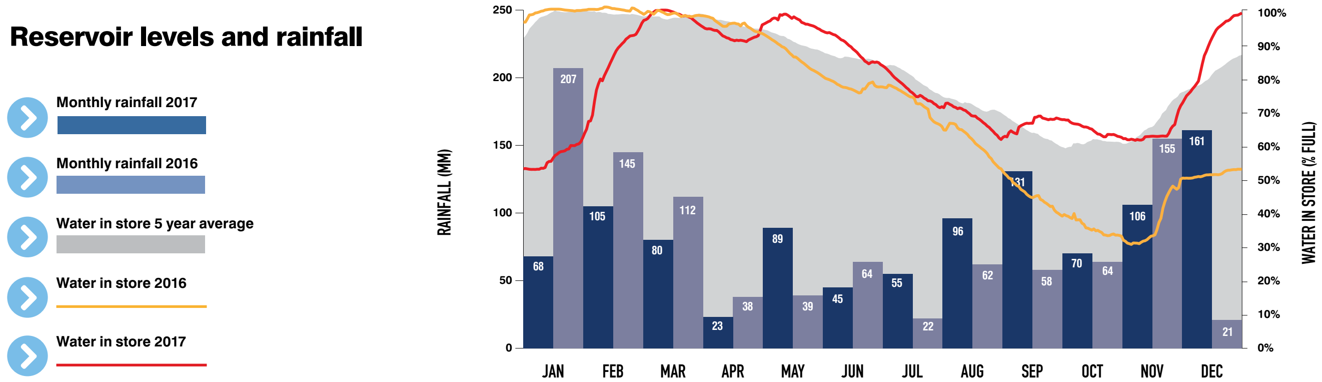
The operation of the desalination plant for commissioning and testing during the year produced 338Ml of desalinated water which was transferred to Val de la Mare Reservoir for onward use in treatment and supply. The plant, whose refurbishment and extension was started in October 2015, completed takeover tests in May 2017. Subsequent performance trials (the final stage of the project) planned for September 2017, were deferred until 2018 pending the resolution by the contractor of a number of matters outside the control of Jersey Water. The plant should offer an improvement in energy efficiency of 36% over the old plant and has a capacity of 10.8Ml/day (approximately 50% of daily demand).

At the end of 2017, Jersey Water commissioned the development of its second water resources management plan. The plan will seek to determine what measures will be necessary to ensure the Island will have sufficient water resources to meet demand in the future (looking 25 years ahead) taking account of the estimated effects of climate change and population in Jersey. The previous plan, completed in 2010, resulted in the roll out of Island wide metering for water customers and the extension of the desalination plant referred to above.

Demand



Reservoir levels and rainfall



In 2017, the Company joined the Institute of Customer Service ("ICS") and outperformed both the UK All-sector average and the Utilities sector in the UK Customer Satisfaction Index.

Mains network

In 2017, the Company renewed 2.1km of water mains (2016: 2km) in line with our annual objective. The renewal of mains involves the replacement of old, end of life, unlined cast iron or galvanised iron pipework, and related service connections where appropriate. Schemes completed during the year include the replacement of 835 metres of main along Rue de La Baie in St Brelade's bay (the original dating back to 1900) and the replacement of 303 metres of pipe laid in 1903 feeding Seaton Place and the renewal of 138 metres of main feeding Old Road Gorey (originally laid in 1959). During 2018, the Company plans to renew 2km of mains including the replacement of the cast iron main feeding Stopford Road in St Helier.

During the year Jersey Water made 303 new connections to its mains network, down on the 374 installations in 2016.

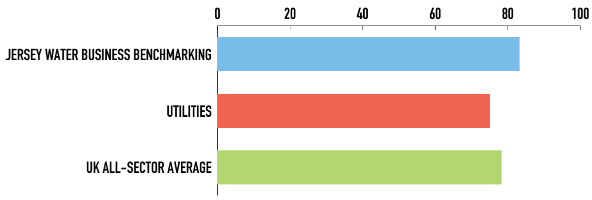
Mains extensions in 2017 totalled 1.9km, including 0.25km funded by Jersey Water. During 2018, in addition to third party funded mains extensions, the Company plans to install 2.7km of new water mains bringing potable mains water to new areas of the Island.

In 2017, leakage levels fell by 14% to 3.05Ml/day (2016: 3.56Ml/day). The reduction is attributable to fewer burst mains in 2017 and the resolution of leakage occurring on certain types of meter installations reported in 2016. Over the past five years, the Company has had considerable success in the reduction of leakage through a combination of the effects of metering, mains renewals, pressure reduction and active leakage detection.

Customer service

In 2017, the Company joined the Institute of Customer Service ("ICS") and commissioned its first ever customer satisfaction survey. The results of the survey are shown in the table below. Jersey Water outperformed both the UK All-sector average and the Utilities sector in the UK Customer Satisfaction Index in all three key metrics.

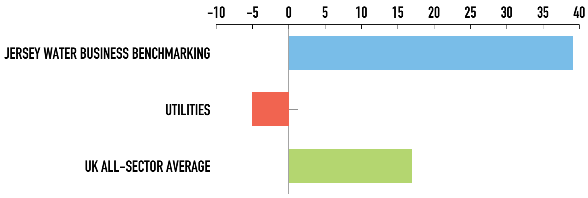
UK customer satisfaction index (UKCSI)



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

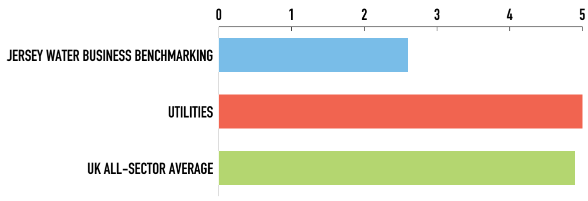
UKCSI July 2017 data sourced from nationwide ICS survey panel of 10,000 customers. The results are generated from a maximum of 400 customer respondents.[1]

Net promoter score



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

Customer effort



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

> **Jersey Water continues to offer free water efficiency devices to all domestic customers.**

Our text based customer feedback tool confirmed the results of the UKCSI benchmarking. We scored an average of 94% slightly up on the previous year (2016: 93%).

At the end of 2017, approximately 94% (2016: 94%) of our customer base are charged for water on a metered basis with the majority of the balance being charged for water on an assessed volume basis. There remain less than 200 properties paying for water on a rateable value basis and these will be transferred to meter or assessed volume by the end of 2018.

Jersey Water has a policy of limiting price increases to at or below inflation wherever possible. This policy has been successfully applied in 14 of the past 15 years. Adjusting for the effects of inflation, the price of water has reduced, in real terms, by 8.2% over the past decade, made possible by the Company focussing on cost efficiency and sharing the benefit of those efficiencies with customers and shareholders. As reported in the 2016 report and accounts, the Company applied a price increase of 2% on 1 April 2017, in line with the rate of inflation in September 2016 and representing an increase of just 2 pence per day for the average household. Following the year end, the Company announced its prices taking effect in April 2018 and incorporating a below inflation increase of 2.75%.

In partnership with the water efficiency experts, SaveWaterSaveMoney.co.uk, Jersey Water continues to offer free water efficiency devices to all domestic customers. This is supported by a free online water savings calculator which provides water and energy savings tips tailored to each customer's specific circumstances and recommends water saving devices to help reduce water consumption in the home.

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

Jersey Water had 83 employees as at 31 December 2017 (2016: 81). Staff turnover remains low at 8.5% (2016:8.7%) and our short-term sickness absence rate in 2017 was 2% (2016: 2%).

The Company undertakes an Employee Engagement Survey every other year in order to measure progress in delivery of employee initiatives and identify areas for improvement. In the 2017 survey, the Company scored an overall engagement score of 89%, down slightly from the 2015 score of 93% but still well ahead of the benchmark score of 77%. Feedback from the survey is used to shape initiatives for the future. During 2017, the Company implemented a new social media communication tool for all employees, Workplace by Facebook. The mobile app allows all employees to contribute and share media with colleagues and keep each other informed as to what is occurring within the Company.

One of Jersey Water's strategic objectives is to ensure that our employees are engaged, empowered and effective. Jersey Water is committed to the development of relevant skills and knowledge for its employees using a variety of formal and informal teaching methods. To that end the Company has a number of initiatives underway.

- During 2017, Jersey Water launched its Leadership Development Programme ("LDP"). The LDP is accredited by the Institute of Leadership & Management and aims to enhance and develop the leadership skills of all employees with managerial responsibility. The first participants are due to complete the course and an action learning project during the first half of 2018.
- The second cohort of the Company's Talent Pipeline Programme ("TPP") completed the formal elements of the course during 2017 and their action learning project in January 2018. The TPP is a programme aimed at those employees who do not yet have managerial responsibility but aspire to progress. The TPP supports the development of their career aspirations with this structured experiential training programme.
- All Water Treatment Works operators completed the Level 2 NVQ qualification in Potable Water Treatment Process Science and Operational Practices and a number of individuals completed degrees and other qualifications supported by the company. These included Andrew Rive (Project Engineer) who obtained a Bachelor of Science with Honours from the Open University and Mark Bowden (Asset Manager) who obtained chartered status with the Chartered Institution of Water and Environmental Management.

"Jersey Water has a long serving and loyal workforce, with an average service of 15 years."

Jersey Water has a long serving and loyal workforce, with an average service of 15 years. During 2017, there were seven recipients of long service awards. Paul Swann (Customer Services Team Leader), Francis Touzel (Senior Network Technician) and Jose Alves (Gardening Labourer) all celebrated 10 years of service, Matthew Green (Plant Operator) celebrated 20 years and James Fullerton (Assistant Network Manager), Martin Le Moignan (Leak Detection Team Leader) and Valerie Higgins (Accounts Supervisor) all completed 30 years of service.

Providing a safe place for our staff and contractors to work is of the utmost importance. In 2017, there were three (2016: five) time lost accident (using the definition in Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR) - an accident that results in an injured person being absent from work or unable to do their normal work for more than seven days). We review the circumstances surrounding all accidents to determine whether changes in practices or procedures are required to help prevent their recurrence.

Environment & Community

Jersey Water's charity of choice for 2017 was Mind Jersey, an independent local charity that provides support to people living with mental illness and promotes good mental health for all. Jersey Water employees raised a total of £7,770 (2016: £5,000), through a series of fundraising events, including abseiling down Val de la Mare dam, an open day for the public to see inside Queen's Valley dam and pump station and a very popular water bottle stand at the Weekender Festival in September. The funds raised are matched by Jersey Water and the total of £15,540 was presented to Mind Jersey in early 2018.

The Stroke Association has been selected by Jersey Water employees as the Company's Charity for 2018. The mission of the Stroke Association is to prevent strokes and achieve life after stroke through providing services, campaigning, education and research. A series of fundraising events occurring throughout 2018 are being planned.

In 2017, we commissioned the Love Theatre Company to write and produce a short play to educate school children about the water cycle and being water efficient. The "Every Last Drop" production visited 14 Island schools and was seen by over 1,000 students.

Our ongoing programme to support local schools and clubs continued to go from strength to strength. In 2017, we supported the Jersey Sings concerts for the second year, supplying water refill stations and over 1,400 reusable water bottles for the primary school children taking part.

"The Jersey Water Bursary is now a well-established and popular scheme providing funding and work experience opportunities for local students"

We also supplied numerous schools and organisations with branded reusable water bottles, refill stations and educational visits, including Mont a L'Abbe School, Jersey Old Motor Club, Beaulieu Convent School and the Viva Italia Festival.

Land owned by Jersey Water continues to be utilised by local clubs as a venue for sporting events. In 2017, Jersey Water hosted events by Jersey Motor Cycle and Light Car Club, Jersey Old Motor Club, Channel Island Occupation Society, Channel Island Mountain Bike Association and the Jersey Fresh Water Angling Association. The Company also maintains both Val de la Mare and Queen's Valley Reservoirs open to the public for all to enjoy. In 2017 we continued to support the important work of the National Trust Jersey by sponsoring, for the third consecutive year, their Discover Magazine.

The Jersey Water Bursary is now a well-established and popular scheme providing funding and work experience opportunities for local students embarking on a degree course in a subject related to the supply of water (e.g. engineering, environmental sciences, chemistry). The scheme came full circle for the first recipient of the bursary, Jordan Todd, who re-joined the Company in a full time capacity in our laboratory.

The Strategic Review was approved by the board on 15 March 2018 and signed on its behalf by

Helier Smith
Chief Executive

A total of £15,540 was presented to Mind Jersey, Jersey Water's charity of choice for 2017.

Corporate Governance

Compliance with the UK Corporate Governance Code

The Company has chosen to adopt the principles of good corporate governance and best practice set out in the UK Corporate Governance Code (the "Code") as updated in 2016. 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 of nine directors, two of whom are Executive Directors and seven of whom are Non-Executive Directors. The Board has a schedule of regular meetings, normally between six and eight per year, with any additional meetings convened as and when required.

Neither Executive Director holds any non-executive directorship positions.

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

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

Meetings and Committee membership

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

	Board meetings
Number of meetings in 2017	**9**
Tony Cooke	9
Mary Curtis	9
Tim Herbert	9
Stephen Kay	9
Helier Smith	9
Heather MacCallum	9
Daragh McDermott	9
Natalie Passmore (appointed 11 May 2017)	5/6
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, inclusive of those directors who have served more than nine years on the Board. The Board has concluded that Tony Cooke, Mary Curtis, Stephen Kay, Tim Herbert, Heather MacCallum and Daragh McDermott 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. Due notice of the Annual General Meeting stating the business of the meeting is circulated to all shareholders in advance of the meeting in accordance with Companies (Jersey) Law, 1991, as amended. The Company monitors and reviews votes received and considers the need to engage further with shareholders in the event of significant opposing votes.

Internal controls

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

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 FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting', and has been in place for the whole of the year, up to and including the date on which the financial statements are approved.

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

- **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; and**
- **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 of Heather MacCallum (Chair), Tony Cooke, Stephen Kay and Daragh McDermott.

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

The external auditors, the Executive Directors, and Financial Controller also attend the meetings by invitation. Details of meetings and attendance in 2017 are provided below:-

	Audit Committee
Number of meetings in 2017	**3**
Tony Cooke	2
Stephen Kay	3
Heather MacCallum	3
Daragh McDermott	3
Natalie Passmore* (appointed 11 May 2017)	3
Helier Smith*	3

*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;**
- **To ensure that arrangements are in place for the proportionate and independent investigation of concerns raised confidentially by whistle-blowers about possible improprieties in matters of financial reporting or any other matters;**
- **To review and monitor the adequacy, operation and effectiveness of the Company's risk management and internal control systems, including internal financial controls and make recommendations for improvement where necessary;**
- **To review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement;**
- **To oversee the external audit process and manage the relationship with the external auditors;**
- **To compile a report on its activities to be included in the Company's annual report;**
- **To report to the Board on how it has discharged its responsibilities;**
- **To exercise judgement in deciding which of the issues it considers in relation to the financial statements to be significant; and**
- **To make recommendations to the Board as to the re-election and remuneration of the auditors at the annual general meetings based upon its assessment of the performance of the auditors and giving due regard to their continued independence and any other regulatory or professional requirements.**

The Committee regularly assesses the need for an internal audit function and has determined that the establishment of such a function 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.

Performance evaluation of the Audit Committee is described on page 29.

Review of financial statements

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

The Committee is briefed by the Finance Director in advance of the year end on the significant issues pertaining to the financial statements and how they will be dealt with. These issues are generally focused on the areas of subjectivity in the financial statements. In 2017, these included income recognition, impairment of fixed assets, pension scheme valuation assumptions, deferred tax, interest rate swap, recognition of third party funded mains and property valuations. Further details can be found in notes 3 and 4 of the financial statements. Changes in accounting or disclosure requirements and the accounting or disclosure implications of one-off events occurring in the year were also considered by the Committee. Where necessary, the Committee considers evidence and independent third party advice on the key matters for consideration.

At the year end, the Committee reviews the annual report, related announcements, going concern assumption and long-term viability statement and considers them in the context of the significant issues identified, the suitability of any key assumptions and the extent that they have been disclosed. The 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 the annual report as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, the business model and strategy.

External Auditors

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

In line with best practice, and on rotation of audit firm, a competitive tender for audit services for the year end 31 December 2017 was initiated by the Audit Committee in December 2016. The Committee concluded the process in February 2017 where it made the recommendation to the Board to appoint Deloitte LLP with Andy Isham as Lead Audit Partner. This recommendation was approved by the Board and accepted by the Company's shareholders at the 2017 Annual General Meeting.

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 17 of the financial statements.

Remuneration Committee

The Remuneration Committee currently comprises of Mary Curtis (Chair), Tim Herbert and Peter Yates. The Executive Directors, Natalie Passmore and Helier Smith, 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 2017 are provided below:-

	Remuneration committee
Number of meetings in 2017	**3**
Mary Curtis	3
Tim Herbert	3
Peter Yates	3
Natalie Passmore* (appointed 11 May 2017)	1/1
Helier Smith*	3

*by invitation

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

- **Determine the policy on executive director and senior management remuneration and consider specific remuneration packages for individual executive directors and senior management, having regard to the risk appetite of the Company and alignment to the Company's long term strategic goals so that rewards are linked to corporate and individual performance and designed to promote the long-term success of the Company;**
- **Review and approve not less than once a year specific remuneration packages for all members of the Senior Leadership Team and the Executive Directors;**
- **Review the terms of executive director and senior management service agreements from time to time;**
- **Maintain contact as required with its principal shareholder regarding remuneration through the Chairman of the Board; and**
- **At least once per year, or as required by the Board, the Committee will review its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval.**

Nomination Committee

The Nomination Committee currently comprises of Peter Yates (Chair), Tony Cooke, Mary Curtis, Stephen Kay, Tim Herbert, Heather MacCallum and Daragh McDermott. The Executive Directors, Natalie Passmore and Helier Smith may also attend the whole or parts of meeting by invitation.

Details of meetings held and attendance in 2017 are included in the following table:-

	Nomination committee
Number of meetings in 2017	**1**
Tony Cooke	1
Mary Curtis	1
Tim Herbert	1
Stephen Kay	1
Heather MacCallum	1
Daragh McDermott	1
Peter Yates	1
Natalie Passmore* (appointed 11 May 2017)	1
Helier Smith*	1

*by invitation

In 2017, we supplied 7.3 billion litres of mains water to approximately 40,000 homes and businesses.

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

The other duties of the Committee include:-

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

When selecting candidates for potential appointment as a non-executive director, the Committee evaluates the needs of the Company and identifies the necessary skills and experience required by candidates for consideration.

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

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

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

Gender		Tenure (Years)		Age		Sector	
Male	6	**< 1**	1	**41 – 50**	3	**Utilities**	5
Female	3	**1 – 3**	3	**51 – 60**	3	**Financial Services**	2
		4 – 8	1	**61 – 70**	2	**Legal Services**	1
		9+	4	**70+**	1	**Human Resources**	1

Directors' Report

Activities of the Company

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

Dividends

Ordinary and 'A' ordinary shares

The Company paid an interim dividend of 6.922 pence per share on 22 September 2017 (2016: 6.786p). The Directors are proposing a final dividend on ordinary and 'A' ordinary shares for 2017 of 13.932 pence (2016: 13.559p), bringing the total dividend for 2017 to 20.854 pence per share (2016: 20.345p).

	2017 £'000	2016 £'000
Interim dividend paid	668	655
Final dividend proposed	1,346	1,310
	£2,014	£1,965

Preference shares

In 2017, the Company paid dividends on preference shares totalling £381k (2016: £381k).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved are detailed on page 02. With the exception of Natalie Passmore, all Directors were Directors of the Company throughout the year ended 31 December 2017. Natalie Passmore was appointed to the Board on 11 May 2017 as an additional Executive Director.

In accordance with the provisions of Article 49 of the Company's Articles of Association, Tim Herbert will retire by rotation at the forthcoming Annual General Meeting ("AGM") and offer himself for re-election. Both Mary Curtis and Peter Yates have completed more than 9 years' service on the Board and are due to resign and seek reappointment (thereafter on an annual basis) at the forthcoming AGM.

Tony Cooke has also completed more than 9 years' service on the Board and will be resigning at the forthcoming AGM and will not be seeking reappointment.

Following a recruitment campaign for Tony's replacement the Directors recommend the election of Mike Pocock as Non-Executive Director.

Mike Pocock is Director of Asset Strategy of Affinity Water. He is a chartered civil engineer with over forty years' experience in the water industry with Affinity Water and predecessor companies, Veolia and Three Valleys Water.

His range of design, construction, operational and business planning roles have spanned all aspects of water engineering and management. Mike was a long term member of the CIWEM Water Resources Panel and has contributed extensively to industry technical groups and research through Water UK and UKWIR. He is also a member appointed Director of the Affinity Water Pension Fund

As described on page 29, 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 AGM continue to perform effectively and demonstrate commitment to their roles.

Directors' interests

Particulars of the holdings of the Directors, including family and beneficial interests, in the share capital of the Company as at 31 December 2017 are:

	Ordinary shares	Preference shares
Mary Curtis	5,838	-
Tony Cooke	4,080	-
Tim Herbert	1,500	-
Stephen Kay	500	-
Heather MacCallum	1,100	-
Natalie Passmore	800	-
Helier Smith	550	389
Peter Yates	3,938	-

JT Group Limited is wholly owned by the States of Jersey, Daragh McDermott is the Corporate Affairs Director of JT Group Limited.

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

The States of Jersey is the Company's majority and controlling shareholder.

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 15 March 2018.

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

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

Independent Auditors

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

For and on behalf of the Board

Louisa McInnes
Company Secretary

15 March 2018

Directors' Statement

Statement of Directors' responsibilities

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

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

The Directors are responsible for keeping accounting records which are sufficient to show and explain its transactions and are such as to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements prepared by the Company comply with the requirements of the Companies (Jersey) Law 1991.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement of the directors in respect of the annual 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 five years in line with the Company's five year strategic business plan, for which the Company has sufficiently robust financial forecasts. Within the five year plan there are sufficiently robust financial forecasts; these are made up of detailed plans for the years one and two with indicative forecasts for years three to five. Capital investment plans are detailed for the full five years.

The Board have considered the impact that the principal risks or combination of risks may have on the business including those that would threaten its business model, future performance, solvency or liquidity. A summary of the principal risks are summarised on page 14. Where relevant, the financial forecasts were subject to sensitivity analysis to illustrate the potential effects of significant risks and identify whether any could represent serious threats to the Company's liquidity or operation.

The following sensitivities were used in stress testing the forecasts:

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

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

Based on the assessment of prospects and viability described, we confirm that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period ending 31 December 2022.

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 15 March 2018 and signed on its behalf by:

Peter Yates
Chairman

Independent Auditor's Report to the Members of The Jersey New Waterworks Company Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of The Jersey New Waterworks Company Limited ("the company") as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

We have audited the financial statements of the company which comprise:

- the statement of financial position;
- the income statement;
- the statement of comprehensive income;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 28.

Basis for opinion

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

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

Other information

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

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

We have nothing to report in respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Use of our report

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

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

15 March 2018

Financial Statements

Statement of financial position
31 December 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Fixed assets					
Intangible assets	5	102		142	
Tangible assets	6	75,662		74,613	
Freehold investment property	7	675		675	
			76,439		75,430
Current assets					
Inventories	8	616		640	
Trade receivables	9	3,110		3,423	
Cash		3,652		2,591	
		7,378		6,654	
Creditors - Amounts falling due within one year					
Creditors and accruals	10	(2,210)		(2,123)	
Income tax		(620)		(777)	
		(2,830)		(2,900)	
Net current assets			4,548		3,754
Total assets less current liabilities			80,987		79,184
Creditors - Amounts falling due after more than one year					
Bank loans	11	(14,900)		(14,900)	
Derivative financial liability	12	(270)		(414)	
Non-equity preference shares	13b	(5,382)		(5,382)	
			(20,552)		(20,696)
Provisions for liabilities and charges					
Deferred taxation	14		(6,394)		(5,568)
Net assets excluding pension liability			54,041		52,920
Pension (liability)	15		(236)		(2,942)
Net assets			£53,805		£49,978
Capital and reserves					
Called up equity share capital	13a		4,830		4,830
Reserves			48,975		45,148
Total equity			£53,805		£49,978

The financial statements on pages 40 to 59 were approved by the Board of Directors on 15 March 2018 and were signed on its behalf by:

Peter Yates, Chairman

Income statement
For the year ended 31 December 2017

	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Turnover	16		**15,960**		15,720
Operating expenditure	17		**(11,108)**		(10,696)
Operating profit			**4,852**		5,024
Revaluation of investment property			**-**		(45)
Profit/(loss) on disposal of fixed assets			**53**		(37)
Interest					
- receivable and similar income	19a	**5**		58	
- payable and similar charges	19b	**(422)**		(363)	
Net interest expense		**(417)**		(305)	
Non-equity dividends	20	**(381)**		(381)	
			(798)		(686)
Profit before taxation			**4,107**		4,256
Jersey income tax	21a		**(811)**		(922)
Profit for the reporting period			**£3,296**		£3,334
Basic and diluted earnings per ordinary share of £0.50	22		**£0.34**		£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 2017

	Note	2017 £'000	2016 £'000
Profit for the reporting period		**3,296**	3,334
Fair value movement on swap	12	**144**	(128)
Annual re-measurements of net defined benefit liability	15	**2,992**	(4,202)
Total income tax on components of other comprehensive income	21b	**(627)**	867
Other comprehensive income/(loss) for the year net of tax		**£2,509**	£(3,463)
Total comprehensive income/(loss) for the year		**£5,805**	£(129)

Statement of changes in equity
For the year ended 31 December 2017

	Note	Called-up equity share capital	Revaluation reserve	Cash flow hedge reserve	Retained earnings	Total
		£'000	£'000	£'000	£'000	£'000
Balance as at 1 January 2016		4,830	1,049	(229)	46,393	52,043
Profit for the reporting period		-	-	-	3,334	3,334
Other comprehensive loss for the year		-	-	(102)	(3,361)	(3,463)
Total comprehensive loss for the year		-	-	(102)	(27)	(129)
Equity dividends	23	-	-	-	(1,936)	(1,936)
Transfer between reserves	7	-	(374)	-	374	-
Balance as at 31 December 2016		**£4,830**	**£675**	**£(331)**	**£44,804**	**£49,978**
Balance as at 1 January 2017		4,830	675	(331)	44,804	49,978
Profit for the reporting period		-	-	-	3,296	3,296
Other comprehensive income for the year		-	-	116	2,393	2,509
Total comprehensive income for the year		-	-	116	5,689	5,805
Equity dividends	23	-	-	-	(1,978)	(1,978)
Transfer between reserves	7	-	-	-	-	-
Balance as at 31 December 2017		**£4,830**	**£675**	**£(215)**	**£48,515**	**£53,805**

Cash flow statement
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Net cash inflow from operating activities	24	**7,841**	7,025
Jersey income tax paid		**(769)**	(648)
Net cash generated from operating activities		**7,072**	6,377
Cash flow from investing activities			
Purchase of fixed assets		**(3,381)**	(4,595)
Disposal of fixed assets		**73**	34
Net cash used in investing activities		**(3,308)**	(4,561)
Cash flow from financing activities			
Interest paid		**(349)**	(364)
Interest received		**5**	5
Non-equity dividends paid		**(381)**	(381)
Equity dividends paid		**(1,978)**	(1,936)
Net cash used in financing activities		**(2,703)**	(2,676)
Increase/(decrease) in cash and cash equivalents		**1,061**	(860)
Cash and cash equivalents at the beginning of the year		**2,591**	3,451
Cash and cash equivalents at the end of the year		**£3,652**	£2,591

Notes to the Financial Statements

1 General information

The Jersey New Waterworks Company Limited 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, JE1 1DG.

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 Companies Law 1991.

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.

Basis of preparation

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 Review on pages 08 to 27 and in notes 11 and 12. 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 when services are delivered. Turnover represents the total value of water charges net of goods and services tax (GST), together with minor contracts and rental income.

Income from minor contracts (rechargeable works income) is recognised within turnover upon completion of the contracted works. Income arising on minor contracts to be provided in the future is treated as deferred income.

(i) Water charges

Water charges are billed either as a fixed rate (in advance) or as a metered charge (in arrears). Both fixed rate and metered water income is recognised for the year up to 31 December 2017.

(ii) Third party funded works

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

Stocks of water

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

Inventory

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

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

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

Intangible assets

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

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

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

Tangible assets

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

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

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

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

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

Following an increase in leaks on certain types of water meter installations, in 2015 the Company reviewed the useful economic lives of certain assets within 'Property and Completed Works'. The useful economic life of certain water meters was decreased in line with expected usage and this revision was accounted for prospectively from October 2015.

In 2016 the Board undertook to replace the water meter installations that were susceptible to increased leakage. As a result the remaining useful economic lives of these assets was reduced in line with the replacement programme schedule. These changes resulted in an increase to the depreciation charge of £243k in 2016.

Since the initial assessment in 2016, the replacement rate of the estimated 17,000 affected meters has reduced to 59.0% whilst the anticipated completion date has been extended until April 2018. This change resulted in an additional accelerated depreciation charge of £79k in 2017 and an anticipated increase of £52k in 2018 to bring the assets to a nil net book value. This revision was accounted for prospectively with effect from 1 October 2016. During the year ended 31 December 2017 the Company disposed of £504k of these fully depreciated meters.

Freehold investment property

Certain of the Company's properties originally acquired for business purposes, or otherwise used within the business, are no longer so used and are now held for investment purposes (to earn rental income and or capital appreciation). These properties are classified as investment properties and are accounted for at fair value at the reporting date with changes in fair value recognised in the income statement. The Company engages an independent qualified valuer to provide a full valuation of investment properties at least once every three to five years, and these valuations are reviewed annually by management for appropriateness in light of market movements. The last independent valuation was undertaken by Buckley and Co Limited and provided a market valuation as at 31 December 2016, the next valuation will not be due until 2019. For the year ended 31 December 2017 management reviewed the valuation and assessed that there has been no movement in the fair value of each property at the reporting date. No depreciation is provided in respect of freehold investment property.

Cash and cash equivalents

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

Financial instruments

The 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. The fair value assumes that the amount that would be paid to the counterparty to settle the liability would not incorporate changes in the Company's credit risk since the inception of the contract. Changes in the fair value of derivatives are recognised in the income statement as finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

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

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

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

(iv) Offsetting

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

Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

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

(ii) Deferred tax

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

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

Employee Benefits

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

(i) Short term benefits

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

(ii) Defined contribution pension scheme

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

(iii) Defined benefit pension scheme

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

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

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

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

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

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

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

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

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

Related party disclosures

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

4 Critical accounting judgements, estimates and assumptions

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

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

(i) Tangible or intangible assets ready for use

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

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) 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 15 for disclosures relating to the defined benefit pension scheme and estimates used.

(ii) Unbilled income accrual

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

(iii) Useful economic lives of intangible and tangible assets

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

(iv) 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 8 for the carrying amount of inventory and associated provision.

5 Intangible assets

	Software	Intangible uncompleted works	Total
Cost	£'000	£'000	£'000
Brought forward	604	29	633
Additions	12	29	41
Disposals	(152)	-	(152)
Transfers	2	(24)	(22)
Carried forward	**£466**	**34**	**£500**
Amortisation	£'000	£'000	£'000
Brought forward	(491)	-	(491)
Charge for the year	(59)	-	(59)
Disposals	152	-	152
Carried forward	**£(398)**	**£ -**	**£(398)**
Net book value			
Bought forward	£113	£29	£142
Carried forward	**£68**	**£34**	**£102**

6 Tangible assets

	Property and completed works	Tangible uncompleted works	Motor vehicles, mobile plant & equipment	Total
	£'000	£'000	£'000	£'000
Cost or valuation				
Brought forward	101,771	6,552	2,623	110,946
Additions	1,637	1,475	121	3,233
Disposals	(530)	-	(321)	(851)
Transfers	7,071	(7,061)	12	22
Carried forward	**£109,949**	**£966**	**£2,435**	**£113,350**
Depreciation				
Brought forward	(34,511)	-	(1,822)	(36,333)
Charge for the year	(1,977)	-	(210)	(2,187)
Disposals	513	-	319	832
Impairment	-	-	-	-
Carried forward	**£(35,975)**	**£ -**	**£(1,713)**	**£(37,688)**
Net book value				
Brought forward	£67,260	£6,552	£801	£74,613
Carried forward	**£73,974**	**£966**	**£722**	**£75,662**

Included within fixed assets is £253k (2016: £193k) relating to internal labour costs capitalised in the year.

During the year the desalination plant completed its construction phase, as a result £6,693k (2016: nil) was transferred from tangible uncompleted works to Property and completed works.

At 31 December 2017 capital commitments contracted for amounted to £445k (2016: £244k).

7 Freehold investment property

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

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

In 2016 one further residential property was reclassified from investment property to tangible fixed assets due to a change in use. The property was reclassified at its market value of £350k and depreciated on the basis of this value from the time of the change in use. £329k relating to historic revaluation gains on this property was moved from the revaluation reserve to retained earnings in line with this change in classification. The property was subsequently valued in 2016 by an external valuer, Buckley & Co Limited, on the basis of open market value. The net book value of this property was impaired by £45k to reflect the revised market value as at 31 December 2016.

The remaining freehold investment property was valued in 2016 by an external valuer, Buckley & Co Limited, on the basis of open market value in accordance with the requirements of the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Standards. Management reviewed the value of the properties in light of market movements in 2017 and no revaluation gain or loss was recognised at 31 December 2017 (2016: £45k loss).

The rental income arising from the properties during the year was £34k (2016: £32k), with maintenance and repair costs of £6k (2016: £9k). The Company is obliged to keep the premises wind and water tight, in a good state of condition and repair and structurally sound.

8 Inventories

	2017 £'000	2016 £'000
Inventory	912	1,118
Provision for impairment	(296)	(478)
	£616	£640

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

9 Trade receivables

	2017 £'000	2016 £'000
Trade debtors	1,099	1,391
Prepayments	279	389
Accrued income	1,724	1,613
Other debtors	8	30
	£3,110	£3,423

Accrued income relates solely to unbilled measured water. The fair value of trade and other receivables is considered by the Directors to be equivalent to its carrying value because of their short term nature.

10 Creditors and accruals

	2017 £'000	2016 £'000
Trade payables	640	617
Taxation and social security	174	221
Other creditors	367	567
Contract retentions	243	248
Accruals and deferred income	786	470
	£2,210	£2,123

Trade payables and accruals relate to amounts owed to various suppliers through the normal course of business. Deferred income amounts to £115k (2016: £122k) and relates solely to water charges which have been paid in advance.

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

11 Bank loans

	Repayment Dates	2017 £'000	2016 £'000
Facilities drawn down			
HSBC Bank plc	2021	5,250	5,250
HSBC Bank plc	2023	6,000	6,000
HSBC Bank plc	2025	3,650	3,650
		£14,900	£14,900
Loans falling due within one year		-	-
Loans falling due between one and two years		-	-
Loans falling due after two years but less than five years		5,250	-
Loans falling due after five years		9,650	14,900
		£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.

12 Financial instruments

The Company has the following financial instruments:

	2017 £'000	2016 £'000
Financial assets that are debt instruments measured at amortised cost	1,130	1,452
Financial liabilities at fair value through profit or loss	270	414
Financial liabilities that are measured at amortised cost	22,119	22,154

Derivative financial instruments

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

HSBC Bank plc valued the derivative on 31 December 2017 as a liability of £270k (2016: £414k), generating a fair value movement in comprehensive income in the year of £144k (2016: £128k loss).

13 Share capital

a) Equity share capital

	Shares of £0.50 each '000	2017 £'000	2016 £'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

		2017 £'000	2016 £'000
Authorised			
20,000	cumulative preference shares of £5	100	100
20,000	cumulative second preference shares of £5	100	100
100,000	cumulative third preference shares of £5	500	500
100,645	cumulative fourth preference shares of £5	503	503
900,000	cumulative fifth preference shares of £5	4,500	4,500
		£5,703	£5,703
Issued and fully paid			
17,261	5% cumulative preference shares of £5	86	86
17,402	3.5% cumulative second preference shares of £5	87	87
23,509	3% cumulative third preference shares of £5	118	118
16,036	3.75% cumulative third preference shares of £5	80	80
11,400	5% cumulative third preference shares of £5	57	57
90,877	2% cumulative fourth preference shares of £5	454	454
900,000	10% cumulative fifth preference shares of £5	4,500	4,500
		£5,382	£5,382

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

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

14 Deferred taxation

	Note	2017 £'000	2016 £'000
Accelerated capital allowances		**6,495**	6,239
Derivative financial liabilities		**(54)**	(83)
Asset arising from pension surplus/deficit		**(47)**	(588)
Net liability		**£6,394**	£5,568
Brought forward		**5,568**	6,264
Amounts charged in the income statement	21a	**256**	174
Amounts charged/(credited) in comprehensive income	21b	**570**	(870)
At 31 December		**£6,394**	£5,568

The net deferred tax liability expected to reverse in 2018 is £280k. This relates to the reversal of timing differences on fixed assets.

15 Pensions

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

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

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

Defined contribution section

Employer contributions during the period to 31 December 2017 totalled £158k (2016: £154k).

Defined benefit section and unfunded scheme

The full actuarial valuation as at 31 December 2017 shows a net deficit of £236k compared to a net deficit of £2,942k at 31 December 2016.

The major assumptions used by the independent actuary were:

	2017	2016
Rate of increase in salaries	2.98%	3.11%
Rate of increase in pensions accrued after 1 January 1999	2.93%	3.01%
Discount rate	2.47%	2.57%
Inflation assumption	2.98%	3.11%
Life expectancy assumptions		
Current pensioners at 65 - Male	87	88
Current pensioners at 65 - Female	90	91
Future Pensioners at 65 - Male	89	90
Future pensioners at 65 - Female	92	93

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.

Reconciliation of the present value of scheme assets and liabilities	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2017	26,450	(29,392)	(2,942)
Benefits paid	(926)	926	-
Employer contributions	215	-	215
Current service costs	-	(428)	(428)
Employee contributions	64	(64)	-
Past service costs	-	-	-
Interest income/(expense)	671	(744)	(73)
Re-measurement gains/(losses)			
- Actuarial gains	-	1,163	1,163
- Return on plan assets excluding interest income	1,829	-	1,829
As at 31 December 2017	£28,303	£(28,539)	£(236)

Analysis of funded and wholly unfunded scheme assets and liabilities	Assets £'000	Liabilities £'000	Total £'000
Funded scheme	28,303	(28,534)	(231)
Wholly unfunded scheme	-	(5)	(5)
Total present value of scheme liabilities	£28,303	£(28,539)	£(236)

Total cost recognised as an expense within the income statement

	2017 £'000	2016 £'000
Current service cost	(428)	(299)
Interest (expense)/income within net interest expense	(73)	53
Total	£(501)	£(246)

Current service cost, past service cost and curtailments are included within operating expenditure in the income statement. Net interest income / (expense) on pension plan assets and interest on pension plan liabilities are shown within interest receivable or payable in the income statement. No amounts (2016: nil) were included in the cost of the assets.

Total income/(expense) recognised with other comprehensive income

	2017 £'000	2016 £'000
Re-measurement gains/(losses)		
- Actuarial gains/(losses)	1,163	(6,158)
- Return on plan assets excluding interest income	1,829	1,956
Total re-measurement gains/(losses)	£2,992	£(4,202)

Analysis of scheme assets	2017 % of total fair value of scheme assets	2016 % of total fair value of scheme assets
Equities	31%	31%
Property	6%	6%
Corporate bonds	62%	62%
Cash and receivables	1%	1%
	100%	100%

The fair value of the plan assets was:	2017 £'000	2016 £'000
Equities	8,973	8,269
Property	1,713	1,605
Corporate bonds	17,451	16,357
Cash and receivables	166	219
	£28,303	£26,450

Return on plan assets:	2017 £'000	2016 £'000
Interest income	671	903
Return on plan assets less interest income	1,829	1,956
Total return on plan assets	£2,500	£2,859

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 £215k (2016: £227k).

Following the results of the last triennial 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%).

16 Turnover

	2017 £'000	2016 £'000
Measured water charges	14,084	13,516
Unmeasured water charges	425	825
Service charges and other charges for water	662	604
Total water supply charges	15,171	14,945
Rechargeable works income	473	428
Other income	316	347
Turnover	£15,960	£15,720

17 Operating expenditure

	Note	2017 £'000	2016 £'000
Included in operating expenditure are the following:			
Net employment costs		4,038	3,795
Impairment of tangible fixed assets		-	45
Impairment of inventory		34	(50)
Amortisation & depreciation		2,167	2,000
Accelerated depreciation	3	79	243
Materials, consumables, hired in services and other costs		4,582	4,463
Directors' fees		140	115
Auditor's fees - Statutory audit		60	74
- Other services (Tax compliance)		-	5
- Other services (Pension scheme audit)		8	6
Total operating expenditure		£11,108	£10,696

18 Net employment costs

	2017 £'000	2016 £'000
Wages, salaries and other payments	3,497	3,347
Social Security	208	202
Pension contributions	586	439
	4,291	3,988
Less amount capitalised within fixed assets	(253)	(193)
Net employment costs	£4,038	£3,795

19 Net interest expense

a) Interest receivable

	2017 £'000	2016 £'000
Bank interest received	5	5
Net interest income on pension obligations	-	53
Total interest receivable and similar charges	£5	£58

b) Interest payable and similar charges

	2017 £'000	2016 £'000
Bank loans and overdrafts	240	261
Net interest expense on pension obligations	73	-
Interest rate swap contract	109	102
Total interest payable and similar charges	£422	£363

20 Non-equity dividends

	2017			2016		
	Paid £'000	Payable £'000	Charge for the year £'000	Paid £'000	Payable £'000	Charge for the year £'000
5% cumulative preference shares	3	1	4	4	-	4
3.5% cumulative second preference shares	2	1	3	3	-	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	£381	£-	£381

21 Jersey income tax

a) Tax expense included in the income statement

	2017 £'000	2016 £'000
Current tax		
Income tax on the profit for the year	555	773
Adjustment in respect of prior periods	-	(25)
Deferred tax		
Charge for the year	256	174
Total tax profit on ordinary activities	£811	£922

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

	2017 £'000	2016 £'000
Current tax		
Movements relating to pension deficit	57	3
Deferred tax		
Movement on deferred tax relating to interest rate swap	29	(26)
Movement on deferred tax relating to pension deficit	541	(844)
Total tax expense/(income) included in other comprehensive income	£627	£(867)

Factors affecting tax charge for year

The tax assessed for the year is higher than the standard rate of Jersey income tax (20%) (2016: 20%) applicable to utility companies. The differences are explained below:

	2017 £'000	2016 £'000
Profit before tax	4,107	4,256
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	822	851
Tax at 20% on:		
Depreciation for the period in excess of capital allowances	(181)	(50)
Capital expenditure, deductible for tax purposes	(151)	(120)
Impairment of fixed assets	-	9
(Profit)/Loss on disposal of fixed assets	(11)	7
Dividends on non-equity shares - non deductible	76	76
	555	773
Less prior year over provision	-	(25)
Current tax for year	555	748
Accelerated capital allowances	256	174
Total tax charge for year	£811	£922

22 Basic and diluted earnings per ordinary share

Basic and diluted earnings per ordinary share of £0.34 (2016: £0.35) is based on earnings of £3,296k (2016: £3,334k), being the profit available for distribution to equity shareholders and 9,660,000 (2016: 9,660,000) ordinary and 'A' ordinary shares of £0.5 in issue.

23 Equity dividends

Ordinary and 'A' Ordinary shares

	2017 Pence per share	2016 Pence per share	2017 £'000	2016 £'000
Dividends paid				
Final dividend for the previous year	13.559	13.260	1,310	1,281
Interim dividend for the current year	6.922	6.786	668	655
	20.481	20.046	£1,978	£1,936
Dividends proposed				
Final dividend for the current year	13.932	13.559	£1,346	£1,310

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

24 Notes to the statement of cash flows

	2017 £'000	2016 £'000
Profit for the reporting period	3,296	3,334
Tax on profit on ordinary activities	811	922
Non-equity dividends	381	381
Net interest expense	417	305
Loss on revaluation of investment property	-	45
(Profit)/loss on disposal of fixed assets	(53)	37
Operating profit	4,852	5,024
Depreciation and amortisation	2,246	2,288
Change in order to bring pension charges onto a contribution basis	213	70
Decrease/(increase) in inventories	24	(160)
Decrease/(increase) in trade receivables	171	(154)
Increase/(decrease) in creditors	335	(43)
Net cash inflow from operating activities	£7,841	£7,025

25 Directors' emoluments

	Salary	Bonus	Fee	Benefits	Total emoluments (Excluding pension contributions)	
					2017	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Executives						
Helier Smith	155	27	-	6	188	174
Natalie Passmore	62	10	-	2	74	-
Non-Executives						
Tony Cooke	-	-	19	-	19	19
Mary Curtis	-	-	19	-	19	19
Tim Herbert	-	-	19	-	19	19
Stephen Kay	-	-	19	-	19	19
Heather MacCallum	-	-	19	-	19	4
Daragh McDermott	-	-	19	-	19	4
Liz Vince	-	-	-	-	-	4
Peter Yates	-	-	27	-	27	26

During the year the Company made pension contributions of £22k in respect of Helier Smith and £8k in respect of Natalie Passmore.

Benefits for Mr Smith consist of motor fuel, private health care, prolonged disability and death in service insurance.

Natalie Passmore was appointed as Finance Director on 11 May 2017. Benefits for Mrs Passmore consist of private health care, prolonged disability and death in service insurance.

26 Related parties

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

During the year the Company paid pension benefits on behalf of the Defined Benefit Jersey Water Pension Scheme amounting to £120k (2016: £225k) on the basis it would be fully reimbursed by the Scheme. At 31 December 2017, the net balance owed to the scheme is £50k.

The remuneration of key management personnel (which is defined as the Executive and Non-Executive Directors) is set out in note 25 above.

27 Ultimate controlling party

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

28 Events after the end of the reporting date

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

Five Year Summary (Unaudited)

	Units	2017	2016	2015	2014	2013[1]
Statement of financial position						
Total equity	£'000	**53,805**	49,978	52,043	48,383	48,289
Net Debt	£'000	**16,900**	18,105	17,119	14,780	15,684
Income statement						
Turnover	£'000	**15,960**	15,720	15,373	15,184	14,916
Operating profit (before exceptional items)	£'000	**4,852**	5,024	4,841	4,971	4,800
Profit before tax	£'000	**4,107**	4,256	4,074	4,242	4,318
Profit for the reporting period	£'000	**3,296**	3,334	3,336	3,390	3,438
Equity dividends paid	£'000	**1,978**	1,936	1,902	1,842	1,789
Financial statistics & ratios						
Capital expenditure	£'000	**3,275**	4,589	6,611	2,880	2,878
Net cash inflow / (outflow)	£'000	**1,061**	(860)	(2,383)	4,736	(1,555)
Earnings per share	£	**0.34**	0.35	0.35	0.35	0.36
Dividend cover	Times	**1.7**	1.7	1.8	1.8	1.9
Interest cover	Times	**6.1**	7.2	6.3	6.6	5.6
Gearing[2]	%	**42**	41	40	42	42
Operational statistics						
Total water supplied	Ml	**7,327**	7,567	7,294	7,080	7,047
Maximum daily demand	Ml	**25.9**	25.6	25.0	24.0	24.8
Annual rainfall	mm	**1,027**	986	964	1,045	939
New mains laid	km	**1.9**	2.3	0.2	1.6	1.5
Mains re-laid/relined	km	**2.1**	2.0	2.5	3.5	2.5
New connections	No.	**303**	374	506	403	406
Live unmeasured supplies	'000	**0**	2	5	6	10
Live metered connections	'000	**33**	33	32	31	28
Employees	No.	**83**	81	80	82	80
Water quality						
% Compliance with water quality parameters		**99.98%**	99.99%	99.99%	99.99%	99.84%

[1] The results for 2013 have been calculated based on the previous UK accounting standards.

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

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