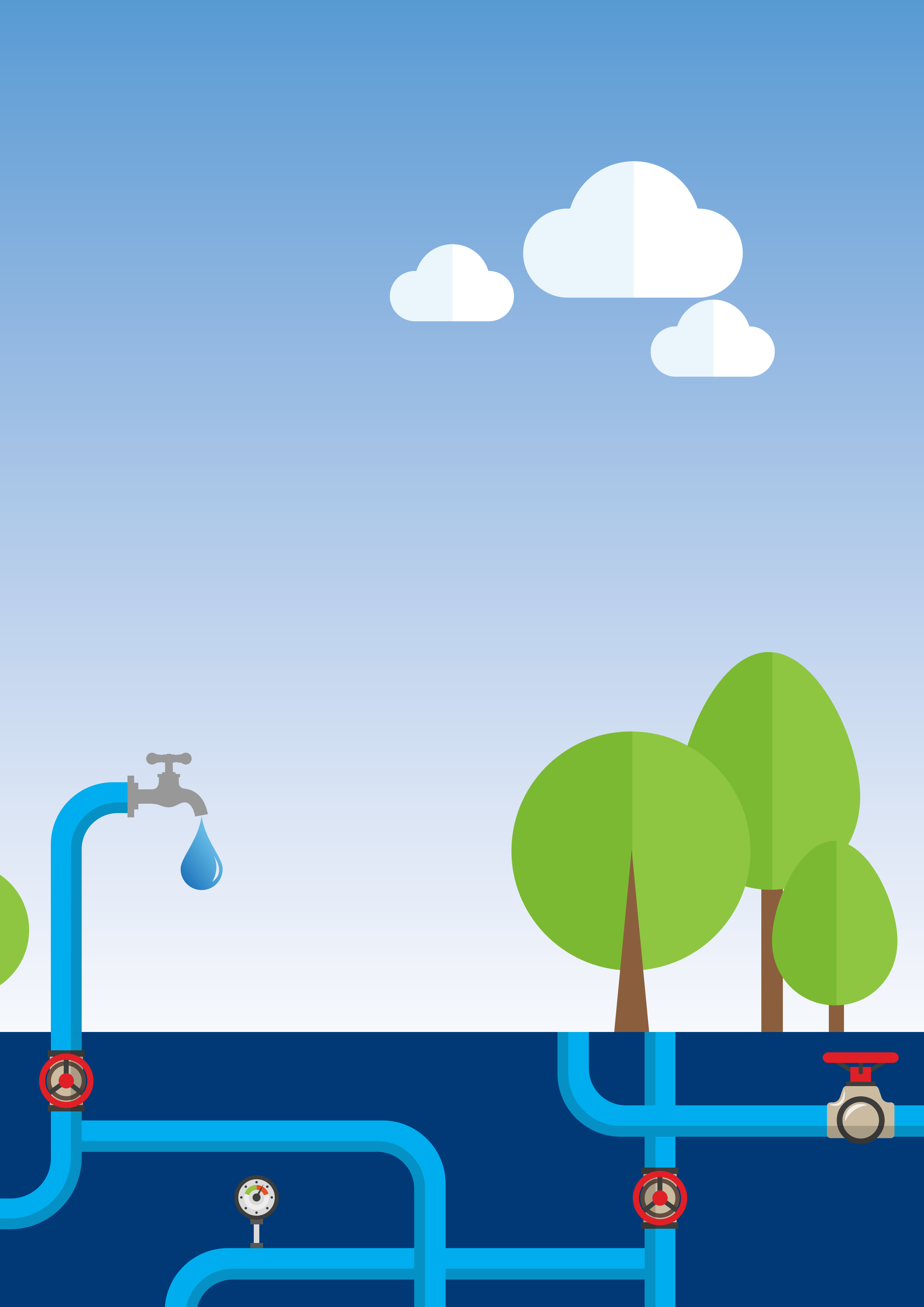
Annual Report and Financial Statements 2016

The Jersey New Waterworks Company Limited

www.jerseywater.je

Jersey Water

R.49/2017



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Directors, officers and advisers

Non-Executive Directors

Chairman

Peter Yates
BSc, FCA

Senior Independent Director

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

Mary Curtis
MA, Chartered FCIPD, CDir

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

Timothy Herbert
MA(Oxon)

Heather MacCallum
BA,CA
(appointed 1 October 2016)

Daragh McDermott
BBS, FCA, FCIS, GDL, CDir
(appointed 1 October 2016)

Executive

Chief Executive

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

Officers and Advisers

Secretary

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

Independent Auditors

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

Registered Office

Mulcaster House
Westmount Road
St Helier
Jersey, JE1 1DG

We supply the population with an average of 20.7 million litres (Ml) of water per day

Board of directors

Peter Yates
BSc, FCA

Peter Yates was appointed to the Board in May 2009. Mr Yates, a Chartered Accountant, was previously a partner of PricewaterhouseCoopers working in the United Kingdom and Jersey for over 31 years. He is a Non-Executive Director and Chairman of the Audit Committee of Invesco Perpetual Enhanced Income Fund Plc.

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

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

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

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

Mary Curtis
MA, Chartered FCIPD, CDir

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

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

Tim Herbert
MA(Oxon)

Tim Herbert was appointed to the Board in January 2015 as a Non-Executive Director. Mr Herbert is a Jersey Advocate. He was a partner at Mourant Ozannes for over 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.

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

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

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

Mr Kay 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 and Chair of the Audit Committee. Ms MacCallum was a partner of KPMG, Channel Islands from 2001, retiring from the partnership on 30 September 2016. She was with KPMG's financial services practice in the Channel Islands for 20 years, gaining a broad range of experience from companies with a premium listing on the London Stock Exchange through to private investment vehicles. Ms MacCallum became a Member of the Institute of Chartered Accountants of Scotland in November 1993.

Ms MacCallum 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. Mr McDermott 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. Mr McDermott is a Chartered Director and also holds a number of additional positions on the Island, which include being a Trustee for Autism Jersey and an independent member of the States of Jersey Audit Committee.

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

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

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

Chairman's statement

I am pleased to report that 2016 was another year of strong performance for Jersey Water. Water supplied by the Company remained of a very high quality in spite of the challenges presented by pesticides in Val de la Mare reservoir and elsewhere. In addition, we invested over £4,500k in our water supply infrastructure, added 374 new connections to our network, maintained our high standards of customer service and generated an increase in profit before tax of 4.4%.

Turnover for the year increased by 2.3% to £15,720k. Operating costs for the year were £10,696k, 1.6% above 2015. Operating profits for the year are £5,024k (2015: £4,841k).

Profits before tax for the year were £4,256k, representing an increase of £180k (4.4%) on the previous year.

Despite the strong financial performance and increase in profitability during the year, net assets of the Company reduced by just under 4% from £52,043k in 2015 to £49,978k in 2016. The reduction was driven principally by the FRS 102 valuation of the Defined Benefit section of the Jersey Water Pension Plan, which moved from a net surplus of £1,279k in 2015 to a net deficit of £2,942k in 2016. The deterioration in the year was mainly due to changes in market-driven discount rates and inflation assumptions that underpin the valuation.

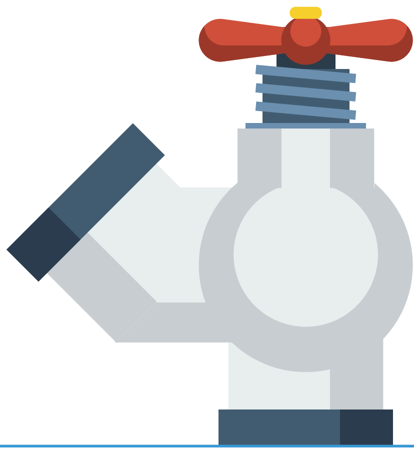
In October 2016, the Company declared and paid an interim dividend for 2016 of 6.786 pence per share ('pps'). The Directors are recommending a final dividend for the year of 13.559pps for consideration and approval by shareholders at the Annual General Meeting. The combined dividend for 2016 is 20.345pps, representing an increase of 2% over the 2015 dividend of 19.946pps. The Company continues to encourage trading in Jersey Water shares and we sponsor an over-the-counter share trading scheme operated by Jersey stockbrokers, LGT Vestra Jersey, whereby willing sellers are matched with those interested in buying Jersey Water shares.

In 2016, we invested a total of £4,589k (2015: £6,611k) in our capital expenditure programme, which included laying 2km of replacement mains, installing 1.1km of new mains extensions, and investing £439k in water quality improvement initiatives.

The major capital expenditure project underway during 2016 was the £6 million extension of our desalination plant. Unfortunately, owing to factors outside of Jersey Water's control, the project contractor has experienced delays caused by a number of technical problems with the project. The installation of the plant is complete and it is capable of producing desalinated water. At the date of this report there remains a process of testing and optimisation to complete before formal takeover tests can commence. Jersey Water is actively working with the contractor to ensure that the project is finalised as soon as practicably possible, and completion is scheduled before the end of Q2 2017. Once complete, the capacity of the plant will increase from 6.4Ml/day to 10.8Ml/day and will use 36% less energy to run than the old plant.

During 2016, the States of Jersey published the Water Plan for Jersey and the Rural Economy Strategy. Both plans built on the work of the former Nitrate Working Group (now renamed the Action Group for Cleaner Water) to develop a much needed strategy to improve raw water quality in the Island's catchments. The need for action was confirmed by the detection, as reported last year, of a number of pesticides, including the discontinued fungicide oxadixyl, in surface water streams at concentrations greater than the EU regulatory limit of 0.1ug/l (for drinking water). The diffuse pollution from nitrates is a continuing problem. During 2016, Jersey Water continued to work closely with the farming sector and the States of Jersey on ways in which the risks to water quality could be better managed. The Company supports and endorses both the formal measures proposed by the States and the voluntary measures already implemented within the farming sector. In addition, we have a number of internal projects underway to help mitigate the risks posed by agrochemicals in the future.

For the third successive year, nitrates in treated water complied with all regulatory and health based limits



£6 million

The major capital expenditure project underway during 2016 was the extension of our desalination plant

Chairman's statement continued

Despite the challenges presented by oxadixyl and other pesticides in streams and reservoirs, the quality of the water supplied by the Company in 2016 remained very high, with an overall regulatory compliance rate of 99.99% based on almost 20,000 individual tests for water quality.

For the third successive year, nitrates in treated water complied with all regulatory and health based limits, and we did not have need to rely on the regulatory dispensation under the Water (Jersey) Law 1972, which permits a small number of samples to exceed the 50mg/l subject to an overriding maximum concentration of 65mg/l. For the third year running, the Company was able to benefit from heavy rainfall in the early part of the year, helping it to control the concentrations of nitrates in treated water. Despite the experience of the previous three years, there remains the need to address the nitrates issue in Jersey and steps to achieve this are set out in the States of Jersey's Water Plan for Jersey, mentioned above. During 2016, Jersey Water applied for and was granted an extension, on the same terms, of the existing dispensation for nitrates. The expiration of the dispensation period, in 2021, is set to coincide with the planned completion of the Water Plan.

We were saddened by the discovery in August of the remains of Adrian Lynch in Handois reservoir, following his disappearance in December 2015. We are grateful to the team who dealt with this traumatic and distressing incident with respect and compassion. Our thoughts remain with Adrian's family and loved ones.

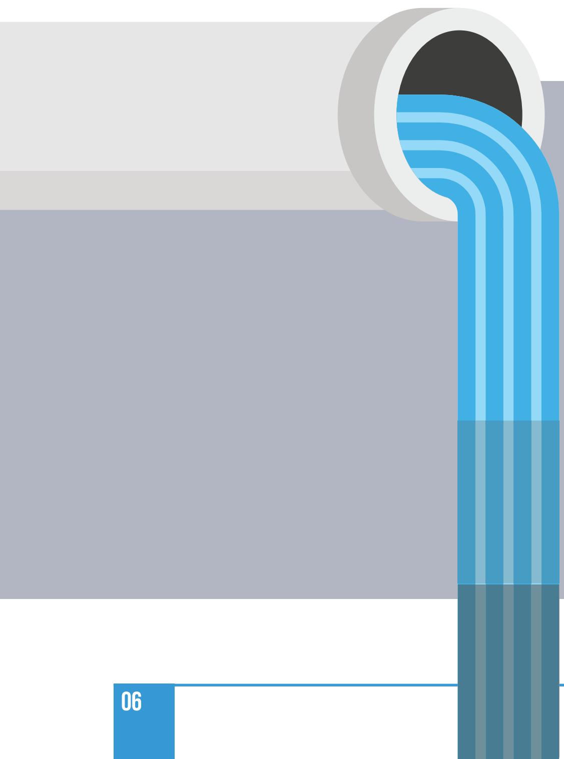
There have been a number of changes in your Board of Directors since the 2016 Annual General Meeting. As reported in last year's accounts, Liz Vince retired from the Board on 31 March 2016. During the year, the Company undertook an open recruitment process for Mrs Vince's successor. We received over 30 high quality applications from which the Board made two appointments.

Heather MacCallum and Daragh McDermott joined the Board as Non-Executive Directors on 1 October. Ms MacCallum, who chairs the Jersey Water's Audit Committee, is a former partner of KPMG Channel Islands, and Mr McDermott, who joined our Audit Committee, is currently the Corporate Services Director at JT. I have no doubt that both Ms McCallum and Mr McDermott will make fine additions to the Board and we will be recommending their formal election by shareholders at the AGM.

At this year's AGM, it will be the turn of Tony Cooke, Mary Curtis and our Chief Executive, Helier Smith, to retire by rotation and seek re-election. Mrs Curtis and Mr Cooke have both served on the Board for a total of nine years and as such will each seek re-election for a term of one year. At the AGM, the Board will also be proposing that our Chief Finance Officer, Natalie Passmore, joins the Board as Director. Mrs Passmore, a Chartered Accountant, joined Jersey Water in 2010 and has served the Board as Company Secretary since 2014. We wish her every success in her new role.

Finally, I would like to thank my fellow directors, the leadership team and colleagues throughout the business, for their significant contribution to the Company's successes in 2016. It has been a very busy year across all departments, responding to the pesticide issue and managing water resources, all the while ensuring that we continue to provide great customer service and supply water of the highest quality. All of this could not have been achieved without the hard work and loyal commitment of the team at Jersey Water.

Peter Yates
16 March 2017

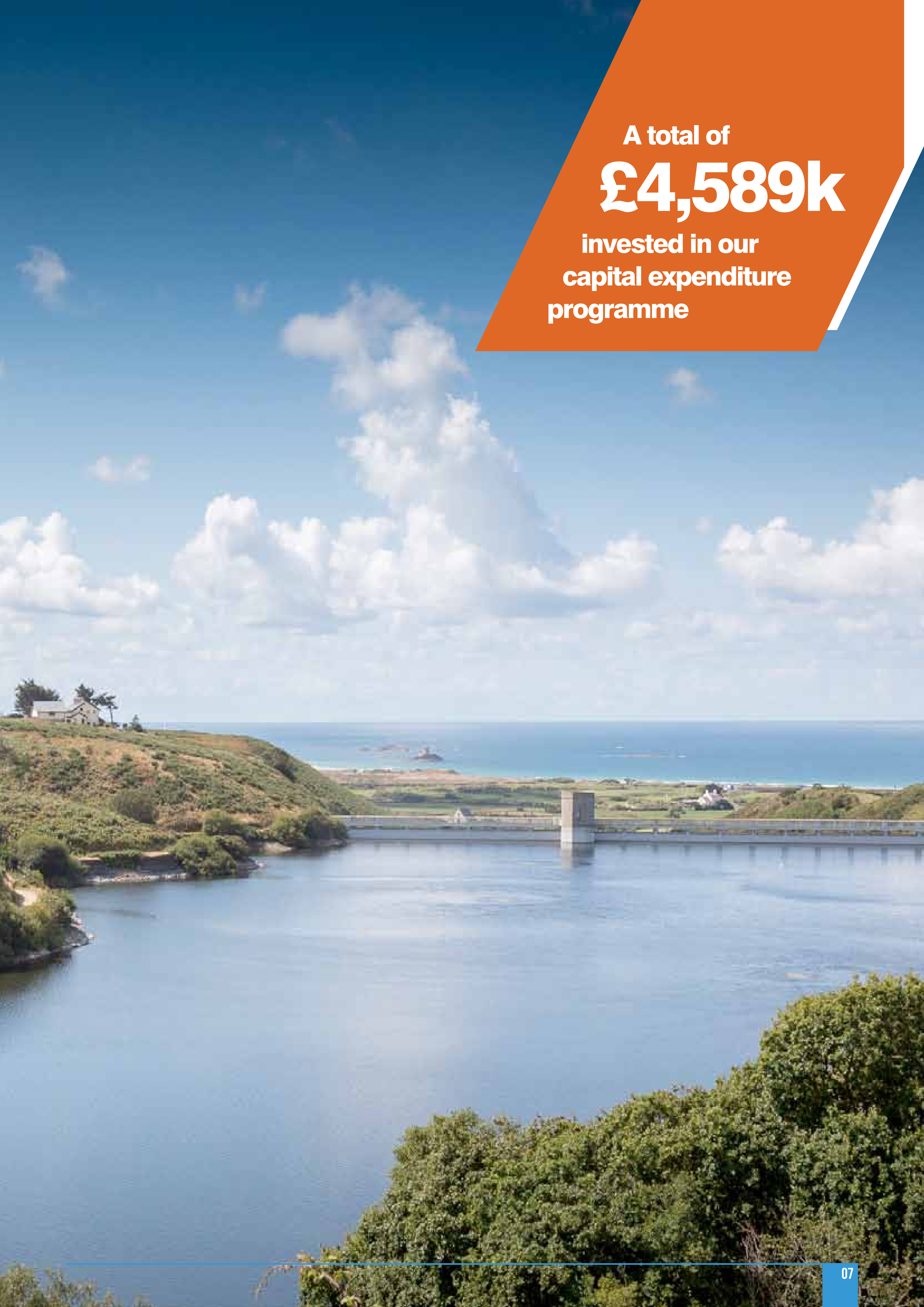


For the third year running, the Company was able to benefit from heavy rainfall in the early part of the year, helping it to control the concentrations of nitrates in treated water

A total of

£4,589k

invested in our capital expenditure programme



Strategic report

Our objectives

Jersey Water's purpose is simply to provide safe, high quality water for Jersey. We achieve this by balancing the needs of our stakeholders to create value over the long term.

We work hard to supply consistently high quality water to **our customers** and manage water resources to meet reasonable demand. We keep increases in prices as low as we can and ensure that we provide a high level of customer service.

We manage the business prudently and aim to provide a sustainable real term return for **our shareholders**.

Our staff are fundamental to our success. Ensuring Jersey Water continues to be a great, safe place to work is a key ingredient in our future.

Jersey is a close knit **community** in which we play an important role. We aim to make a positive contribution to the Jersey way of life and minimise the effect that our operations may have on the environment.

Our business

Jersey Water is the sole supplier of treated mains water to the Island of Jersey. In 2016, we supplied 7.6 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 which supplies 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 usable supply. We also capture raw water from stream catchment ponds and abstraction pumping stations across the Island. The nature of rainfall patterns in Jersey means that we generally rely on rainfall in the autumn and winter to replenish water resources and keep them topped up for as long as possible.

To help protect against prolonged water shortages, the Company has a standby reverse osmosis (RO) desalination plant. The plant, which is currently being extended to 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.

7.6 billion litres

of mains water supplied to approximately 40,000 homes and businesses across the Island

Strategic report continued

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

Water quality

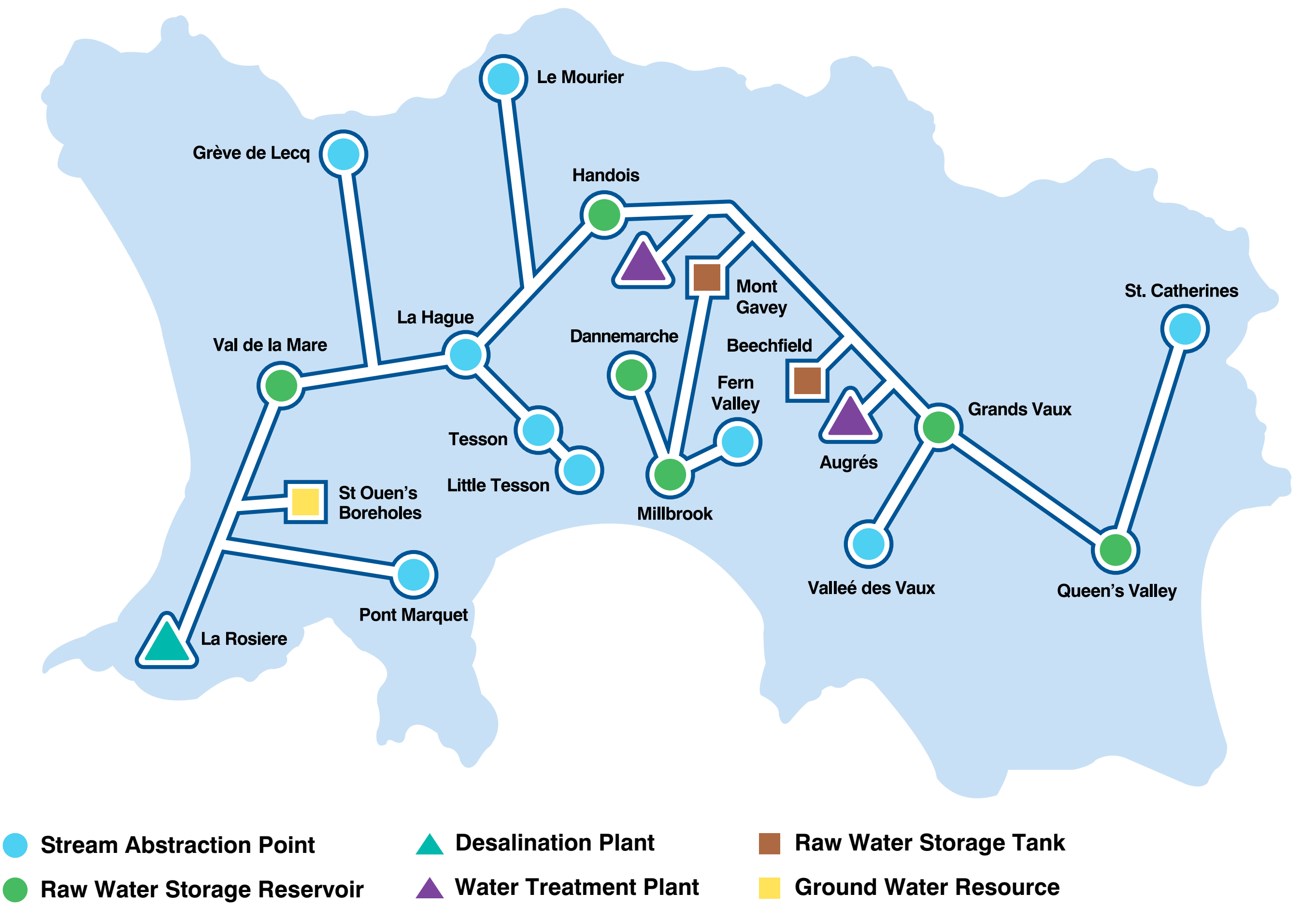
The water we supply is consistently of a very high quality. Bacteriological quality is good and there is an ongoing high degree of compliance with other water quality parameters. This is achieved despite often challenging raw water quality that is susceptible to high concentrations of nitrates and pollution 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. In addition, Jersey Water works closely with the Planning & Environment Department of the States of Jersey 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.



Strategic report continued

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.

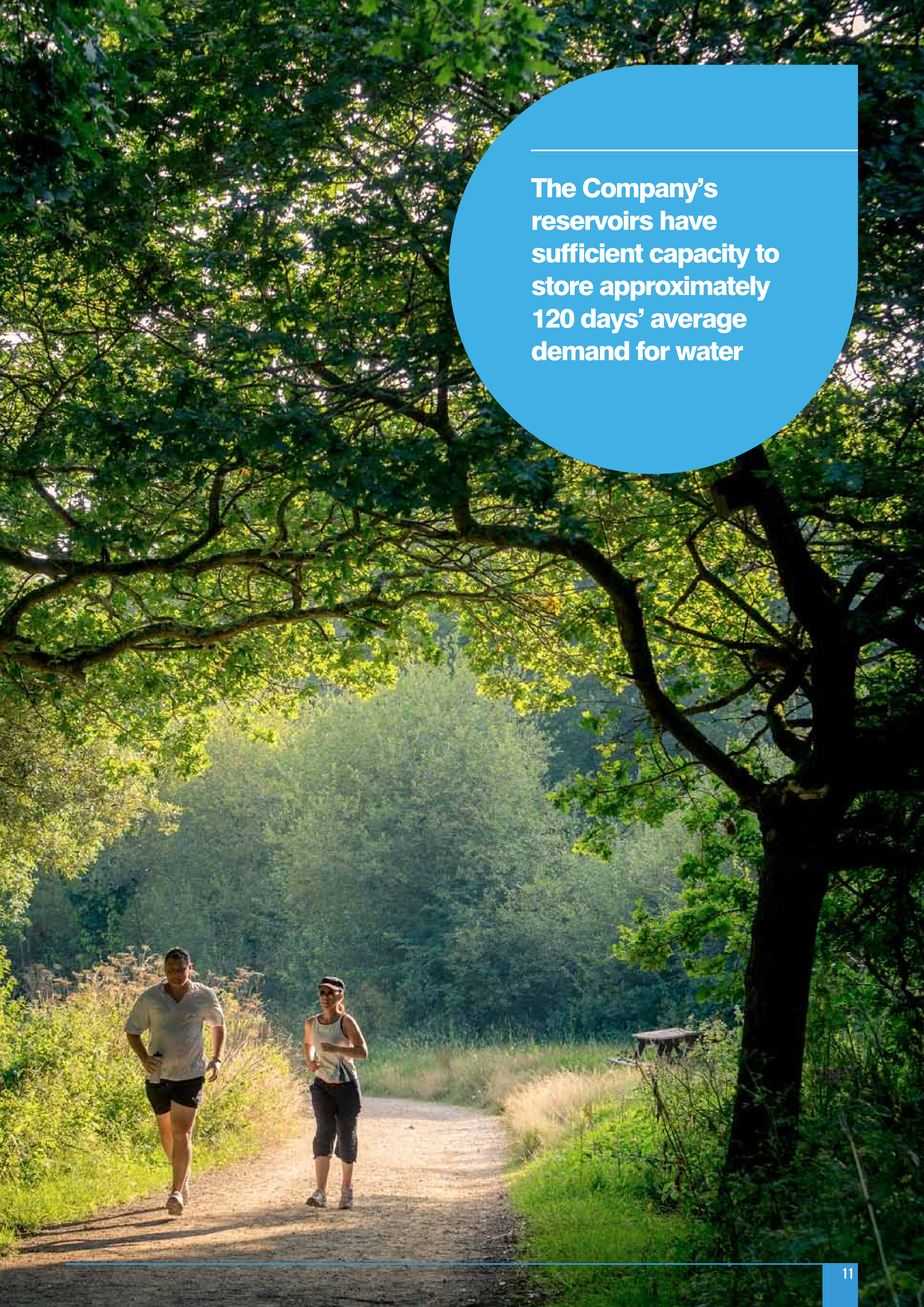
Principal strategic risks and uncertainties

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 box below are those that we believe to be of strategic importance to the future of the organisation.

We identify and manage these and other risks through our risk management processes (which are described further on page 22). The risk management processes are designed to manage and mitigate risk (rather than to eliminate it).

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

Risk	Description	Risk management
Demand for water	The 2010 Water Resources Management Plan identifies a shortfall in water available for use against projected demand developing to 6.5Ml/day over 25 years. The forecasts are dependent on assumptions regarding population growth, changing demand profiles for water, and the effects of climate change on water available for use. There is the risk that without sufficient storage, or desalination capacity, Jersey Water may be unable to meet the demand for water in the future.	The Water Resources Management Plan sets out the way in which the Company expects to meet projected demand. The existing plan describes the steps necessary to increase resources (either through storage or desalination) and reduce demand (through metering, leakage reduction and demand management) to maintain an adequate security of supply. The plan will next be reviewed in 2017/8 when the effects of updated assumptions and the actions taken by the Company since the last plan will be incorporated.
Raw water quality	Agriculture is the main economic activity within the catchment areas of Jersey Water's reservoirs and abstraction points. In the absence of sufficient regulatory control, there is a risk of persistent and point source pollution from the use of fertilisers and pesticides in the catchments. This would 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.	Jersey Water manages its water resources prudently; regularly testing raw water sources, selecting the best quality water to be taken for treatment and blending water from multiple sources. The measures are designed to manage the risks associated with surface water catchments. Jersey Water has a dispensation for both oxadixyl and nitrates under the Water (Jersey) Law 1972, which permits a limited number of samples to exceed the statutory limit. The dispensations expire in 2019 and 2021 respectively. Jersey Water is proactively involved with the States of Jersey and farming sector to develop initiatives to improve water quality in catchments.
Drought	The Company's reservoirs have sufficient capacity to store approximately 120 days' average demand for water. The relatively low reservoir storage capacity coupled with the reliance of the Island on rainfall means that Jersey is particularly susceptible to periods of drought.	The Company manages its water resources prudently, ensuring that reservoirs are filled quickly in periods of rainfall. The Company maintains a standby desalination plant in case additional resources are required and further contingency measures are available should the need arise. The Company adopts a number of strategies to reduce the demand for water including Island-wide metering, pressure reduction, leakage control and mains renewals.



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

Strategic report continued

Financial results

Turnover

Jersey Water generated turnover for the year of £15,720k (2015: £15,373k), an increase of 2.26% on prior year driven by an increase of £498k or 3.4% in water sales income compared to 2015.

Measured water now accounts for 90% of water revenue in 2016, compared to 87% in 2015. In 2016 measured water income increased by £964k to £13,516k (2015: £12,552k), principally due to the continued transfer of unmeasured properties to measured water following the completion of the Island-wide metering programme, and bolstered by 374 new connections (2015: 506), a 2% tariff increase and higher than average water consumption. Unmeasured water income now only accounts for £825k or 6% of water revenue (2015: £1,258k and 9%).

Rechargeable works income, being income relating to installation of new water connections, has decreased by £105k to £428k (2015: £533k), primarily due to fewer large housing developments requiring connections compared to prior year (see above).

Operating expenditure

Operating costs in 2016 increased 1.56% to £10,696k (2015: £10,532k), mainly driven by additional costs in pursuit of regulatory compliance and best practice across the business. These were associated with more extensive testing of raw water quality subsequent to the discovery of oxadixyl and other pesticides in the raw water supply.
Other contributing factors were business systems security and resilience enhancements, and water specialists' costs. This was offset by savings in the cost of billing and power costs (despite additional pumping requirements arising from the pesticide issue), and lower contractor costs resulting from fewer new service connections.

Operating profit

Operating profit for 2016 was £5,024k (2015: £4,841k), 3.78% higher than the previous year.

Revaluation of investment property

A formal valuation of Company's investment property carried out at 31 December 2016 concluded that the market value of the property held at £720k in 2015 had decreased in value by £45k to £675k. This impairment has been recognised in the income statement.

Net finance costs

Finance costs have decreased by 22% or £88k to £305k (2015: £393k), largely attributable to interest income on pension fund assets exceeding the interest cost on the pension liabilities by £53k (2015: £37k expense) as a result of market changes.

Profit before taxation

The higher operating profit has led to profit before tax of £4,256k, a 4.42% increase on the prior year of £4,076k.

Income tax

In 2016 the charge for tax totals £922k in the income statement, a £182k increase on the prior year of £740k driven by higher operating profits, lower capital expenditure deductible for tax purposes, and an increase in the deferred tax charge related to accelerated capital allowances.

Equity dividends

The Directors are recommending a final dividend on the Ordinary and 'A' Ordinary shares of 13.559 pence per share (2015: 13.260 pence). This brings the total paid and proposed dividend for 2016 to 20.345 pence per share, an increase of 2% on the previous year's dividend of 19.946 pence.

Dividends declared and paid	2016 £'000	2015 £'000
Previous year - Final dividend	1,281	1,256
Current year - Interim dividend	655	646
	£1,936	£1,902
Dividends proposed		
Current year - Final dividend	£1,310	£1,281

Cash flow

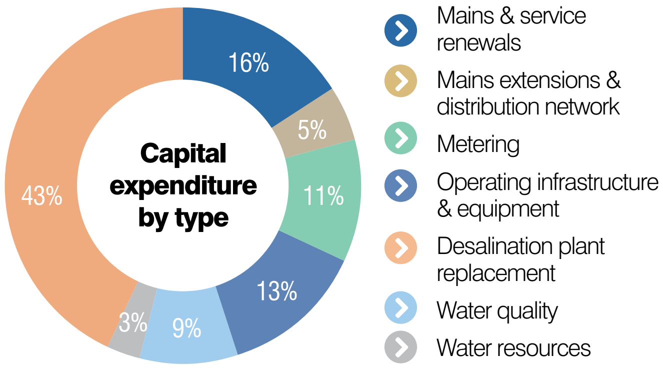
There was a net cash outflow during the year of £860k, which is £1,523k lower than the prior year outflow of £2,383k. The fall in outflow in investing activities of £1,818k, driven by lower capital expenditure, was offset by a decrease of £257k on net cash inflow from operating activities (2016: £6,377k, 2015: £6,634k). Movements and timing in trade receivables and payables account for much of the difference.
Cash outflow from financing activities increased by £38k to £2,676k (2015: £2,638k) resulting from a combination of lower interest receivable and higher dividends paid.

Strategic report continued

Capital expenditure

In 2016, capital expenditure totalled £4,589k, a £2,022k decrease on the prior year amount of £6,611k. The desalination plant upgrade accounted for £1,959k or 43% of the year's capital spend in 2016 and £3,728k or 55% of the prior year's capital spend, with the project due to complete in 2017. Mains renewals and metering totalled £1,216k in line with our focus on reducing leakage.

The graph below provides an analysis of the expenditure in 2016 by type.



Fixed assets

At 31 December 2016 the Company held assets with a net book value of £75,430k (2015: £73,245k), and tangible assets make up 99% of the book value at £74,613k (2015: £71,989k). Of this amount £6,581k was held as uncompleted works (2015: £4,869k), of which £6,031k represents works to upgrade the desalination plant.

In 2016, the Company embarked on a replacement programme for certain water meter assets. As a result the useful economic lives of water meters due for replacement were adjusted in accordance with the programme timeline. This increased the depreciation charge on these assets by £263k.

Investment properties

At the year end the Company held investment property with a market value of £675k (2015: £1,070k). The decrease in value is mostly due to a £350k reclassification of one property to tangible fixed assets due to change in use, plus a downward movement of £45k in value of the remaining investment properties following a formal valuation undertaken at the year end. The revaluation loss has been recognised in the income statement.

Loans and borrowing

Loans and borrowing at 31 December 2016 remained unchanged at £20,282k (2015: £20,282k).

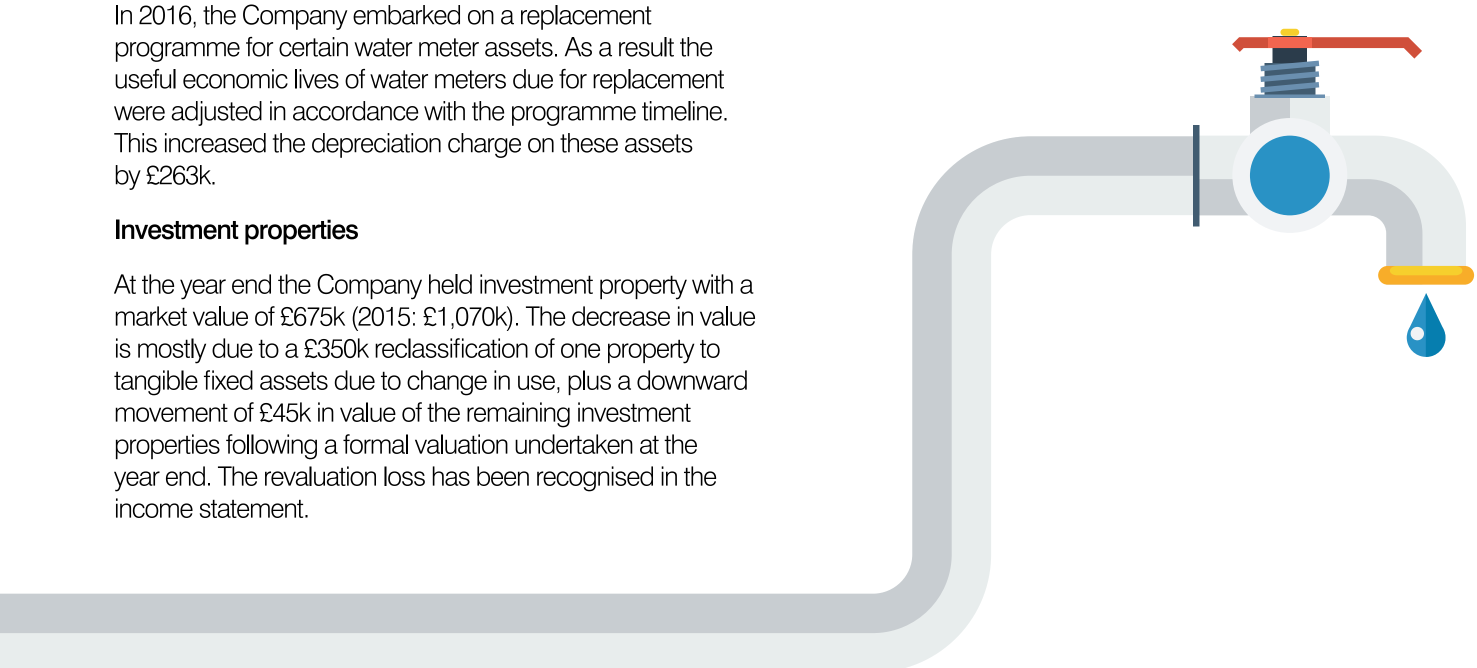
In order to hedge against interest rate exposure on £5,250k of the borrowing due to mature in 2021, the Company holds an interest swap contract for the same nominal value and maturity. Under FRS 102 this derivative liability is stated at a fair value of £414k at the reporting date on the statement of financial position, with a loss in the fair value of £128k being recognised in other comprehensive income for the year (2015: £65k gain).

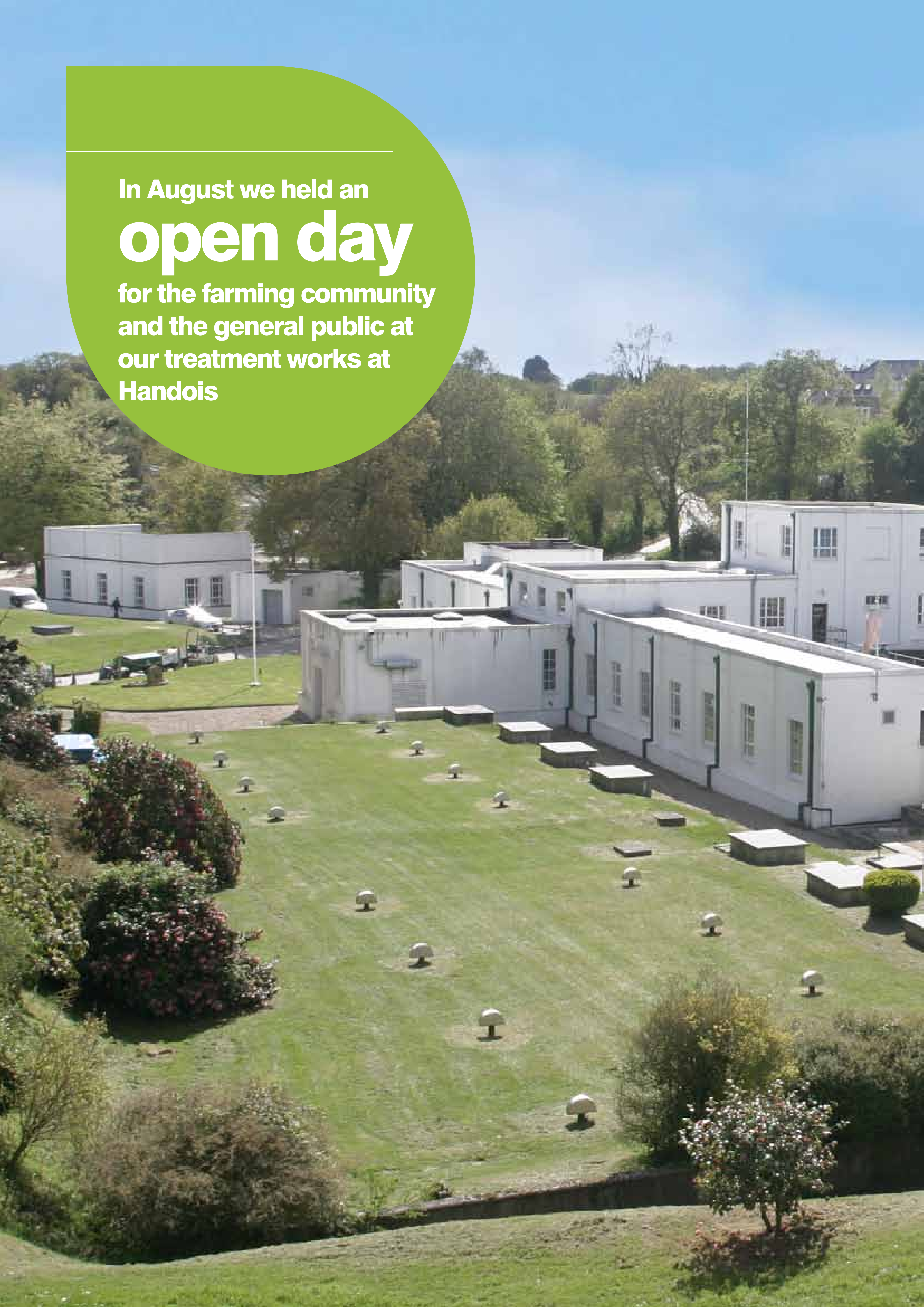
Defined benefit pension scheme

As at 31 December 2016, there was a net deficit on the combined FRS 102 valuation of the Company's defined benefit plan of £2,942k (2015: surplus of £1,279k), resulting in a movement of £4,221k on the statement of financial position. The decrease in value is mainly due to experience losses of £355k and market driven changes in discount rate and inflation assumptions increasing the value of future liabilities by £5,835k; £1,956k of these losses is offset by better than expected investment performance in the year.

Deferred tax liability

The deferred tax liability decreased in the year by £697k to £5,567k, principally as a result of a movement in value of the pension plan described above which created a reduction in tax liability of £844k (recognised in other comprehensive income). This was partially offset by increases in accelerated capital allowances.





In August we held an

open day

for the farming community and the general public at our treatment works at Handois

Strategic report continued

Water quality

Despite the challenges with untreated water quality in 2016, the quality of the treated water supplied by the Company during the year remained very high. The rate of compliance with the water quality requirements of the Water (Jersey) Law 1972 was 99.99%, in line with the previous two years. The bacteriological compliance of water leaving the treatment works was 100% (2015: 100%). We completed 19,997 regulatory analyses on treated water in 2016 and just two were outside of their regulatory parameter but posed no risk to health.

As reported in the 2015 accounts, in early 2016 Jersey Water identified the presence of oxadixyl, a pesticide last used in Jersey in 2003, and three other pesticides in raw water, requiring Val de la Mare reservoir to be taken out of service for 15 weeks. Oxadixyl was found in water resources across the Island, with the highest concentrations in the west and north-west. Readings taken at the treatment works indicate that concentrations reached a maximum of 0.1008ug/l at Handois Water Treatment Works in February 2016, just over the regulatory limit of 0.1ug/l and presenting no risk to health. Since then we have managed oxadixyl concentrations by careful blending of resources and removal through existing treatment processes, and there have been no further exceedances of the limits to date.

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.

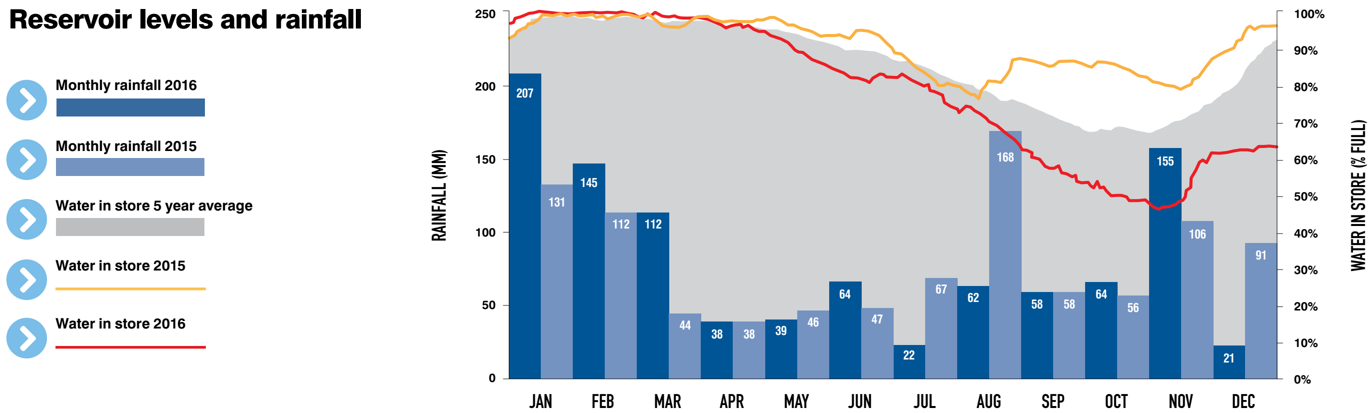
Throughout 2016 and for the third consecutive year, nitrates in the treated water supply complied with the regulatory limit of 50mg/l

During the dispensation period we will complete a review to understand the behaviour of oxadixyl in the Island's water resources better and identify and implement a suitable treatment solution as necessary. The dispensation for oxadixyl has not been used to date.

Throughout 2016 and for the third consecutive year, nitrates in the treated water supply complied with the regulatory limit of 50mg/l. The maximum concentration of nitrates in treated water during 2016 was 40.7mg/l. Weather patterns and water resources in 2014, 2015 and 2016 meant that the Company was able to manage resources to avoid any instances where concentrations of nitrates in supply exceeded the limit of 50mg/l. This is despite the levels of nitrates in streams and raw water sources exceeding the 50mg/l during part of the year.

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 existing dispensation expired on 31 December 2016 and was renewed for a period of five years, under the same terms, by the Minister for Planning and Environment in December 2016.

Reservoir levels and rainfall



Strategic report continued

The Company has been working closely with the Environment Department and representatives from the farming sector as part of the Nitrate Working Group (recently renamed as the Action for Cleaner Water Group). During 2016, the work of the Group focussed on the appropriate response to the pesticide issues identified during 2016 and resolving the ongoing nitrates problem. During the year, the States of Jersey published the Water Plan for Jersey and the Rural Economy Strategy, both containing recommendations by the Group for reductions in the application of fertilisers and pesticides, improving raw water quality and the ongoing protection of water resources.

For the last two decades, Jersey Water has been advocating the use of catchment management measures to reduce the application of fertilisers on the land and reduce the risk of applied fertilisers entering streams and reservoirs. Whilst there have been a number of initiatives and working groups looking at the nitrates problem over that period, there has not, until now, been a comprehensive plan by the States of Jersey as to how the quality of the Island's untreated water could be improved to an acceptable standard. We therefore support and endorse the States of Jersey Water Management Plan and the water quality improvement measures set out in the Rural Economy Strategy.

The work of the Action for Cleaner Water Group has also been productive in three other significant areas:

1. The introduction of voluntary measures in the potato-growing sector to risk assess the pesticides that are used to grow potatoes in the Island's water catchment areas. There is now a voluntary arrangement that prescribes which substances may or may not be used in each catchment.
2. The voluntary trials by the Jersey Royal Company of GPS-guided precision fertiliser applicators which may see a reduction in fertiliser use of 15-20%.
3. The sharing of information between the farming sector and Jersey Water such that we now know which pesticides are being used in the Island so that we can tailor our sampling regime accordingly.

The effectiveness of these measures will be borne out by water quality sampling in our streams and reservoirs in 2017 and beyond. Whether entirely successful or not they represent a step change for the better in the management of water quality risks in the Island.

In order to control better the quality of the water stored in Val de la Mare reservoir, a reservoir mixer was installed in March 2016 to replace the compressed air bubble mixer. Based upon the first year of operation the "Resmix" has shown a stabilisation in raw water quality at lower electricity costs than the previous mixer. It is planned to install a similar mixer at Grand Vaux reservoir in 2017.

In order to enhance treatment works filter performance, individual filter turbidity meters have been installed at Handois Water Treatment Works. The instruments have enabled the optimisation of filter restarts and provide a continuous monitor of water quality to demonstrate effective treatment prior to UV and chemical disinfection.

In order to foster a better understanding of the supply of water in Jersey, in August we held an open day for the farming community and the general public at our treatment works at Handois. The event, which was fully subscribed, proved very popular and included guided tours of the treatment works by our engineering team.

During 2016, there were 117 contacts (2015: 131) from customers relating to concerns about the quality of water supplied, and 45 contacts (2015: 27) requesting information. Approximately 50% of contacts related to incidences of discoloured water which, whilst aesthetically displeasing, presents no risk to health. Discoloured water generally occurs when rust sediments from unlined cast iron and galvanised iron water mains are disturbed as a result of planned works or bursts. The primary purpose of the Company's mains renewal programme is the replacement of pipework that causes this discoloration.

In 2016, the Company Water Regulations Enforcement Officer undertook 558 inspections (2015: 483) of new and existing plumbing installations to assess and advise on compliance with the Water Fittings Byelaws. During 2016, a total of 4 rectification notices were issued (2015: 27).

Strategic report continued

Water Resources

In 2016, the Company supplied a total of 7,567Ml compared to 7,293Ml in 2015 and a five-year average of 7,117Ml. The increase of 3.7% over 2015 was attributable to a drier than average summer, the effect of additional mains water connections and leakage.

Total rainfall for the year of 986mm was just over the five year average and 2015 level of 964mm. However, the rainfall pattern during the year was far from normal with more than half of average annual rainfall falling in the first 3 months (464mm in 2016 compared to a five-year average of 219mm). There followed a relatively dry spring, summer and early autumn where total rainfall was nearly 25% below the average. The trend reversed for one month in November with 35% more rainfall than usual, only for the dry weather to return in December, when just 21mm fell compared to an average of 158mm. December 2016 was the driest December on record in Jersey.

Reservoir storage started the year 96% full and remained at or near capacity and in line with the average until April. Following the discovery of oxadixyl and other pesticides in February, Val de la Mare reservoir was taken out of service, where it remained full and any water that would normally have been captured for use was lost to sea. During this period reliance was instead placed on water resources from Grand Vaux and Queen's Valley reservoirs. Val de la Mare reservoir was returned to service in June. The combined effects of the closure of Val de la Mare reservoir and the dry weather meant that usable water in store fell to its lowest level for the year - 46% - in November.

The exceptionally low rainfall in late November and December meant that water resources ended the year 63% full, the lowest level recorded since 2001.

Subsequent to the year end, despite a further very dry month in January, water resources have risen to 99% full as at 16 March 2017.

As previously reported, in October 2015 the Company began the replacement of the ageing standby reverse osmosis (RO) desalination plant with a new plant capable of producing 80% more water (10.8Ml/day) and offering a 36% improvement in energy efficiency. The contractor was due to complete the £6 million project in the early summer of 2016 but due to a number of technical issues outside of Jersey Water's control, project completion has been delayed. The project is currently nearing formal completion, after which there is a 30 day takeover test. Performance trials (the final stage of the project) are then likely to take place in the summer of 2017, to maximise the use from the water produced.

Mains network

During 2016, we replaced 2km of water mains, focussing on the renewal of old unlined cast iron and galvanised iron mains that were approaching the end of their useful lives. Schemes completed during the year include the replacement of 250 metres of main feeding Bath Street (the original dating back to 1900) and the replacement of 162 metres of pipe laid in 1903 feeding Halkett Place.

The Company installed 374 new water connections in 2016, down on the 506 installations in 2015 and slightly below the five year average.

In 2016, the Company announced its intention to resume its mains extension programme. In 2016, we laid 1.1km of new mains, fully funded by Jersey Water, bringing water to five new areas of the Island and connecting 45 properties to date. The Company also canvassed areas of the Island not served by mains water to determine the demand for mains water. The overall response was positive and further work will be undertaken in 2017 to develop the mains extension programme for the next few years. In addition, the Company laid 1.2km of mains funded by building contractors to connect new developments.

In September 2016, the Company announced plans to accelerate its meter replacement programme following an increase in the occurrence of leaks on certain types of meter installations. These leaks are predominantly under pavements and streets and have no impact on meter readings or water bills. The new meter system is an improvement, offering greater longevity and durability. This leakage problem could not have been foreseen, is very unusual and is due to factors outside of Jersey Water's control. During 2016, the Company replaced 3,000 such meters and the remaining 13,000 are planned for replacement in 2017.

Despite the prompt resolution of all burst mains and reported leaks, leakage levels during 2016 increased to 3.56Ml/d from 3.22Ml/d in 2015. The increase was principally due to a small number of long running leaks on mains (which were located and repaired in December 2016) and the leakage on meter installations referred to above. Subsequent to the year end, leakage reduced to target levels. Work on zoning St Helier and the surrounding areas into District Metered Areas (DMAs) is ongoing, and in 2016 we created three new DMAs. The creation of DMAs permits the measurement of water entering each zone and helps identify leakage and manage consumption.

Strategic report continued

Customer service

With the Island-wide installation of meters completed in 2015, the focus for the year was on the transfer of remaining properties to metered billing. During the year approximately 2,000 properties began paying for water usage by meter. By the end of 2016, approximately 94% of our customer base was charged for water on a metered basis. This is well ahead of our initial planned metering rate of 90%.

Customer satisfaction remained consistently high during 2016. We scored an average satisfaction rate of 93% based on our SMS text messaging feedback tool, broadly in line with our score of 95% in 2015.

As previously reported, the Company applied a tariff increase of 2% with effect from April 2016. This increase was the only increase over the past 14 years to exceed the prevailing rate of inflation (0.9% in September 2015). Over the previous decade, the price of mains water has reduced by 8.2% in real terms after taking inflation in to account. The real terms reduction in the cost of water in Jersey has been made possible by the Company focussing on cost efficiency and sharing the benefit of those efficiencies with customers and shareholders. In line with the ongoing objective of keeping tariff increases at or below inflation, the Company announced a 2% increase in the price of water to take effect from April 2017.

Jersey Water continues to provide customers with free water-saving devices to help them keep bills down and reduce consumption. Building on the success of this initiative, in 2016 the Company introduced a free online water savings calculator developed by our partner, SaveWaterSaveMoney, and tailored for the Jersey market. The calculator 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.

Employees

At the end of 2016, Jersey Water employed 81 permanent staff (2015: 80). Staff turnover increased slightly to 7.4% (2015: 6.2%) and our short-term sickness absence rate in 2016 was 2.5% (2015: 2%).

There were three recipients of long service awards during 2016; Tyrone Thornett, a meter reader, had completed ten years' service, Terry Gasnier, our Facilities Manager, had completed 20 years' service and Colin Le Moignan, a Network Fitter, also completed 20 years' service.

Jersey Water actively supports staff wishing to develop new skills or gain new qualifications. The Company is currently working through the process of equipping all treatment works operatives with a recognised water industry NVQ qualification. In 2016, Natalie Passmore, our Company Secretary and Chief Financial Officer, won her second "Business Skills Award" from Utilities and Service Industries Training Limited (USIT), a UK charity providing grants and bursaries for education and training for the utilities industries. Supported by funding from Jersey Water, the award enabled Mrs Passmore to attend the High Potentials Leadership Development Programme at Harvard Business School during May 2016. Kim Nicolle our Process Improvement Officer achieved her Level 5 Diploma in Management and Leadership with the Chartered Institute of Management.

Making sure that Jersey Water is a safe place to work is one of our principle objectives, and in 2015 we recruited a Safety and Risk Manager whose focus in 2016 has been to consolidate our health and safety and contingency response processes. In 2016, of a total of nine (2015: 12) minor incidents there were no (2015: two) 'time lost accidents', as defined in accordance with the UK standard RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995) 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.

We scored an average satisfaction rate of 93% based on our SMS text messaging feedback tool, broadly in line with our score of 95% in 2015

Strategic report continued

Environment

Jersey Water encourages many local groups and associations to make use of the Company's land to pursue their chosen activities. These groups include the Jersey Freshwater Angling Association, Jersey Trees for Life, the Jersey Motorcycle and Light Car Club, the Battle of Flowers Association, the Caesarean Cycle Club and many more. Our reservoirs at Val de la Mare and Queen's Valley are very popular destinations for the public throughout the year and are maintained to a high standard by our land management team.

Community

Jersey Water regularly supports local schools, clubs and events with our branded drinking water bottles and refill stations. In 2016, Jersey Water supported the first Jersey Sings concerts, performed by 1,400 local primary school children and held at Fort Regent. Every child received a 'Jersey Sings' sports bottle and we also set up dedicated drinking water refill stations for the event. During 2016, we were also proud to support Beaulieu, De La Salle, Le Rocquier, Mont à L'Abbé and St Peter's Schools and provide refill stations for the Touch Rugby World Championship, Diabetes Jersey North to South Walk, Over 50's Rugby Competition, Jersey Open Basketball Competition and Folklore music festival.

Our charity for 2016 was Diabetes Jersey, the only diabetes charity in Jersey, whose focus is to support the work of the Diabetes Centre. Through a series of fundraising events throughout the year, employees raised £5,000; their highest amount ever. This was matched by the Company, and Diabetes Jersey received a donation totalling £10,000. We also offered a free diabetes screening test to all Jersey Water employees.

Jersey Water employees have chosen Mind Jersey as the Company's charity for 2017. Mind Jersey is an independent local charity that provides support to people living with mental illness and promotes good mental health for all.

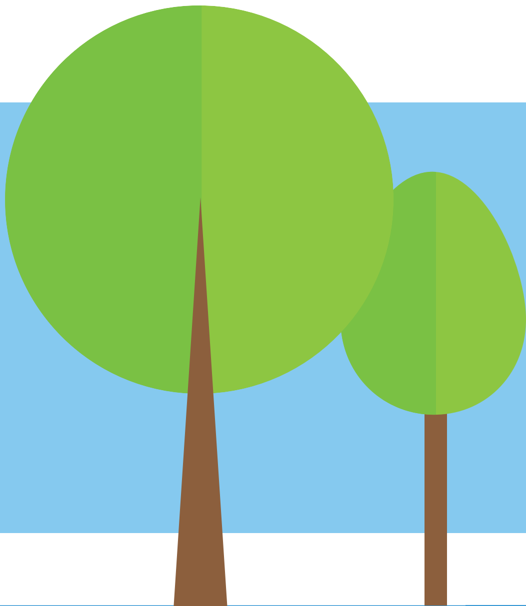
Jersey Water continues to support the important work of the National Trust for Jersey through the sponsorship, in 2016, of their events publication and in 2017, their magazine. In 2016, Jersey Water became a proud sponsor member, supporting the development of home-grown products and services.

Our Bursary scheme is now in its eighth year and goes from strength to strength. The scheme is designed to assist local people embarking on a degree course in a subject related to the supply of water (e.g. engineering, environmental sciences, chemistry) and provides funding for one student each year towards the cost of study for the duration of their degree course. As well as the financial support, the bursary programme also includes paid workplace experience.

The Strategic Report was approved by the board on 16 March 2017 and signed on its behalf by

Helier Smith
Chief Executive

Our reservoirs at Val de la Mare and Queen's Valley are very popular destinations for the public throughout the year and are maintained to a high standard by our land management team



We added **374 new** connections to our network

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 2014. 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 eight directors (Liz Vince retired on 31 March 2016), one of whom is an executive director 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.

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.

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

Meetings and Committee membership

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

	Board Meetings
Number of meetings in 2016	**7**
Tony Cooke	6
Mary Curtis	7
Tim Herbert	7
Stephen Kay	7
Helier Smith	7
Heather MacCallum (appointed 1 October 2016)	2/2
Daragh McDermott (appointed 1 October 2016)	2/2
Liz Vince (retired 31 March 2016)	2/2
Peter Yates	7

Director independence

The Board considers all of the Non-Executive Directors to be independent in character and judgement. In determining independence, the Board considers the specific circumstances of each director. The Board has concluded that Tony Cooke, Mary Curtis, Stephen Kay, Tim Herbert, Heather MacCallum, Daragh McDermott and Liz Vince (retired on 31 March 2016) 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.

Corporate governance continued

Other significant commitments

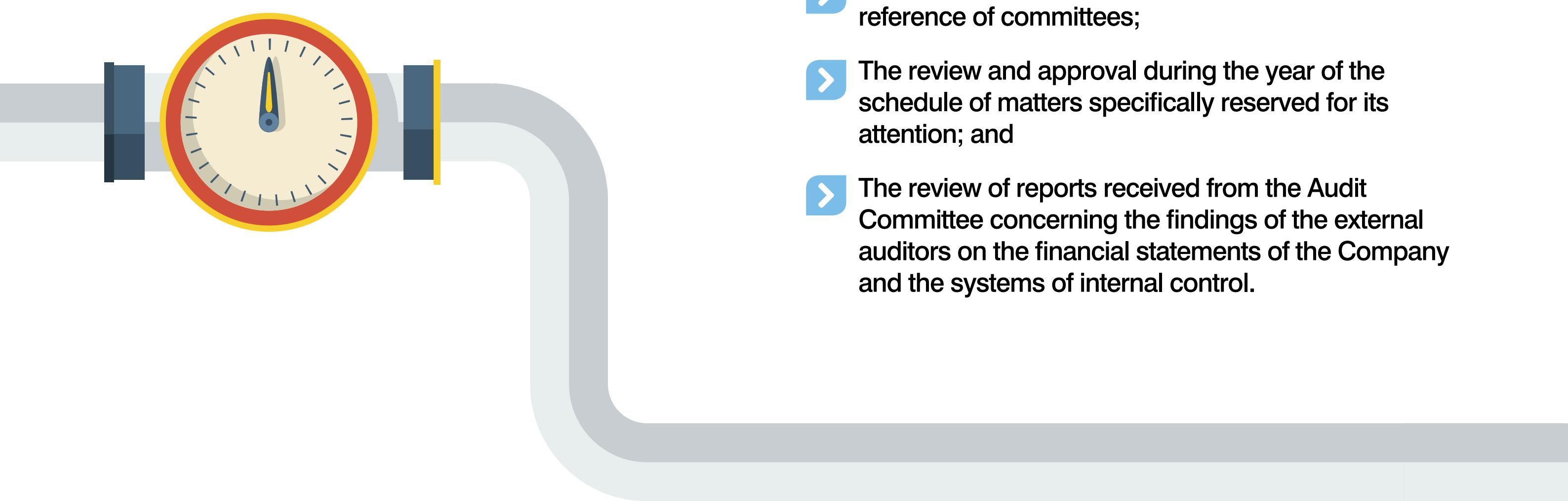
The Board has a process in place for reviewing the other significant commitments of non-executive directors and their impact on the ability of the non-executive directors to discharge their duties to the Company.

Reappointment

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

Relations with shareholders

The Company is in regular contact with its majority and controlling shareholder, the States of Jersey, with whom they meet not less than twice a year. Details of contact with and the views of the States of Jersey are shared with the Board as necessary. The Company uses events such as the Annual General Meeting to interact with and hear the views of all shareholders. The Company monitors and reviews votes received and considers the need to further engage with shareholders in the event of significant opposing votes.



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.**

Corporate governance continued

Audit Committee

The Audit Committee comprises of Heather MacCallum (Chair appointed 1 October 2016), Tony Cooke, Stephen Kay, Daragh McDermott (appointed to the Audit Committee 16 November 2016) and Liz Vince (former Chair, retired on 31 March 2016).

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 3.

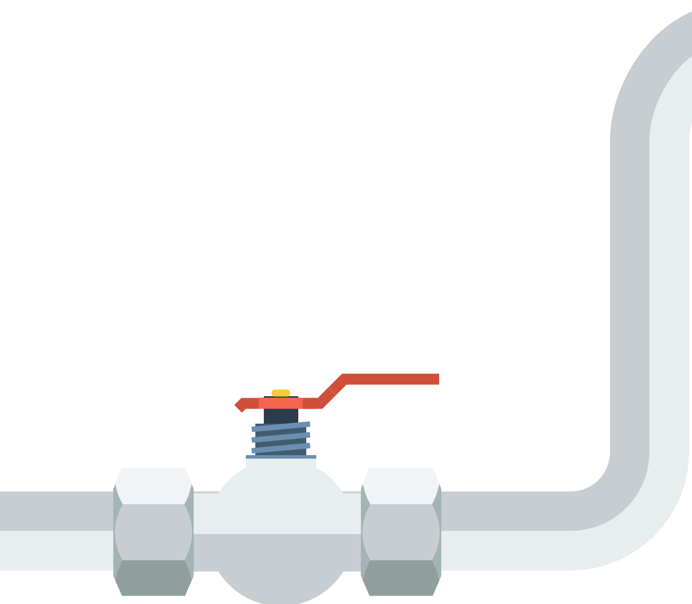
The external auditors, Executive Director, the Chief Financial Officer and Financial Controller also attend the meetings by invitation. Details of meetings and attendance in 2016 are provided below:

	Audit Committee
Number of meetings in 2016	**2**
Tony Cooke	2
Stephen Kay	2
Heather MacCallum (appointed 1 October 2016)	1/1
Daragh McDermott (appointed 16 November 2016)	0/0
Liz Vince (retired 31 March 2016)	1/1
Helier Smith*	2

*by invitation

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

- To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance;
- To provide advice, when requested by the Board, on whether the annual report taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess performance, the business model and strategy;
- Ensure that arrangements are in place for the proportionate and independent investigation of concerns raised confidentially by whistle-blowers about possible improprieties in matters of financial reporting or any other matters;
- To review and monitor the adequacy, operation and effectiveness of the Company's risk management and internal control systems, including internal financial controls and make recommendations for improvement where necessary;
- To oversee the external audit process and manage the relationship with the external auditors; 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 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

Corporate governance continued

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

Performance evaluation of the Audit Committee is described on page 21.

Review of financial statements

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

The Committee is briefed by the Chief Financial Officer in advance of the year end on the significant issues pertaining to the financial statements and how they will be dealt with. These issues are generally focused on the areas of subjectivity in the financial statements. In 2016, these included income recognition, impairment of fixed assets, pension scheme valuation assumptions, deferred tax, and interest rate swap 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 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 approves the external auditors' proposed approach and 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.

The current auditor is PricewaterhouseCoopers CI LLP with Mark James as lead audit partner. Both the firm and partner have held the position for seven years (including the reporting year) since first appointment after a tender process in 2010. In December 2016 a competitive tender for audit services for the year end 31 December 2017 was initiated by the Audit Committee. 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.

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 Director, 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 2016 are provided below:

	Remuneration committee
Number of meetings in 2016	**2**
Mary Curtis	2
Tim Herbert	2
Peter Yates	2
Helier Smith*	2

*by invitation

Corporate governance continued

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 Director;**
- **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 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 (appointed 1 October 2016) and Daragh McDermott (appointed 1 October 2016). The Executive Director, Helier Smith may also attend the whole or parts of meeting by invitation.

Details of meetings held and attendance in 2016 are included in the following table:

	Nomination committee
Number of meetings in 2016	**3**
Tony Cooke	3
Mary Curtis	3
Tim Herbert	3
Stephen Kay	3
Heather MacCallum (appointed 1 October 2016)	1/1
Daragh McDermott (appointed 1 October 2016)	1/1
Liz Vince (retired 31 March 2016)	1/1
Peter Yates	3
Helier Smith*	3

*by invitation

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

The other duties of the Committee include:

- **Making recommendations to the Board as to the re-election of directors under the 'retirement by rotation' provisions in the Company's Articles of Association whilst giving due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required;**
- **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, 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.

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 6.786 pence per share on 16 September 2016 (2015: 6.686p). The Directors are proposing a final dividend on ordinary and 'A' ordinary shares for 2016 of 13.559 pence (2015: 13.260p), bringing the total dividend for 2016 to 20.345 pence per share (2015: 19.946p).

	2016 £'000	2015 £'000
Interim dividend paid	**655**	646
Final dividend proposed	**1,310**	1,281
	£1,965	£1,927

Preference shares

In 2016, the Company paid dividends on preference shares totalling £381k (2015: £379k).

Directors

Changes in Directors

The Directors of the Company on the date the financial statements were approved are detailed on page 2. With the exception of Heather MacCallum and Daragh McDermott, all Directors were Directors of the Company throughout the year ended 31 December 2016. Heather MacCallum and Daragh McDermott were appointed to the Board on 1 October 2016 to fill casual vacancies.

Liz Vince retired as Non-Executive Director on 31 March 2016.

In accordance with the provisions of Article 49 of the Company's Articles of Association, Helier Smith will retire by rotation at the forthcoming Annual General Meeting ("AGM") and offer himself for re-election. Both Tony Cooke and Mary Curtis 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.

Both Heather MacCallum and Daragh McDermott will retire and seek formal election at the forthcoming AGM.

As described on page 21, 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 election and re-election at the AGM continue to perform effectively and demonstrate commitment to their roles.

The Directors also recommend Natalie Passmore as Executive Director in the role of Finance Director.

Heather MacCallum is a former partner of KPMG, Channel Islands, retiring from the partnership on 30 September 2016. She worked 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. Ms MacCallum became a Member of the Institute of Chartered Accountants of Scotland in November 1993.

Daragh McDermott 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. Mr McDermott 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.

Natalie Passmore is Chief Financial Officer and Company Secretary of Jersey Water having joined the Company as Financial Controller in 2010. She is a qualified accountant with Chartered Institute of Accountants England and Wales, Chartered Manager with the Chartered Management Institute and holds the Institute of Directors Certificate and Diploma in Company Direction.

Directors’ report continued

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 2016 are:

	Ordinary shares	Preference shares
Mary Curtis	4,838	-
Tony Cooke	4,080	-
Tim Herbert	1,500	-
Stephen Kay	500	-
Helier Smith	550	279
Peter Yates	3,938	-

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

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

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 16 March 2017:

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

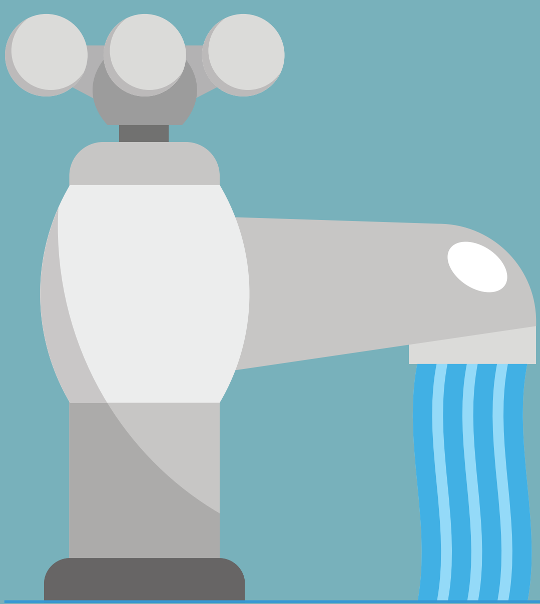
The States of Jersey owns 4,620,000 (100%) ‘A’ Ordinary shares, 2,520,000 (50%) Ordinary shares and 900,000 (100%) 10% cumulative fifth preference shares. The ‘A’ Ordinary shares, whilst in their ownership, have voting rights that confer twice the number of votes than those cast in respect of all other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

Independent Auditors

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

For and on behalf of the Board

Natalie Passmore
Company Secretary
16 March 2017



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

Directors' statements

Statement of Directors' responsibilities

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

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

- **select suitable accounting policies and then apply them consistently;**
- **make 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.

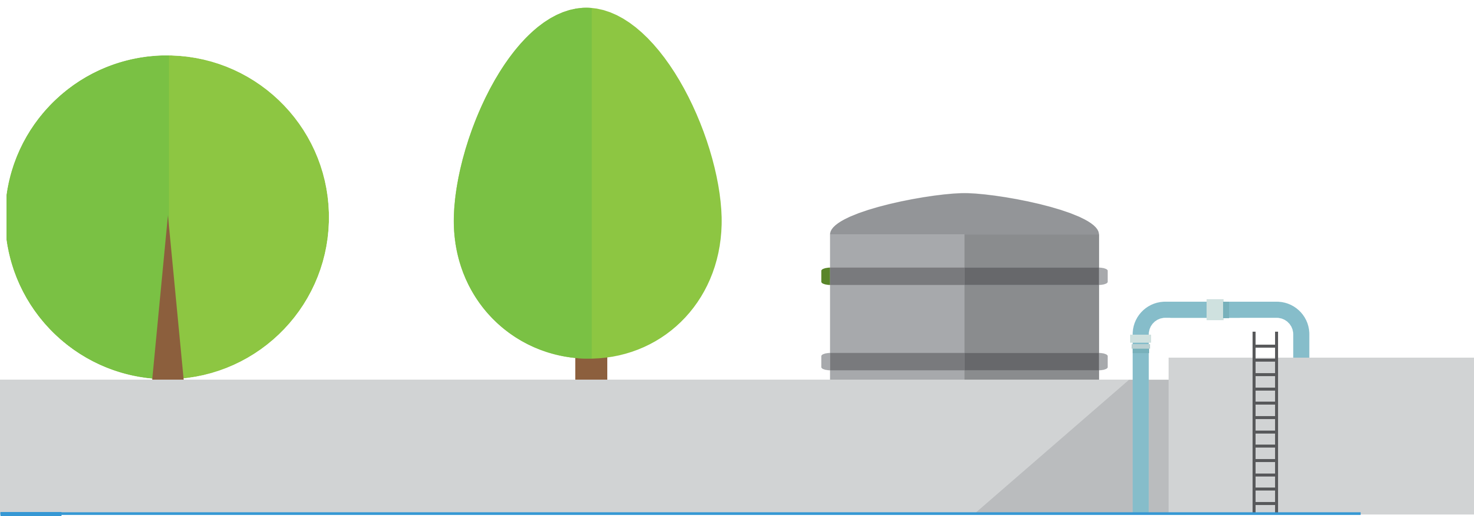
Responsibility statement of the Directors in respect of the annual financial report

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 annual report and 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.

We are satisfied that the systems are aligned with our strategic objectives and these systems are being developed, applied and maintained appropriately



Directors' statements continued

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 strategic business plan. 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 has considered the impact that the principal risks or combination of risks may have on the business including those that would threaten its business model, future performance, solvency or liquidity. A summary of the principal risks are summarised on page 10. These were considered along with Company's financial resources, the Water Resource Management Plan, its wide and varied customer base within Jersey, the steady demand for its products and services, its stable and well established treatment and distribution network. Where relevant, financial forecasts were subject to sensitivity analysis to illustrate the potential effects of significant risks and identify whether any could represent serious threats to the Company's liquidity or operation.

Based on the assessment of prospects and viability described, we confirm that we have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period ending 31 December 2021.

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 16 March 2017 and signed on its behalf by

Peter Yates
Chairman

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

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of The Jersey New Waterworks Company Limited (the "Company") as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with United Kingdom Accounting Standards, including Financial Reporting Standards 102 "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The Company's financial statements comprise:

- the Statement of financial position as at 31 December 2016;
- the Income statement for the year then ended;
- the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the Cash flow statement for the year then ended; and
- the Notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises the Directors, Officers and Advisers; Board of Directors; Chairman's statement; Strategic report; Corporate governance; Directors' report; Directors' statement and Five year summary (but does not include the financial statements and our auditor's report thereon).

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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, 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 this regard.

Responsibilities of directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards, comprising FRS 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland", the requirements of Jersey law 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 relating 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

continued

As part of an audit in accordance with ISAs, we exercise professional judgement 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.

Report on other legal and regulatory requirements

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

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

Mark James

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

16 March 2017

Financial statements

Statement of financial position
31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Fixed assets					
Intangible assets	5	142		186	
Tangible assets	6	74,613		71,989	
Freehold investment property	7	675		1,070	
			75,430		73,245
Current assets					
Inventories	8	640		480	
Trade receivables	9	3,423		3,100	
Cash		2,591		3,451	
		6,654		7,031	
Creditors - Amounts falling due within one year					
Creditors and accruals	10	(2,123)		(2,006)	
Income tax		(777)		(674)	
		(2,900)		(2,680)	
Net current assets			3,754		4,351
Total assets less current liabilities			79,184		77,596
Creditors - Amounts falling due after more than one year					
Bank loans	11	(14,900)		(14,900)	
Derivative financial liability	12	(414)		(286)	
Non-equity preference shares	13b	(5,382)		(5,382)	
			(20,696)		(20,568)
Provisions for liabilities and charges					
Deferred taxation	14		(5,568)		(6,264)
Net assets excluding pension liability			52,920		50,764
Pension (liability)/asset	15		(2,942)		1,279
Net assets			£49,978		£52,043
Capital and reserves					
Called up equity share capital	13a		4,830		4,830
Reserves			45,148		47,213
Total equity			£49,978		£52,043

The financial statements on pages 32 to 51 were approved by the Board of Directors on 16 March 2017 and were signed on its behalf by:

Peter Yates
Chairman

Financial statements

Income statement
For the year ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Turnover	16		**15,720**		15,373
Operating expenditure	17		**(10,696)**		(10,532)
Operating profit			**5,024**		4,841
Revaluation of investment property			**(45)**		-
(Loss)/profit on disposal of fixed assets			**(37)**		9
Interest					
- receivable and similar income		**58**		15	
- payable and similar charges		**(363)**		(408)	
Net interest expense	19	**(305)**		(393)	
Non-equity dividends	20	**(381)**		(381)	
			(686)		(774)
Profit before taxation			**4,256**		4,076
Jersey income tax	21		**(922)**		(740)
Profit for the reporting period			**£3,334**		£3,336
Earnings per ordinary share of £0.5	22		**£0.35**		£0.35

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

Statement of comprehensive income
For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the reporting period		**3,334**	3,336
Fair value movement on swap	12	**(128)**	65
Re-measurements of net defined benefit liability/asset	15	**(4,202)**	2,716
Total income tax on components of other comprehensive income	21	**867**	(555)
Other comprehensive (loss)/income for the year net of tax		**£(3,463)**	£2,226
Total comprehensive (loss)/income for the year		**£(129)**	£5,562

Financial statements

Statement of changes in equity
For the year ended 31 December 2016

	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 2015		4,830	1,049	(281)	42,785	48,383
Profit for the reporting period		-	-	-	3,336	3,336
Other comprehensive income for the year		-	-	52	2,174	2,226
Total comprehensive income for the year		-	-	52	5,510	5,562
Equity dividends	23	-	-	-	(1,902)	(1,902)
Balance as at 31 December 2015		**£4,830**	**£1,049**	**£(229)**	**£46,393**	**£52,043**
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)	(3,631)	(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**

Financial statements

Cash flow statement
For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Net cash inflow from operating activities	24	7,025	7,389
Jersey income tax paid		(648)	(755)
Net cash generated from operating activities		6,377	6,634
Cash flow from investing activities			
Purchase of fixed assets			
Disposal of fixed assets		(4,595)	(6,388)
Net cash used in investing activities		34	9
		(4,561)	(6,379)
Cash flow from financing activities			
Interest paid			
Interest received		(364)	(372)
Non-equity dividends paid		5	15
Equity dividends paid		(381)	(379)
Net cash used in financing activities		(1,936)	(1,902)
		(2,676)	(2,638)
Decrease in cash and cash equivalents		(860)	(2,383)
Cash and cash equivalents at the beginning of the year		3,451	5,834
Cash and cash equivalents at the end of the year		£2,591	£3,451

Notes to the financial statements

1 General information

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

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

2 Statement of compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Jersey Company Law.

3 Summary of significant accounting policies

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

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 Report on pages 8 to 19 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. 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 is recognised within turnover upon completion of the contracted works. Income arising on minor contracts to be provided in the future is treated as deferred income.

Water charges

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

Stocks of water

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

Inventory

Inventory is valued at the lower of cost and estimated selling price less costs to complete and sell. Inventory is recognised as an expense in the period in which the related revenue is recognised 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 first brought into use. At this point the asset is transferred to 'Software' and amortisation commences. Subsequent qualifying expenditure is transferred directly to 'Software'.

Notes to the financial statements continued

Tangible assets

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

Tangible fixed assets under construction are recognised within 'Tangible Uncompleted Works' until such time as they are first brought into use. At this point the asset is transferred to 'Property and Completed Works' and depreciation commences. Subsequent qualifying expenditure is transferred directly to 'Property and Completed Works'.

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

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

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 increased the depreciation charge by £243k in 2016 with an anticipated increase of £440k in 2017 to bring these assets to nil net book value by 31 December 2017 when the replacement programme is scheduled for completion. This revision was accounted for prospectively with effect from 1 October 2016.

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 fair value at the reporting date is the open market value of each investment property. 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. 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 asset's 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.

Notes to the financial statements continued

(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.

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.

Notes to the financial statements continued

(iii) Defined benefit pension scheme

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

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

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

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

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

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

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

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

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

Exceptional items

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

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 estimates and assumptions

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

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

(i) 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.

Notes to the financial statements continued

5 Intangible assets

	Software	Intangible uncompleted works	Total
Cost	**£'000**	**£'000**	**£'000**
Brought forward	551	65	616
Additions	19	2	21
Disposals	-	-	-
Transfers	34	(38)	(4)
Carried forward	**£604**	**£29**	**£633**
Amortisation	**£'000**	**£'000**	**£'000**
Brought forward	(430)	-	(430)
Charge for the year	(61)	-	(61)
Disposals	-	-	-
Carried forward	**£(491)**	**£-**	**£(491)**
Net book value			
Bought forward	£121	£65	£186
Carried forward	**£113**	**£29**	**£142**

There are no individually material software assets within intangible assets as at 31 December 2016 (2015: nil).

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	99,250	4,804	2,305	106,359
Additions	1,558	2,669	341	4,568
Disposals	(147)	-	(188)	(335)
Transfers	1,100	(921)	165	354
Carried forward	**£101,771**	**£6,552**	**£2,623**	**£110,946**
Depreciation				
Brought forward	(32,554)	-	(1,816)	(34,370)
Charge for the year	(1,988)	-	(194)	(2,182)
Disposals	76	-	188	264
Impairment	(45)	-	-	(45)
Carried forward	**£(34,511)**	**£-**	**£(1,822)**	**£(36,333)**
Net book value				
Brought forward	£66,696	£4,804	£489	£71,989
Carried forward	**£67,260**	**£6,552**	**£801**	**£74,613**

Included within fixed assets is £193k (2015: £160k) relating to internal labour costs capitalised in the year.
At 31 December 2016 capital commitments contracted for amounted to £244k (2015: £1,388k).

Notes to the financial statements continued

7 Freehold investment properties

	Freehold investment property
	£'000
Cost or valuation	
Brought forward	1,070
Additions	-
Disposals	-
Revaluation	(45)
Transfers	(350)
Carried forward	£675

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

During the year, 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. The property was revalued at £675k at 31 December 2016, resulting in a revaluation loss of £45k.

8 Inventories

	2016 £'000	2015 £'000
Inventory	1,118	1,008
Provision for impairment	(478)	(528)
	£640	£480

9 Trade receivables

	2016 £'000	2015 £'000
Trade debtors	1,391	1,203
Prepayments	389	422
Accrued income and other debtors	1,643	1,475
	£3,423	£3,100

Notes to the financial statements continued

10 Creditors and accruals

	2016 £'000	2015 £'000
Trade payables	838	639
Other creditors	567	348
Contract retentions	248	252
Accruals and deferred income	470	767
	£2,123	£2,006

11 Bank loans

	Repayment Dates	2016 £'000	2015 £'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

	2016	2015
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	-	-
Loans falling due after five years	14,900	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:

	2016 £'000	2015 £'000
Financial assets at fair value through profit or loss	-	-
Financial assets that are debt instruments measured at amortised cost	1,452	1,231
Financial assets that are equity instruments measured at cost less impairment	-	-
Financial liabilities at fair value through profit or loss	414	286
Financial liabilities that are measured at amortised cost	22,154	21,835
Financial assets that are equity instruments measured at cost less impairment	-	-

Notes to the financial statements continued

Derivative financial instruments

In October 2011, the Company entered into an interest rate swap contract with HSBC Bank Plc in order to hedge against the interest rate exposure of the Company on the loan of £5,250k maturing in 2021. The interest rate swap contract has a nominal value of £5,250k and also matures in 2021. The fair value of the swap at reporting date is £414k (2015: £286k).

HSBC Bank plc valued the derivative on 31 December 2016 as a liability of £414k (2015: £286k), generating a loss in comprehensive income in the year of £128k (2015: £65k gain).

13 Share capital

a) Equity share capital

	Shares of £0.5 each '000	2016 £'000	2015 £'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

		2016 £'000	2015 £'000
Authorised			
20,000	cumulative preference shares of £5	100	100
20,000	cumulative second preference shares of £5	100	100
100,000	cumulative third preference shares of £5	500	500
100,645	cumulative fourth preference shares of £5	503	503
900,000	cumulative fifth preference shares of £5	4,500	4,500
		£5,703	£5,703
Issued and fully paid			
17,261	5% cumulative preference shares of £5	86	86
17,402	3.5% cumulative second preference shares of £5	87	87
23,509	3% cumulative third preference shares of £5	118	118
16,036	3.75% cumulative third preference shares of £5	80	80
11,400	5% cumulative third preference shares of £5	57	57
90,877	2% cumulative fourth preference shares of £5	454	454
900,000	10% cumulative fifth preference shares of £5	4,500	4,500
		£5,382	£5,382

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

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

Notes to the financial statements continued

14 Deferred taxation

	Note	2016 £'000	2015 £'000
Accelerated capital allowances		6,239	6,065
Derivative financial liabilities		(83)	(57)
(Asset)/Liability arising from pension surplus/deficit		(588)	(256)
Net liability		£5,568	£6,264
Brought forward		6,264	5,617
Amounts charged in the income statement	21a	174	134
Amounts (credited)/charged in comprehensive income	21b	(870)	513
At 31 December		£5,568	£6,264

The net deferred tax liability expected to reverse in 2017 is £601k. 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 2016 totalled £154k (2015: £155k).

Defined benefit section and unfunded scheme

The full actuarial valuation as at 31 December 2016 shows a net deficit of £2,942k compared to a surplus of £1,279k at 31 December 2015.

Notes to the financial statements continued

The major assumptions used by the actuary were:

	2016	2015
Rate of increase in salaries	3.11%	2.48%
Rate of increase in pensions accrued after 1 January 1999	3.01%	2.48%
Discount rate	2.57%	3.77%
Inflation assumption	3.11%	2.48%
Life expectancy assumptions		
Current pensioners at 65 - Male	88	88
Current pensioners at 65 - Female	91	91
Future pensioners at 65 - Male	90	91
Future pensioners at 65 - Female	93	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.

	Assets £'000	Liabilities £'000	Total £'000
Reconciliation of the present value of scheme assets and liabilities			
At 1 January 2016	24,311	(23,032)	1,279
Benefits paid	(1,010)	1,010	-
Employer contributions	227	-	227
Current service costs	-	(299)	(299)
Employee contributions	63	(63)	-
Past service costs	-	-	-
Interest income / (expense)	903	(850)	53
Re-measurement gains/ (losses)			
- Actuarial gains / (losses)	-	(6,158)	(6,158)
- Return on plan assets excluding interest income	1,956	-	1,956
As at 31 December 2016	£26,450	£(29,392)	£(2,942)

	Assets £'000	Liabilities £'000	Total £'000
Analysis of funded and wholly unfunded scheme assets and liabilities			
Funded scheme	26,450	(29,386)	(2,936)
Wholly unfunded scheme	-	(6)	(6)
Total present value of scheme liabilities	£26,450	£(29,392)	£(2,942)

Notes to the financial statements continued

Total cost recognised as an expense within the income statement

	2016 £'000	2015 £'000
Current service cost	(299)	(420)
Interest income/(expense) within net interest expense	53	(37)
Total	£(246)	£(457)

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 (2015: nil) were included in the cost of the assets.

Total income/(expense) recognised with other comprehensive income

	2016 £'000	2015 £'000
Re-measurement gains/(losses)		
- Actuarial (losses)/gains	(6,158)	3,085
- Return on plan assets excluding interest income	1,956	(369)
Total re-measurement (losses)/gains	£(4,202)	£2,716

Analysis of scheme assets	2016 % of total fair value of scheme assets	2015 % of total fair value of scheme assets
Equities	31%	32%
Property	6%	7%
Corporate bonds	62%	58%
Cash and receivables	1%	3%
	100%	100%

The fair value of the plan assets was:	2016 £'000	2015 £'000
Equities	8,269	7,848
Property	1,605	1,621
Corporate bonds	16,357	14,198
Cash and receivables	219	644
	£26,450	£24,311

Notes to the financial statements continued

Return on plan assets:	2016 £'000	2015 £'000
Interest income	903	836
Return on plan assets less interest income	1,956	(369)
Total return on plan assets	£2,859	£467

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 £227k (2015: £246k).

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

16 Turnover

	2016 £'000	2015 £'000
Measured water charges	13,516	12,552
Unmeasured water charges	825	1,258
Service charges and other charges for water	604	637
Total water supply charges	14,945	14,447
Rechargeable works income	428	533
Other income	347	393
Turnover	£15,720	£15,373

17 Operating expenditure

	Note	2016 £'000	2015 £'000
Included in operating expenditure are the following:			
Net employment costs		3,795	3,806
Impairment of tangible fixed assets		45	-
Impairment of inventory		(50)	(2)
Amortisation & depreciation		2,000	2,215
Accelerated depreciation	3	243	44
Materials, consumables, hired in services and other costs		4,463	4,290
Directors' fees		115	120
Auditors' fees - Statutory audit		74	48
- Other services (Tax compliance)		5	5
- Other services (Pension scheme audit)		6	6
Total operating expenditure		£10,696	£10,532

Notes to the financial statements continued

18 Net employment costs

	2016 £'000	2015 £'000
Wages, salaries and other payments	3,347	3,199
Social Security	202	192
Pension contributions	439	575
	3,988	3,966
Less amount capitalised within fixed assets	(193)	(160)
Net employment costs	£3,795	£3,806

19 Net interest expense

a) Interest receivable

	2016 £'000	2015 £'000
Bank interest received	5	15
Net interest income on pension obligations	53	-
Total interest payable and similar charges	£58	£15

b) Interest payable and similar charges

	2016 £'000	2015 £'000
Bank loans and overdrafts	261	275
Net interest expense on pension obligations	-	37
Interest rate swap contract	102	96
Total interest payable and similar charges	£363	£408

20 Non-equity dividends

	2016			2015		
	Paid	Payable	Charge for the year	Paid	Payable	Charge for the year
	£'000	£'000	£'000	£'000	£'000	£'000
5% cumulative preference shares	4	-	4	4	-	4
3.5% cumulative second preference shares	3	-	3	1	2	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	£381	£-	£381	£379	£ 2	£381

Notes to the financial statements continued

21 Jersey income tax

a) Tax expense included in the income statement

	2016 £'000	2015 £'000
Current tax		
Income tax on the profit for the year	773	606
Adjustment in respect of prior periods	(50)	-
Deferred tax		
Charge for the year	174	134
Total tax profit on ordinary activities	£922	£740

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

	2016 £'000	2015 £'000
Current tax		
Current tax movement allocated to actuarial gains	3	42
Deferred tax		
Movement on deferred tax relating to interest rate swap	(26)	13
Movement on deferred tax relating to pension deficit	(844)	500
Total tax (income)/expense included in other comprehensive income	£(867)	£555

Factors affecting tax charge for year

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

	2016 £'000	2015 £'000
Profit before tax	£4,256	£4,076
Profit before tax multiplied by the standard rate of Jersey income tax of 20%	851	815
Tax at 20% on:		
Depreciation for the period in excess of capital allowances	(50)	(22)
Capital expenditure, deductible for tax purposes	(120)	(261)
Impairment of fixed assets	9	-
Loss/(Profit) on sale of fixed assets	7	(2)
Dividends on non-equity shares - non-deductible	76	76
	773	606
Less prior year over provision	(25)	-
Current tax for year	748	606
Accelerated capital allowances	174	134
Total tax charge for year	£922	£740

Notes to the financial statements continued

22 Earnings per ordinary share

Earnings per ordinary share of £0.35 (2015: £0.35) is based on earnings of £3,334k (2015: £3,336k), being the profit available for distribution to equity shareholders and 9,660,000 (2015: 9,660,000) ordinary and 'A' ordinary shares of £0.5 in issue.

23 Equity dividends

Ordinary and 'A' Ordinary shares

	2016 Pence per share	2015 Pence per share	2016 £'000	2015 £'000
Dividends paid				
Final dividend for the previous year	13.260	13.000	1,281	1,256
Interim dividend for the current year	6.786	6.686	655	646
	20.046	19.686	£1,936	£1,902
Dividends proposed				
Final dividend for the current year	13.559	13.260	£1,310	£1,281

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

	2016 £'000	2015 £'000
Profit for the reporting period	3,334	3,336
Tax on profit on ordinary activities	922	740
Non-equity dividends	381	381
Net interest expense	305	393
Loss on revaluation of investment property	45	-
Loss/(Profit) on sale of fixed assets	37	(9)
Operating profit	5,024	4,841
Depreciation and impairment	2,288	2,259
Change in order to bring pension charges onto a contribution basis	70	174
(Increase) in inventories	(160)	(4)
(Increase)/decrease in trade receivables	(154)	57
(Decrease)/increase in creditors	(43)	62
Net cash inflow from operating activities	£7,025	£7,389

Notes to the financial statements continued

25 Directors' emoluments

	Salary	Bonus	Fee	Benefits	Total emoluments (Excluding pension contributions)	
					2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Executives						
Helier Smith	146	25	-	5	174	166
Non-Executives						
Tony Cooke	-	-	19	-	19	19
Mary Curtis	-	-	19	-	19	19
Tim Herbert	-	-	19	-	19	19
Stephen Kay	-	-	19	-	19	19
Heather MacCallum	-	-	4	-	4	-
Daragh McDermott	-	-	4	-	4	-
Liz Vince	-	-	4	-	4	19
Peter Yates	-	-	26	-	26	26

During the year the Company made pension contributions of £18k in respect of Mr Smith.

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

Mrs Vince retired from the Board on 31 March 2016. Ms MacCallum and Mr McDermott were appointed to the Board on 1 October 2016.

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.

27 Ultimate controlling party

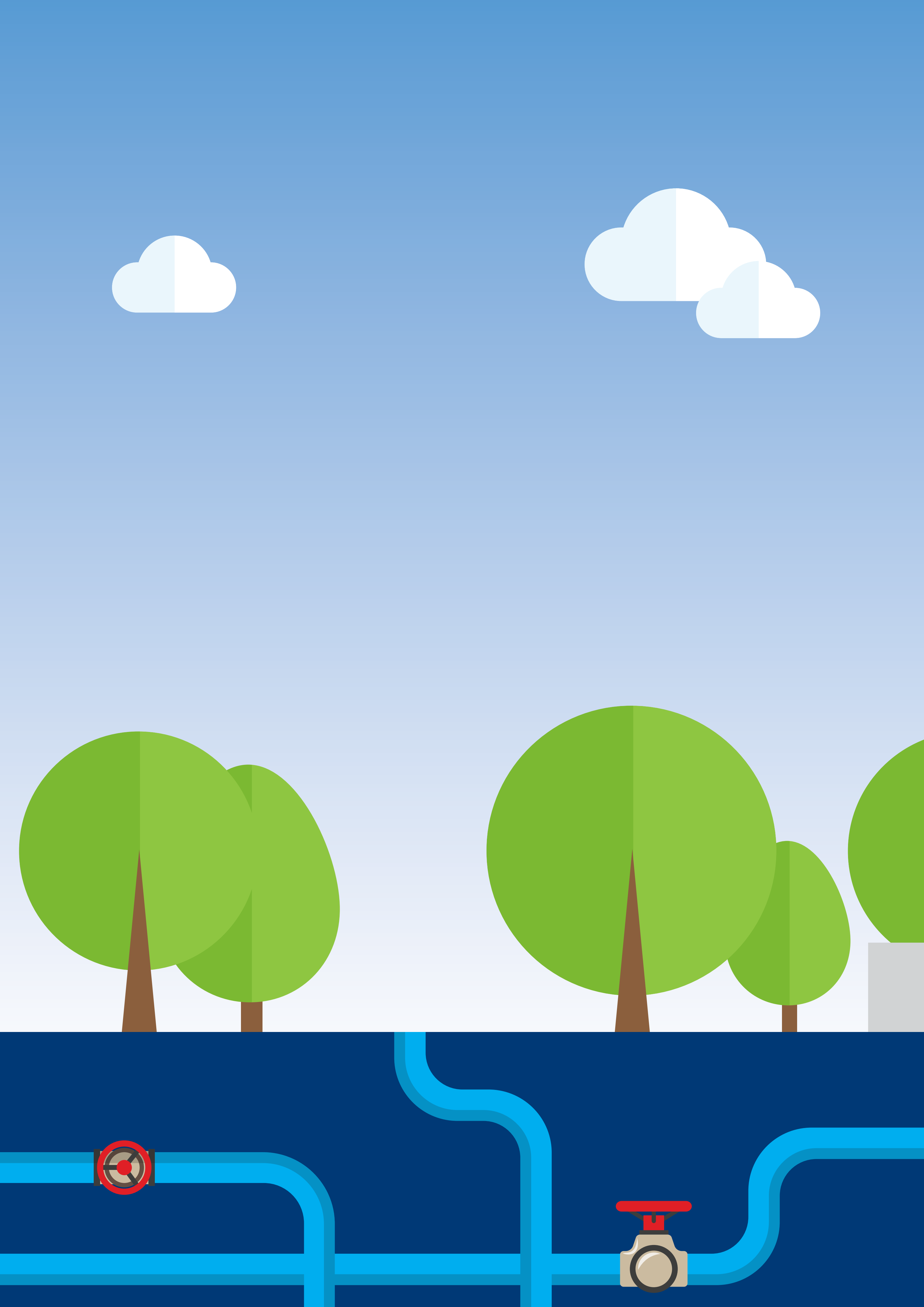
The ultimate controlling party of The Jersey New Waterworks Company Limited is the States of Jersey.

Five year summary

	Units	2016[1]	2015[1]	2014[1]	2013	2012
Statement of financial position						
Total equity	£'000	**49,978**	52,043	48,383	48,289	46,384
Net debt	£'000	**18,105**	17,119	14,780	15,684	17,629
Income statement						
Turnover	£'000	**15,720**	15,373	15,184	14,916	14,609
Operating profit (before exceptional items)	£'000	**5,024**	4,841	4,971	4,800	4,760
Profit before tax	£'000	**4,256**	4,074	4,242	4,318	4,486
Profit for the reporting period	£'000	**3,334**	3,336	3,390	3,438	3,697
Equity dividends paid	£'000	**1,936**	1,902	1,842	1,789	1,744
Financial statistics & ratios						
Capital expenditure	£'000	**4,589**	6,611	2,880	2,878	2,905
Net cash inflow / (outflow)	£'000	**(860)**	(2,385)	4,736	(1,555)	1,257
Earnings per share	£	**0.35**	0.35	0.35	0.36	0.38
Dividend cover	Times	**1.7**	1.8	1.8	1.9	2.1
Interest cover	Times	**7.2**	6.3	6.6	5.6	5.7
Gearing[2]	%	**41**	40	42	42	44
Operational statistics						
Total water supplied	Ml	**7,567**	7,294	7,080	7,047	7,015
Maximum daily demand	Ml	**25.6**	25.0	24.0	24.8	23.4
Annual rainfall	mm	**986**	964	1,045	939	1,089
New mains laid	km	**2.3**	0.2	1.6	1.5	1.5
Mains re-laid/relined	km	**2.0**	2.5	3.5	2.5	2.1
New connections	No	**374**	506	403	406	349
Live unmeasured supplies	'000	**2**	5	6	10	13
Live metered connections	'000	**33**	32	31	28	24
Employees	No	**81**	80	82	80	79
Water quality						
% Compliance with water quality parameters		**99.99%**	99.99%	99.99%	99.84%	99.99%

[1] The results for 2016, 2015 and 2014 have been calculated using FRS 102; results for 2012 and 2013 are based on the previous UK accounting standards.

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



WORLDHOST™

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

T: 01534 707300 E: customerservices@jerseywater.je
www.jerseywater.je

Jersey Water is the trading name of The Jersey New Waterworks Company Limited.

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