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TURNING THE TIDE FOR A LOW CARBON ISLAND INTERIM REPORT 2019

6 months ended 31 March 2019



Jersey Electricity

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DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE DIRECTORS

Phil Austin MBE, FCIB, FCMI (Chairman)
 Alan Bryce MSc, CEng, FIET
 Aaron Le Cornu BSc, ACA
 Wendy Dorman BA(Hons), ACA
 Tony Taylor BSc
 Peter Simon MA, MBA

EXECUTIVE DIRECTORS

Christopher Ambler BA, MEng, CDipAF, CEng, MIMechE, MBA (Chief Executive)
 Martin Magee CA (Finance)

SECRETARY

Peter Routier BSc, FCIS

REGISTERED OFFICE

Queens Road, St. Helier, Jersey

PLACE OF INCORPORATION

Jersey

AUDITORS

Deloitte LLP, Gaspé House, 66-72 Esplanade, St. Helier, Jersey

BANKERS

Royal Bank of Scotland International Limited,
 71 Bath Street, St. Helier, Jersey

BROKERS

Canaccord Genuity Wealth Management, 38-39 Esplanade,
 St. Helier, Jersey

REGISTRAR

Computershare Investor Services (Jersey) Limited,
 Queensway House, Hilgrove Street, St Helier, Jersey

DIRECTORS' STATEMENT

Financial Summary

	6 months 2019	6 months 2018
Electricity Sales in kWh	356.7m	368.2m
Revenue	£59.7m	£60.5m
Profit before tax	£9.3m	£9.7m
Earnings per share	23.83p	24.93p
Final dividend paid per ordinary share	8.80p	8.40p
Proposed interim dividend per ordinary share	6.45p	6.10p
Net debt	£12.1m	£20.2m

Overall trading performance

Group revenue, at £59.7m, was 1% lower for the first half of 2019 compared to the same period last year mainly due to a £1.3m decrease in revenue in JEBS, our contracting and business services unit. Revenue in our Energy business was broadly similar to last year. Profit before tax at £9.3m was £0.4m less than 2018 with a fall in Energy profits associated with lower unit sales being the primary driver. Cost of sales at £36.7m was £0.8m lower than last year with the fall in JEBS revenue being the main reason and operating expenses at £13.1m were £0.5m higher driven by marginal increases in depreciation, maintenance costs and software licensing. The taxation charge in the period of £1.9m was £0.1m lower than last year due to lower profits. Earnings per share, at 23.8p, were marginally behind 24.9p in 2018 due to lower profits. Net debt on the balance sheet, which comprises borrowings less cash and cash equivalents, at 31 March 2019 was £12.1m compared to £20.2m at this time last year (and £14.3m at our last year end on 30 September 2018).

Energy performance

Unit sales of electricity fell 3%, from 368m to 357m kWh, compared with last year. The recorded Maximum Demand fell by 15% from an all-time record of 178MW in March 2018 to 150MW in December 2018. Revenues in our Energy business at £47.4m were £0.2m higher than in 2018 reflecting a £0.6m reduction due to lower unit sales offset by the 2% rise in customer tariffs from 1 June 2018. Other income received was £0.8m higher than in 2018 as we received a rebate for subsea cable repair costs incurred in 2014. Operating profit at £8.2m was £0.5m lower than in the same period last year. Gross margin was impacted by lower unit sales and increased imported electricity prices and other costs, such as manpower, were higher compared to last year. We imported 95% of our on-Island requirement from France and 5% from the Energy from Waste plant, owned by the States of Jersey. Only 0.2% (1m units) of electricity was generated in Jersey using our own plant due to the availability of our three subsea cables to France. These importation and generation levels were consistent with the same period last year.

Non-Energy performance

Year-on-year revenue in our Powerhouse retail business, rose by 3% to £8.1m (2018: £7.9m) and profits rose by £0.1m to £0.6m in what is a very competitive marketplace, both locally and off-island. Profit for our Property portfolio was £0.1m lower than last year, at £0.8m, due mainly to an increase in operational maintenance costs. JEBS, our contracting and business services unit, saw a £1.3m decrease in external revenue to £1.6m (as one particularly large project took place during the previous financial year) but profitability remained around break-even similar to 2018. Our remaining business units produced profits of £0.3m being at a similar level to that delivered in 2018.

Investment in infrastructure

Capital expenditure was £6.4m in the first 6 months of the financial year compared to £7.1m in the same period last year. Our new West of St Helier Primary sub-station was successfully commissioned on 13 December as planned and the remaining mainly cosmetic works to the site, will be completed by summer 2019. Our rollout of smart-enabled meters continues with around 45,000 installed in customer premises as at 31 March 2019 representing around 90% of our customer base. A £4m project to install a new transformer at our La Collette site was approved at the March 2019 Board meeting and the project is expected to be completed during 2021.

Forward hedging of electricity and foreign exchange, and customer tariffs

We continue with our focus on delivering secure low-carbon electricity supplies and in our goal to maintain relative stability in customer tariffs, despite volatility in both European wholesale electricity, and foreign exchange markets. Our electricity purchases are materially, albeit not fully, hedged for the period 2019-22. As these are contractually denominated in the Euro we enter into forward foreign currency contracts to reduce the volatility of our cost base and aid tariff planning. In February 2019 we announced a below inflation average rise in tariffs of 3.5%, from 1 April, largely driven by a weakening of Sterling relative to the Euro and other inflationary factors. This is only the second rise instigated in the last five years and the tariffs payable by an average customer continue to benchmark well against other jurisdictions. The 'default maximum tariff', recently introduced by Ofgem (the electricity Regulator) to cap prices payable in the UK, is set at a level that is over 30% higher than the average customer would pay in Jersey.

Debt and financing

The net debt figure fell to £12.1m at 31 March 2019 compared to £20.2m at this time last year (and £14.3m at 30 September 2018). We continue to invest in necessary infrastructure in the Channel Islands and the Board is of the opinion that the Company is in a strong position to invest and fund further capital expenditure as considered appropriate.

Pension scheme

The defined benefit pension scheme deficit (without deduction of deferred tax) on our balance sheet at 31 March 2019 stood at £3.4m, compared to a surplus of £4.8m level at 30 September 2018 (and a deficit of £3.9m at 31 March 2018). Since the last financial year end scheme liabilities have materially increased by approximately £13m (to £144m). This increase was due to the assumed discount rate moving down from 2.9% at the last financial year-end to 2.4% at 31 March 2019 as yield curve movements have fallen in the interim period. Assets in the Scheme have risen by around £5m (to £141m).

The defined benefit scheme has been closed to new members since 2013. The triennial valuation of the pension scheme, as at 31 December 2018, is currently being performed by Aon, and the results will be reported in our 2019 Annual Report.

Responsibility statement

We confirm to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- (b) the Interim Directors Statement includes a fair review of the information required by the Disclosure and Transparency Rule DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the Interim Directors Statement includes a fair review of the information required by the Disclosure and Transparency Rule DTR 4.2.8R (disclosure of related party transactions and changes therein); and
- (d) this half yearly interim report contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this half yearly financial report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this half yearly financial report should be construed as a profit forecast.

C.J. AMBLER – Chief Executive

M.P. MAGEE – Finance Director

16 May 2019



Investor timetable for 2019

7 June	Record date for interim ordinary dividend
28 June	Interim ordinary dividend for year ending 30 September 2019
1 July	Payment date for preference share dividends
20 December	Preliminary announcement of full year results

FINANCIAL STATEMENTS

Condensed Consolidated Income Statement (Unaudited)

	Note	Six months ended 31 March 2019 £000	Six months ended 31 March 2018 £000	Year ended 30 September 2018 £000
Revenue	2	59,695	60,463	105,874
Cost of sales		(36,689)	(37,506)	(65,110)
Gross profit		23,006	22,957	40,764
Revaluation of investment properties		-	-	310
Operating expenses		(13,056)	(12,553)	(24,380)
Group operating profit	2	9,950	10,404	16,694
Finance income		39	7	28
Finance costs		(735)	(707)	(1,377)
Profit from operations before taxation		9,254	9,704	15,345
Taxation	3	(1,911)	(2,023)	(3,152)
Profit from operations after taxation		7,343	7,681	12,193
Attributable to:				
Owners of the Company		7,302	7,640	12,115
Non-controlling interests		41	41	78
Profit for the period/year attributable to the equity holders of the parent Company		7,343	7,681	12,193
Earnings per share				
- basic and diluted		23.83p	24.93p	39.54p

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	Six months ended 31 March 2019 £000	Six months ended 31 March 2018 £000	Year ended 30 September 2018 £000
Profit for the period/year	7,343	7,681	12,193
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit scheme	(7,526)	964	10,166
Income tax relating to items not reclassified	1,505	(193)	(2,033)
	(6,021)	771	8,133
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on cash flow hedges	(5,210)	(3,407)	(4,261)
Income tax relating to items that may be reclassified	1,042	681	852
	(4,168)	(2,726)	(3,409)
Total comprehensive income for the period/year	(2,846)	5,726	16,917
Attributable to:			
Owners of the Company	(2,887)	5,685	16,839
Non-controlling interests	41	41	78
	(2,846)	5,726	16,917

FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet (Unaudited)

	Note	As at 31 March 2019 £000	As at 31 March 2018 £000	As at 30 September 2018 £000
Non-current assets				
Intangible assets		826	1,077	938
Property, plant and equipment		215,533	212,401	215,153
Investment property		20,460	20,150	20,460
Trade and other receivables		425	533	501
Retirement benefit surplus		-	-	4,751
Derivative financial instruments	6	-	593	682
Other investments		5	5	5
Total non-current assets		237,249	234,759	242,490
Current assets				
Inventories		7,423	6,618	7,092
Trade and other receivables		20,506	21,559	15,202
Derivative financial instruments	6	78	3,337	2,338
Cash and cash equivalents		17,939	9,767	15,735
Total current assets		45,946	41,281	40,367
Total assets		283,195	276,040	282,857
Current liabilities				
Trade and other payables		16,014	14,147	15,284
Derivative financial instruments	6	738	8	120
Current tax payable		4,047	2,813	2,299
Total current liabilities		20,799	16,968	17,703
Net current assets		25,147	24,313	22,664
Non-current liabilities				
Trade and other payables		20,471	21,820	20,348
Retirement benefit deficit		3,375	3,855	-
Derivative financial instruments	6	1,739	257	89
Financial liabilities – preference shares		235	235	235
Borrowings		30,000	30,000	30,000
Deferred tax liabilities		23,369	23,490	25,753
Total non-current liabilities		79,189	79,657	76,425
Total liabilities		99,988	96,625	94,128
Net assets		183,207	179,415	188,729
Equity				
Share capital		1,532	1,532	1,532
Revaluation reserve		5,270	5,270	5,270
ESOP reserve		-	(61)	(41)
Other reserves		(1,919)	2,932	2,249
Retained earnings		178,252	169,700	179,666
Equity attributable to owners of the Company		183,135	179,373	188,676
Non-controlling interests		72	42	53
Total equity		183,207	179,415	188,729

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Share capital £000	Revaluation reserve £000	ESOP reserve £000	Other reserves £000	Retained earnings £000	Total reserves £000
At 1 October 2018	1,532	5,270	(41)	2,249	179,666	188,676
Total recognised income and expense for the period	-	-	-	-	7,302	7,302
Funding of employee share scheme	-	-	(22)	-	-	(22)
Amortisation of employee share scheme	-	-	63	-	-	63
Unrealised loss on hedges (net of tax)	-	-	-	(4,168)	-	(4,168)
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	(6,021)	(6,021)
Equity dividends paid	-	-	-	-	(2,695)	(2,695)
At 31 March 2019	1,532	5,270	-	(1,919)	178,252	183,135
At 1 October 2017	1,532	5,270	(84)	5,658	163,862	176,238
Total recognised income and expense for the period	-	-	-	-	7,640	7,640
Funding of employee share scheme	-	-	(9)	-	-	(9)
Amortisation of employee share scheme	-	-	32	-	-	32
Unrealised loss on hedges (net of tax)	-	-	-	(2,726)	-	(2,726)
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	771	771
Equity dividends paid	-	-	-	-	(2,573)	(2,573)
At 31 March 2018	1,532	5,270	(61)	2,932	169,700	179,373
At 1 October 2017	1,532	5,270	(84)	5,658	163,862	176,238
Total recognised income and expense for the year	-	-	-	-	12,115	12,115
Funding of employee share scheme	-	-	(9)	-	-	(9)
Amortisation of employee share scheme	-	-	52	-	-	52
Unrealised loss on hedges (net of tax)	-	-	-	(3,409)	-	(3,409)
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	8,133	8,133
Equity dividends paid	-	-	-	-	(4,444)	(4,444)
At 30 September 2018	1,532	5,270	(41)	2,249	179,666	188,676

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Condensed Consolidated Cash Flow Statement (Unaudited)

	As at 31 March 2019 £000	As at 31 March 2018 £000	As at 30 September 2018 £000
Cash flows from operating activities			
Operating profit	9,950	10,404	16,694
Depreciation and amortisation charges	5,584	5,458	11,242
Share-based reward charges	63	32	52
Gain on revaluation of investment property	-	-	(310)
Pension operating charge less contributions paid	460	654	1,196
Profit on sale of fixed assets	-	-	(1)
Operating cash flows before movements in working capital	16,057	16,548	28,873
Working capital adjustments:			
(Increase)/decrease in inventories	(331)	207	(267)
(Increase)/decrease in trade and other receivables	(5,226)	(5,718)	671
Increase in trade and other payables	1,442	1,017	125
Net movement in working capital	(4,115)	(4,494)	529
Interest paid	(731)	(703)	(1,368)
Preference dividends paid	(4)	(4)	(9)
Income taxes paid	-	-	(1,045)
Net cash flows generated from operating activities	11,207	11,347	26,980
Cash flows from investing activities			
Purchase of property, plant and equipment	(6,381)	(6,914)	(14,705)
Investment in intangible assets	(60)	(137)	(168)
Net proceeds from disposal of fixed assets	-	-	1
Net cash used in investing activities	(6,441)	(7,051)	(14,872)
Cash flows from financing activities			
Equity dividends paid	(2,695)	(2,573)	(4,444)
Dividends paid to non-controlling interest	(22)	(25)	(51)
Deposit interest received	39	7	28
Net cash used in financing activities	(2,678)	(2,591)	(4,467)
Net increase in cash and cash equivalents	2,088	1,705	7,641
Cash and cash equivalents at beginning of period/year	15,735	8,076	8,076
Effect of foreign exchange rate changes	116	(14)	18
Net cash and cash equivalents at end of period/year	17,939	9,767	15,735

Notes to the Condensed Interim Accounts (Unaudited)

1 Accounting policies

Basis of preparation

The interim financial statements for the six months ended 31 March 2019 have been prepared on the basis of the accounting policies set out in the 30 September 2018 annual report and accounts using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard 34 'Interim Financial Reporting'. There have been two changes to accounting standards during the current financial period that would be expected to impact the disclosures in these financial statements and the full year financial statements that will be prepared for 30 September 2019:

IFRS 9 'Financial instruments' was endorsed by the European Union (EU) and has been effective for periods on or after 1 January 2018 (1 October 2018 for the Group) and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The impact of adopting this standard does not materially change the amounts recognised in relation to existing Euro forward currency hedging arrangements employed by the Group but does simplify the requirements for measuring hedge effectiveness, and thus the eligibility conditions for hedge accounting. The Group's review of the IFRS 9 hedge accounting model concluded that whilst adoption does not change the treatment of existing hedging arrangements, the changes made do not result in any additional hedge designations either. As such, the existing hedge accounting model under IAS 39 appropriately reflects our risk management activities in the financial statements. Therefore, as permitted by IFRS 9, the Group has elected to continue to apply the hedge accounting requirements of IAS 39. This policy choice will be periodically reviewed to consider any changes in our risk management activities. Additionally, the Group has applied the exemption from the requirement to restate comparative information about classification and measurement, including impairment.

IFRS 15 'Revenue from contracts with customers' was endorsed by the EU and is effective for periods commencing on or after 1 January 2018 (1 October 2018 for the Group) and replaces IAS 11 'Construction contracts', IAS 18 'Revenue', IFRIC 18 'Transfers of Assets from Customers' and a number of other revenue related interpretations previously adopted by the Group. The core principle of IFRS 15 is that an entity recognises revenue that reflects the expected consideration for goods or services provided to a customer under contract, over the performance obligations they are provided, especially where bundled services are provided. Due to the nature of the Group's revenue generating transactions with customers, the impact of IFRS 15 only affects very limited activities undertaken by our Jendev division. It is therefore understood that this standard has no material impact to revenue or profits of the Group.

IFRS 16 'Leases' has been endorsed by the EU and will be effective for periods commencing on or after 1 January 2019 (1 October 2019 for the Group) and replaces IAS 17 'Leases' and sets out the principles for the recognition, measurement, presentation and disclosure of leases. It is anticipated that where the Group is currently lessee, around £4.0m of additional "Right of Use" assets will be capitalised with a corresponding lease liability. The amortisation of the lease liability through the income statement is currently forecast to be similar to the current rent charges and thus there is expected to be no material impact to profit.

The directors have a reasonable expectation that the Group (being the Company, Jersey Electricity plc and its subsidiary, Jersey Deep Freeze Ltd) has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the interim financial statements.

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Notes to the Condensed Interim Accounts (Unaudited)

2 Revenue and profit

The contributions of the various activities to Group revenue and profit are listed below:

	Six months ended 31 March 2019			Six months ended 31 March 2018			Year ended 30 September 2018		
	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000
Revenue									
Energy	47,413	58	47,471	47,174	64	47,238	82,332	133	82,465
Building Services	1,573	478	2,051	2,865	249	3,114	4,823	876	5,699
Retail	8,123	22	8,145	7,912	17	7,929	13,571	56	13,627
Property	1,133	302	1,435	1,115	305	1,420	2,277	604	2,881
Other	1,453	437	1,890	1,397	390	1,787	2,871	909	3,780
	59,695	1,297	60,992	60,463	1,025	61,488	105,874	2,578	108,452
Intergroup elimination			(1,297)			(1,025)			(2,578)
Revenue			59,695			60,463			105,874
Operating profit									
Energy			8,155			8,667			13,418
Building Services			13			(13)			(245)
Retail			632			567			812
Property			837			913			1,813
Other			313			270			586
			9,950			10,404			16,384
Revaluation of investment properties			-			-			310
Operating profit			9,950			10,404			16,694

Materially, all of the Group's operations are conducted within the Channel Islands. All transactions between divisions are on an arm's-length basis. The assets and liabilities of the Group are not reported on as there has been no significant movement in the values in the six months to 31 March 2019.

3 Taxation

	Six months ended 31 March 2019 £000	Six months ended 31 March 2018 £000	Year ended 30 September 2018 £000
Current income tax	1,748	1,771	2,299
Deferred income tax	163	252	853
Total income tax	1,911	2,023	3,152

For the period ended 31 March 2019 and subsequent periods, the Company is taxable at the rate applicable to utility companies in Jersey of 20% (2018: 20%).

Notes to the Condensed Interim Accounts (Unaudited)

4 Dividends paid and proposed

	Six months ended 31 March 2019	Six months ended 31 March 2018	Year ended 30 September 2018
Dividends per share			
- paid	8.80p	8.40p	14.50p
- proposed	6.45p	6.10p	8.80p
	£000	£000	£000
Distributions to equity holders	2,695	2,573	4,444

The distribution to equity holders in respect of the final dividend for 2018 of £2,695,449 (8.80p net of tax per share) was paid on 28 March 2019.

The Directors have declared an interim dividend of 6.45p per share, net of tax (2018: 6.10p) for the six months ended 31 March 2019 to shareholders on the register at the close of business on 7 June 2019. This dividend was approved by the Board on 16 May 2019 and has not been included as a liability at 31 March 2019.

5 Pensions

In consultation with the independent actuaries to the scheme, the valuation of the pension scheme assets and liabilities has been updated to reflect current market discount rates, current market values of investments and actual investment returns applicable under IAS 19 'Employee Benefits', and consideration has also been given as to whether there have been any other events that would significantly affect the pension liabilities.

6 Financial instruments

The Group held the following derivative contracts, classified as level 2 financial instruments at 31 March 2019.

	31 March 2019 £000	31 March 2018 £000	30 September 2018 £000
Fair value of currency hedges			
Derivative assets			
Less than one year	78	3,337	2,338
Greater than one year	-	593	682
Derivative liabilities			
Less than one year	(738)	(8)	(120)
Greater than one year	(1,739)	(257)	(89)
Total net (liabilities)/assets	(2,399)	3,665	2,811

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy. This hierarchy is based on the underlying assumptions used to determine the fair value measurement as a whole and is categorised as follows:

Level 1 financial instruments are those with values that are immediately comparable to quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 financial instruments are those with values that are determined using valuation techniques for which the basic assumptions used to calculate fair value are directly or indirectly observable (such as to readily available market prices);

FINANCIAL STATEMENTS

Notes to the Condensed Interim Accounts (Unaudited)

6 Financial instruments continued

Level 3 financial instruments are shown at values that are determined by assumptions that are not based on observable market data (unobservable inputs).

The derivative contracts for foreign currency shown above are classified as level 2 financial instruments and are valued using a discounted cash flow valuation technique. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

7 Related party transactions

Jersey Electricity plc conducts a variety of transactions with the States of Jersey and its associated entities:

Six months ended 31 March	Value of electricity services supplied by Jersey Electricity		Value of goods & other services supplied by Jersey Electricity		Value of goods & services purchased by Jersey Electricity		Amounts due to Jersey Electricity		Amounts due by Jersey Electricity	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
The States of Jersey and related entities	4,707	5,139	963	1,165	947	791	473	564	10	6

The States of Jersey is the Group's majority and controlling shareholder. Related entities include all corporatised entities that remain wholly owned by, or controlled by, the States of Jersey.