Clear investment. Pure energy.

SUSTAINING LIFE AND GROWTH, INVESTING FOR THE FUTURE

INTERIM REPORT 2016

6 months ended 31 March 2016

Jersey Electricity

CONTENTS

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE DIRECTORS
Geoffrey Grime FCA (Chairman)
Alan Bryce MSc, CEng, FIET
Michael Liston OBE, FREng, BSc, CEng, FIEE, CIMgt
Aaron Le Cornu BSc, ACA

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, 44 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 2016	6 months 2015
Electricity Sales – kWh (000)	**351,942**	357,362
Revenue	**£57.0m**	£55.8m
Profit before tax	**£7.9m**	£8.0m
Profit in Energy business	**£6.9m**	£7.4m
Earnings per share	**20.65p**	20.75p
Final dividend paid per ordinary share	**7.60p**	7.20p
Proposed interim dividend per ordinary share	**5.50p**	5.25p
Net debt	**£21.1m**	£21.9m

Overall trading performance

Group revenue, at £57.0m, was 2% higher for the first half year of 2016 than the same period in 2015 with this rise coming from increased activity in the non-Energy business units. Profit before tax was £7.9m being marginally behind the equivalent period last year and remains at a level commensurate with a sustainable rate of return typical for a regulated utility and at a quantum needed to maintain our continued investment in infrastructure. Cost of sales increased by £0.9m to £36.6m due mainly to additional costs in the non-Energy business units associated with the aforementioned rise in revenue. Operating expenses at £11.9m were £0.4m above last year with an increase in depreciation charges and pension costs being the primary drivers. Earnings per share fell to 20.65p from 20.75p in 2015. Net debt on the balance sheet at 31 March 2016 was £21.1m (2015: £21.9m) but will rise in the second half driven by our continued investment in infrastructure assets in our Energy business.

Energy Division

Unit sales of electricity fell by 1.5%, from 357m to 352m kWh, compared with the same period in the prior year. Mild weather, compared with long-term average temperatures, was experienced in the first half of this financial year, resulting in a reduced use of electricity primarily in the heating of residential properties. Revenues in our Energy Division at £45.5m remained at the same level as 2015 because although unit sales were lower the level of activity in ad-hoc rechargeable work was much higher. Operating profit in Energy at £6.9m was £0.5m lower than in the same period last year with lower unit sales, higher depreciation, increased maintenance and higher IAS19 pension costs being the reasons. We imported 90% of our on-Island requirement from France (2015: 94%) and generated 4% of our electricity in Jersey (2015: 2%). Additional training for power station staff was the main reason for the higher level of generation/lower level of importation between 2016 and the previous year. The remaining 6% (2015: 4%) of our electricity came from the Energy from Waste plant, owned by the States of Jersey.

Investment in infrastructure

Capital expenditure was £11.5m in the first 6 months of the financial year. The main area of spend was for the N1 subsea cable which is currently being manufactured in Italy and is expected to be laid between Jersey and France later in 2016 and be commissioned by early 2017. The previous EDF1 cable which it replaces was successfully removed from the seabed during Spring 2016. N1 is a joint project between Jersey Electricity and Guernsey Electricity with a budgeted cost of around £40m and we are pleased with the progress made to date in terms of both timing and cost. We are also continuing with the preparation of the site for our new West of St Helier Primary sub-station which has an estimated cost of £17m and is planned to be commissioned in 2018.

Non-energy performance

Year-on-year revenue in our retailing business, Powerhouse.je, rose by 9% post the restructuring of this business unit in recent years to £6.4m (2015: £5.9m) and encouragingly profitability improved to £0.4m from £0.3m in what is a competitive marketplace, both locally and off-island. Revenue rose by £0.1m to £1.3m for our Property portfolio and profit rose to £0.9m (2015: £0.8m) due to improved rental yield. JEBS, our contracting and business services unit, saw a £0.5m increase in revenue to £3.1m and moved from a breakeven position in 2015 to a profit of £0.1m despite it being a challenge to recruit new, skilled staff in a tight local market. Our remaining business units were on target and produced profits of £0.3m being at the same overall level as in 2015.

Forward hedging of electricity and foreign exchange and customer tariffs

Our goal, through use of our power purchase contract and associated hedging policies, continues to be the delivery of competitive and stable customer tariffs, along with secure low-carbon electricity supplies whilst maintaining an appropriate, fair return for our shareholders. Our electricity purchases are materially hedged for the period 2016-19. As these are contractually denominated in the Euro we enter into foreign currency contracts to eliminate a large percentage of exposure to aid tariff planning. We have seen significant volatility in foreign exchange in the last six months against the Euro largely associated with the impending UK vote as to whether to remain within the EU, which is why we seek to largely eliminate exposure.

This has resulted in a fair value increase of £5.6m (net of tax) as shown in the Condensed Consolidated Statement of Comprehensive Income, and a resultant rise in our balance sheet net assets, whereas last year we saw a movement in the opposite direction.

Debt and refinancing

The net debt figure, as expected, rose to £21.1m at 31 March 2016 compared to £17.5m at the last year end and we have additional bank facilities in place to fund our continued forecast investment spend. It is the aim of the Board that Jersey Electricity continues to maintain a prudent level of debt in the context of our overall balance sheet, which remains strong.

Dividend

Your Board proposes to pay an interim net dividend for 2016 of 5.50p (2015: 5.25p). We continue to aim to deliver sustained real growth each year over the medium-term. The final dividend for 2015 of 7.60p, paid in late March in respect of the last financial year, was an increase of 6% on the previous year.

Risk and outlook

The principal risks and uncertainties identified in our last Annual Report have not materially altered in the interim period. However as mentioned previously in the text above the potential exit of the UK from the EU has created recent volatility in foreign exchange markets. If the vote on 23 June results in a planned exit it is likely that such volatility would continue and may influence our longer-term tariff planning strategy (albeit we are largely hedged in the short-term).

Your Board is satisfied that Jersey Electricity plc has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, we continue to adopt the going concern basis in preparing the condensed financial statements.

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

13 May 2016

Investor timetable for 2016

3 June	Record date for interim ordinary dividend
30 June	Interim ordinary dividend for year ending 30 September 2016
1 July	Payment date for preference share dividends
14 December	Preliminary announcement of full year results

FINANCIAL STATEMENTS

Condensed Consolidated Income Statement (Unaudited)

	Note	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Revenue	2	57,036	55,840	100,479
Cost of sales		(36,610)	(35,705)	(64,604)
Gross profit		20,426	20,135	35,875
Revaluation of investment properties		-	-	(45)
Operating expenses		(11,851)	(11,408)	(21,931)
Group operating profit before exceptional items		8,575	8,727	13,899
Exceptional items - RTE outage compensation		-	-	479
- impact of reversal of EDF1 related provision		-	-	310
Group operating profit	2	8,575	8,727	14,688
Finance income		19	15	36
Finance expense		(668)	(786)	(1,555)
Profit from operations before taxation		7,926	7,956	13,169
Taxation	3	(1,573)	(1,583)	(2,397)
Profit from operations after taxation		6,353	6,373	10,772
Attributable to:				
Owners of the Company		6,326	6,357	10,725
Non-controlling interests		27	16	47
Profit for the period/year attributable to the equity holders of the parent Company		6,353	6,373	10,772
Earnings per share				
- basic and diluted		20.65p	20.75p	35.00p
Dividends per share				
- paid	4	7.60p	7.20p	12.45p
- proposed	4	5.50p	5.25p	7.60p

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Profit for the period/year	6,353	6,373	10,772
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit scheme	1,595	1,329	(5,706)
Income tax relating to items not reclassified	(319)	(266)	1,141
	1,276	1,063	(4,565)
Items that may be reclassified subsequently to profit or loss:			
Fair value gain/(loss) on cash flow hedges	6,979	(5,486)	(874)
Income tax relating to items that may be reclassified	(1,396)	1,097	175
	5,583	(4,389)	(699)
Total comprehensive income for the period/year	13,212	3,047	5,508
Attributable to:			
Owners of the company	13,185	3,031	5,461
Non-controlling interests	27	16	47
	13,212	3,047	5,508

FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet (Unaudited)

	Note	As at 31 March 2016 £000	As at 31 March 2015 £000	As at 30 September 2015 £000
Non-current assets				
Intangible assets		**198**	80	227
Property, plant and equipment		**192,780**	183,377	187,845
Investment property		**20,460**	20,505	20,460
Secured loan accounts		**708**	731	731
Other investments		**5**	5	5
Total non-current assets		**214,151**	204,698	209,268
Current assets				
Inventories		**5,853**	6,173	6,239
Trade and other receivables		**19,038**	19,350	14,777
Derivative financial instruments	6	**4,423**	-	1,194
Cash and cash equivalents		**8,905**	8,106	12,503
Total current assets		**38,219**	33,629	34,713
Total assets		**252,370**	238,327	243,981
Current liabilities				
Trade and other payables		**15,620**	16,113	17,597
Derivative financial instruments	6	**2,564**	9,733	6,314
Current tax payable		**619**	-	404
Total current liabilities		**18,803**	25,846	24,315
Net current assets		**19,416**	8,514	10,398
Non-current liabilities				
Trade and other payables		**20,930**	19,540	18,884
Retirement benefit deficit		**5,696**	193	7,291
Financial liabilities – preference shares		**235**	235	235
Borrowings		**30,000**	30,000	30,000
Deferred tax liabilities		**18,185**	15,603	15,529
Total non-current liabilities		**75,046**	65,571	71,939
Total liabilities		**93,849**	91,417	96,254
Net assets		**158,521**	146,910	147,727
Equity				
Share capital		**1,532**	1,532	1,532
Revaluation reserve		**5,270**	5,270	5,270
ESOP reserve		**(191)**	(103)	(97)
Other reserves		**1,369**	(7,904)	(4,214)
Retained earnings		**150,496**	148,092	145,223
Equity attributable to owners of the Company		**158,476**	146,887	147,714
Non-controlling interests		**45**	23	13
Total equity		**158,521**	146,910	147,727

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 2015	1,532	5,270	(97)	(4,214)	145,223	147,714
Total recognised income and expense for the period	-	-	-	-	6,326	6,326
Additional shares for employee share scheme	-	-	(114)	-	-	(114)
Amortisation of employee share scheme	-	-	20	-	-	20
Unrealised gain on hedges (net of tax)	-	-	-	5,583	-	5,583
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	1,276	1,276
Equity dividends paid	-	-	-	-	(2,329)	(2,329)
As at 31 March 2016	**1,532**	**5,270**	**(191)**	**1,369**	**150,496**	**158,476**
At 1 October 2014	1,532	5,270	(36)	(3,515)	142,878	146,129
Total recognised income and expense for the period	-	-	-	-	6,357	6,357
Additional shares for employee share scheme	-	-	(93)	-	-	(93)
Amortisation of employee share scheme	-	-	26	-	-	26
Unrealised loss on hedges (net of tax)	-	-	-	(4,389)	-	(4,389)
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	1,063	1,063
Equity dividends paid	-	-	-	-	(2,206)	(2,206)
As at 31 March 2015	**1,532**	**5,270**	**(103)**	**(7,904)**	**148,092**	**146,887**
At 1 October 2014	1,532	5,270	(36)	(3,515)	142,878	146,129
Total recognised income and expense for the period	-	-	-	-	10,725	10,725
Additional shares for employee share scheme	-	-	(112)	-	-	(112)
Amortisation of employee share scheme	-	-	51	-	-	51
Unrealised loss on hedges (net of tax)	-	-	-	(699)	-	(699)
Actuarial loss on defined benefit scheme (net of tax)	-	-	-	-	(4,565)	(4,565)
Equity dividends paid	-	-	-	-	(3,815)	(3,815)
As at 30 September 2015	**1,532**	**5,270**	**(97)**	**(4,214)**	**145,223**	**147,714**

FINANCIAL STATEMENTS

Condensed Consolidated Cash Flow Statement (Unaudited)

	Note	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Cash flows from operating activities				
Operating profit before exceptional items		8,575	8,727	13,899
Depreciation and amortisation charges		4,957	4,865	9,926
Loss on revaluation of investment property		-	-	45
Pension operating charge less contributions paid		300	150	213
Loss on sale of fixed assets		-	4	7
Operating cash flows before movements in working capital		13,832	13,746	24,090
Decrease in inventories		386	1,160	1,095
(Increase)/decrease in trade and other receivables		(4,222)	(3,328)	1,884
(Decrease)/increase in trade and other payables		860	(1,016)	(2,604)
Interest paid		(654)	(767)	(1,548)
Preference dividends paid		(4)	(4)	(9)
Cash amounts relating to exceptional items		-	-	479
Net cash flows generated from operating activities		**10,198**	9,791	23,387
Cash flows from investing activities				
Purchase of property, plant and equipment		(11,335)	(9,160)	(16,629)
Capitalised interest paid		(117)	-	(4)
Purchase of intangible assets		(6)	(67)	(207)
Net proceeds from disposal of fixed assets		-	-	3
Net cash used in investing activities		**(11,458)**	(9,227)	(16,837)
Cash flows from financing activities				
Equity dividends paid	4	(2,357)	(2,234)	(3,859)
Deposit interest received		19	-	36
Net cash (used in)/from financing activities		**(2,338)**	(2,234)	(3,823)
Net (decrease)/increase in cash and cash equivalents		(3,598)	(1,670)	2,727
Cash and cash equivalents at beginning of period/year		12,503	9,776	9,776
Net cash and cash equivalents at end of period/year		**8,905**	8,106	12,503

Notes to the Condensed Interim Accounts (Unaudited)

1 Accounting policies

Basis of preparation

The interim financial statements for the six months ended 31 March 2016 have been prepared on the basis of the accounting policies set out in the 30 September 2015 annual report and accounts using accounting policies consistent with International Financial Reporting Standards (IFRS) and in accordance with IAS 34 'Interim Financial Reporting'.

Jersey Electricity plc has considerable financial resources and, as a consequence, the directors believe that it is well placed to manage its business risks successfully. The directors have a reasonable expectation that the Group 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.

2 Revenue and profit

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

	Six months ended 31 March 2016			Six months ended 31 March 2015			Year ended 30 September 2015		
	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000
Revenue									
Energy	45,462	72	45,534	45,510	46	45,556	80,698	129	80,827
Building Services	2,772	280	3,052	2,251	289	2,540	4,148	808	4,956
Retail	6,413	20	6,433	5,891	16	5,907	11,087	40	11,127
Property	1,046	299	1,345	962	299	1,261	2,084	599	2,683
Other	1,343	393	1,736	1,226	378	1,604	2,462	777	3,239
	57,036	1,064	58,100	55,840	1,028	56,868	100,479	2,353	102,832
Inter-segment elimination			(1,064)			(1,028)			(2,353)
			57,036			55,840			100,479
Operating profit									
Energy			6,904			7,354			11,514
Building Services			116			(4)			(58)
Retail			411			286			334
Property			870			798			1,562
Other			274			293			592
			8,575			8,727			13,944
Revaluation of investment properties			-			-			(45)
Exceptional items:									
RTE outage compensation			-			-			479
Impact of reversal of EDF1 related provision			-			-			310
Operating profit			8,575			8,727			14,688

Materially, all of the Group's operations are conducted within the Channel Islands. All transfers between divisions are at 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 2016.

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Notes to the Condensed Interim Accounts (Unaudited)

3 Taxation

	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Current income tax	215	-	404
Deferred income tax	1,358	1,583	1,993
Total income tax	1,573	1,583	2,397

For the period ended 31 March 2016 and subsequent periods, the Company is taxable at the rate applicable to utility companies of 20% (2015: 20%).

4 Dividends

	Six months ended 31 March 2016 £000	Six months ended 31 March 2015 £000	Year ended 30 September 2015 £000
Distributions to equity holders in the period	2,329	2,206	3,815

The distribution to equity holders in respect of the final dividend for 2015 of £2,329,000 (7.60p net of tax per share) was paid on 29 March 2016.

The Directors have declared an interim dividend of 5.50p per share, net of tax (2015: 5.25p) for the six months ended 31 March 2016 to shareholders on the register at the close of business on 3 June 2016. This dividend was approved by the Board on 12 May 2016 and has not been included as a liability at 31 March 2016.

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.

Notes to the Condensed Interim Accounts (Unaudited)

6 Financial instruments

The Group held the following derivative contracts, classified as level 2 financial instruments at 31 March 2016.

Recurring fair value measurements:	Six months ended 31 March 2016 £000	Year ended 30 September 2015 £000
Foreign exchange currency hedges		
Financial assets	**4,423**	1,194
Financial liabilities	**(2,564)**	(6,314)

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);

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

The Company currently leases the La Collette Power Station site from its largest shareholder, the States of Jersey, for a peppercorn rent of £1,000 per annum. This lease was subject to a rent review as at June 2006 and the Company is in dispute with its landlord, the States of Jersey, concerning the outstanding rent review. The information usually required by IAS 37 Provisions, 'Contingent liabilities and contingent assets', is not disclosed on the grounds that it may prejudice the outcome of the dispute.

	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	
Six months ended 31 March	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
The States of Jersey	**3,761**	3,867	**725**	590	**1,102**	561	**732**	661	**1**	128
JT Group Limited	**980**	980	**268**	173	**19**	66	**157**	118	**3**	-
Jersey Post Int Limited	**58**	49	**-**	-	**17**	16	**7**	7	**-**	-
Jersey New Waterworks Ltd	**409**	417	**74**	47	**64**	55	**63**	63	**7**	-

The States of Jersey is the Group's majority and controlling shareholder. Jersey New Waterworks is majority owned and controlled by the States of Jersey. JT Group Limited and Jersey Post International Limited are both wholly owned by the States of Jersey. All transactions are undertaken at an arm's length basis.