Clear investment. Pure energy.

POWERING A CLEAN LOW CARBON FUTURE

INTERIM REPORT 2018

6 months ended 31 March 2018

Jersey Electricity

CONTENTS

DIRECTORS, OFFICERS AND PROFESSIONAL ADVISERS

NON-EXECUTIVE DIRECTORS
Geoffrey Grime FCA (Chairman)
Alan Bryce MSc, CEng, FIET
Aaron Le Cornu BSc, ACA
Phil Austin MBE, FCIB, FCMI
Wendy Dorman BA(Hons), ACA
Tony Taylor BSc

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

SECRETARY
Peter Routier BSc, FCIS

REGISTERED OFFICE
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PLACE OF INCORPORATION
Jersey

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

BANKERS
Royal Bank of Scotland International Limited,
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BROKERS
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St. Helier, Jersey

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

DIRECTORS' STATEMENT

Financial Summary

	6 months 2018	6 months 2017
Electricity Sales – kWh (000)	**368,200**	361,123
Revenue	**£60.5m**	£58.0m
Profit before tax	**£9.7m**	£8.9m
Earnings per share	**24.9p**	22.9p
Final dividend paid per ordinary share	**8.4p**	8.0p
Proposed interim dividend per ordinary share	**6.1p**	5.8p
Net debt	**£20.2m**	£29.4m

Overall trading performance

Group revenue, at £60.5m, was 4% higher for the first half of 2018 than the same period in 2017 with £1.0m coming from a higher level of unit sales of electricity and £0.8m from our Powerhouse.je retailing business. Profit before tax was £9.7m being £0.8m ahead of 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 at £37.5m was £2.0m higher than last year with an increase in import costs in our Energy business and higher sales activity in Powerhouse.je being the main reasons. Operating expenses at £12.6m were £0.4m lower than in 2017 due to a general reduction in overhead costs. The taxation charge in the period of £2.0m was £0.1m higher than during the same period in 2017 due to increased profits. Earnings per share rose to 24.9p from 22.9p in 2017. Net debt on the balance sheet at 31 March 2018 was £20.2m (2017: £29.4m) compared to £21.9m at our last year end on 30 September 2017.

Energy performance

Unit sales of electricity rose 2%, from 361m to 368m kWh, compared with last year. The average temperature was mixed with the first quarter being milder, and the second quarter colder, than in the first half of the 2017 financial year. On 1 March we saw our highest ever maximum demand for electricity of 178 MW when temperatures fell to a very unseasonal minus 3 degrees centigrade, being 11% higher than the previous record of 161 MW experienced in 2012. Revenues in our Energy business at £47.2m were £1.0m higher than in 2017. Operating profit at £8.7m was £1.0m higher than in the same period last year. Gross margin was impacted by increased imported electricity costs but other costs, such as manpower and maintenance were lower than the corresponding 2017 period. We imported 95% of our on-Island requirement from France (2017: 93%) and 5% from the Energy from Waste plant (2017: 5%), owned by the States of Jersey. Only 0.3% (1m units) of electricity was generated in Jersey using our own plant (2017: 2%) due to the availability of three subsea cables to France for the first full winter period post the commissioning of our third interlink, Normandie 1, in December 2016.

Investment in infrastructure

Capital expenditure was £7.1m in the first 6 months of the financial year compared to £8.6m in the same period last year. We continue with work on our new West of St Helier Primary sub-station which has an estimated cost of £17m, of which £10m has been expended to date, and is still planned to be commissioned in late 2018. Finally, our rollout of smart-enabled meters continues with around 39,000 installed in customer premises as at 31 March 2018 representing over 78% of our customer base.

Non-Energy performance

Year-on-year revenue in our retail business, Powerhouse.je, rose by 11% to £7.9m (2017: £7.1m) and profits rose 23% to £0.6m in what is a very competitive marketplace, both locally and off-island. Revenue and profit rose for our Property portfolio as a result of increased rental flows (profit up 5% to £0.9m). JEBS, our contracting and business services unit, saw a £0.2m increase in overall revenue to £3.1m but delivered a break-even position, down from a £0.1m profit in 2017 in a tight local market. Our remaining business units produced profits of £0.3m being £0.1m behind the same period in 2017.

Forward hedging of electricity and foreign exchange, and customer tariffs

We continue to focus on delivering secure low-carbon electricity supplies and stable customer tariffs. Through the use of our power purchase contract and hedging policies, this has been successfully achieved whilst maintaining an appropriate and fair return for our shareholders. Our electricity purchases are materially, albeit not fully, hedged for the period 2018-21. 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. We have continued to see volatility in foreign exchange in the last six months against the Euro primarily driven by the uncertainty surrounding the UK Brexit decision, which is why we seek to manage this exposure. In April 2018 we announced a small below inflation average rise in tariffs of 2% from 1 June largely driven by a weakening of sterling relative to the Euro and other inflationary factors. Customer tariffs last rose in April 2014 by 1.5%.

Debt and financing

The net debt figure fell to £20.2m at 31 March 2018 compared to £29.4m at this time last year (and £21.9m at 30 September 2017). After a high level of capital spending on undersea cables, and associated infrastructure, over recent years, the level of expenditure and associated net debt in this current year, has fallen. It is the aim of the Board that Jersey Electricity continues to maintain a prudent level of debt relative to our overall balance sheet, which remains strong.

Pension scheme

The defined benefit pension scheme deficit (without deduction of deferred tax) on our balance sheet at 31 March 2018, at £3.9m, was similar to the £4.2m level at 30 September 2017 (and a deficit of £4.8m at 31 March 2017). Since the last financial year end, scheme assets rose by £4m (to £133m) and liabilities also increased by £4m (to £137m). This increase in scheme liabilities is due to a decrease in relevant AA-rated bond yields partially offset by a decrease in assumed RPI inflation. Cash paid into the scheme during the six month period was £0.9m (2017: £1.0m) with the IAS 19 charge against profit being £1.6m (2017: £1.8m). The defined benefit scheme has been closed to new members since 2013.

Dividend

Your Board proposes to pay an interim net dividend for 2018 of 6.1p (2017: 5.8p). As stated previously we continue to aim to deliver sustained real growth each year over the medium-term. The final dividend for 2017 of 8.4p, paid in late March in respect of the last financial year, was an increase of 5% on the previous year.

Risk and outlook

The principal risks and uncertainties identified in our last Annual Report, issued in January 2018, have not materially altered in the interim period.

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:

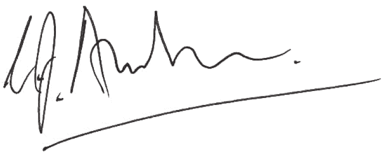
(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(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

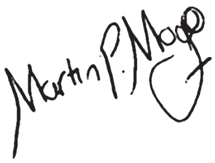
(c) the Interim Directors Statement includes a fair review of the information required by the Disclosure and Transparency Rule DTR 4.2.8R (disclosure of related party transactions and changes therein); and

(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



18 May 2018

Investor timetable for 2018

1 June	Record date for interim ordinary dividend
29 June	Interim ordinary dividend for year ending 30 September 2018
2 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 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Revenue	2	60,463	58,004	102,320
Cost of sales		(37,506)	(35,507)	(63,186)
Gross profit		22,957	22,497	39,134
Revaluation of investment properties		-	-	40
Operating expenses		(12,553)	(12,981)	(24,379)
Group operating profit	2	10,404	9,516	14,795
Finance income		7	1	3
Finance costs		(707)	(588)	(1,340)
Profit from operations before taxation		9,704	8,929	13,458
Taxation	3	(2,023)	(1,925)	(2,834)
Profit from operations after taxation		7,681	7,004	10,624
Attributable to:				
Owners of the Company		7,640	7,009	10,599
Non-controlling interests		41	(5)	25
Profit for the period/year attributable to the equity holders of the parent Company		7,681	7,004	10,624
Earnings per share				
- basic and diluted		24.9p	22.9p	34.6p

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Profit for the period/year	7,681	7,004	10,624
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on defined benefit scheme	964	7,547	8,859
Income tax relating to items not reclassified	(193)	(1,509)	(1,772)
	771	6,038	7,087
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on cash flow hedges	(3,407)	(2,387)	(1,673)
Income tax relating to items that may be reclassified	681	477	335
	(2,726)	(1,910)	(1,338)
Total comprehensive income for the period/year	5,726	11,132	16,373
Attributable to:			
Owners of the Company	5,685	11,137	16,348
Non-controlling interests	41	*(5)*	25
	5,726	11,132	16,373

FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet (Unaudited)

	Note	As at 31 March 2018 £000	As at 31 March 2017 £000	As at 30 September 2017 £000
Non-current assets				
Intangible assets		**1,077**	189	1,110
Property, plant and equipment		**212,401**	210,597	211,921
Investment property		**20,150**	20,110	20,150
Trade and other receivables		**533**	622	592
Derivative financial instruments	6	**593**	3,807	2,790
Other investments		**5**	5	5
Total non-current assets		**234,759**	235,330	236,568
Current assets				
Inventories		**6,618**	5,736	6,825
Trade and other receivables		**21,559**	20,571	15,782
Derivative financial instruments	6	**3,337**	2,891	4,454
Cash and cash equivalents		**9,767**	4,556	8,076
Total current assets		**41,281**	33,754	35,137
Total assets		**276,040**	269,084	271,705
Current liabilities				
Trade and other payables		**14,147**	13,058	15,885
Borrowings		**-**	4,000	-
Derivative financial instruments	6	**8**	13	-
Current tax payable		**2,813**	1,166	1,034
Total current liabilities		**16,968**	18,237	16,919
Net current assets		**24,313**	15,517	18,218
Non-current liabilities				
Trade and other payables		**21,820**	20,751	20,177
Retirement benefit deficit		**3,855**	4,764	4,219
Derivative financial instruments	6	**257**	327	172
Financial liabilities – preference shares		**235**	235	235
Borrowings		**30,000**	30,000	30,000
Deferred tax liabilities		**23,490**	21,992	23,719
Total non-current liabilities		**79,657**	78,069	78,522
Total liabilities		**96,625**	96,306	95,441
Net assets		**179,415**	172,778	176,264
Equity				
Share capital		**1,532**	1,532	1,532
Revaluation reserve		**5,270**	5,270	5,270
ESOP reserve		**(61)**	(119)	(84)
Other reserves		**2,932**	4,968	5,658
Retained earnings		**169,700**	161,119	163,862
Equity attributable to owners of the Company		**179,373**	172,770	176,238
Non-controlling interests		**42**	8	26
Total equity		**179,415**	172,778	176,264

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 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 2017	**1,532**	**5,270**	**(61)**	**2,932**	**169,700**	**179,373**
At 1 October 2016	1,532	5,270	(155)	6,878	150,523	164,048
Total recognised income and expense for the period	-	-	-	-	7,009	7,009
Amortisation of employee share scheme	-	-	36	-	-	36
Unrealised loss on hedges (net of tax)	-	-	-	(1,910)	-	(1,910)
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	6,038	6,038
Equity dividends paid	-	-	-	-	(2,451)	(2,451)
At 31 March 2017	**1,532**	**5,270**	**(119)**	**4,968**	**161,119**	**172,770**
At 1 October 2016	1,532	5,270	(155)	6,878	150,523	164,048
Total recognised income and expense for the period	-	-	-	-	10,599	10,599
Funding of employee share scheme	-	-	(2)	-	-	(2)
Amortisation of employee share scheme	-	-	73	-	-	73
Unrealised loss on hedges (net of tax)	-	-	-	(1,338)	-	(1,338)
Actuarial gain on defined benefit scheme (net of tax)	-	-	-	-	7,087	7,087
Adjustment to reserves	-	-	-	118	(118)	-
Equity dividends paid	-	-	-	-	(4,229)	(4,229)
At 30 September 2017	**1,532**	**5,270**	**(84)**	**5,658**	**163,862**	**176,238**

FINANCIAL STATEMENTS

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Cash flows from operating activities			
Operating profit	10,404	9,516	14,795
Depreciation and amortisation charges	5,458	5,151	10,695
Share-based reward charges	32	36	73
Gain on revaluation of investment property	-	-	(40)
Pension operating charge less contributions paid	654	840	1,607
Payment for foreign exchange option	250	-	-
Loss/(profit) on sale of fixed assets	-	42	(4)
Operating cash flows before movements in working capital	16,798	15,585	27,126
Working capital adjustments:			
Decrease/(increase) in inventories	207	226	(863)
(Increase)/decrease in trade and other receivables	(5,718)	(3,928)	892
Increase/(decrease) in trade and other payables	1,017	(1,414)	1,230
Net movement in working capital	(4,494)	(5,116)	1,259
Interest paid	(703)	(590)	(1,322)
Capitalised interest paid	-	(172)	(172)
Preference dividends paid	(4)	(4)	(9)
Income taxes paid	-	-	(421)
Net cash flows generated from operating activities	11,597	9,703	26,461
Cash flows from investing activities			
Purchase of property, plant and equipment	(6,914)	(8,508)	(14,252)
Investment in intangible assets	(137)	(63)	(836)
Net proceeds from disposal of fixed assets	-	3	4
Net cash used in investing activities	(7,051)	(8,568)	(15,084)
Cash flows from financing activities			
Equity dividends paid	(2,573)	(2,451)	(4,229)
Dividends paid to non-controlling interest	(25)	(39)	(59)
Deposit interest received	7	1	3
Payment for foreign exchange option	(250)	-	-
Proceeds from borrowings	-	18,000	18,000
Repayment of borrowings	-	(14,000)	(18,943)
Net cash (used in)/generated from financing activities	(2,841)	1,511	(5,228)
Net increase in cash and cash equivalents	1,705	2,646	6,149
Cash and cash equivalents at beginning of period/year	8,076	1,925	1,925
Effect of foreign exchange rate changes	(14)	(15)	2
Net cash and cash equivalents at end of period/year	9,767	4,556	8,076

Notes to the Condensed Interim Accounts (Unaudited)

1 Accounting policies

Basis of preparation

The interim financial statements for the six months ended 31 March 2018 have been prepared on the basis of the accounting policies set out in the 30 September 2017 annual report and accounts using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standards 34 'Interim Financial Reporting'.

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 2018			Six months ended 31 March 2017			Year ended 30 September 2017		
	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000
Revenue									
Energy	47,174	64	47,238	46,150	70	46,220	80,480	143	80,623
Building Services	2,865	249	3,114	2,413	472	2,885	3,982	915	4,897
Retail	7,912	17	7,929	7,102	16	7,118	13,045	37	13,082
Property	1,115	305	1,420	1,088	299	1,387	2,187	599	2,786
Other	1,397	390	1,787	1,251	915	2,166	2,626	1,324	3,950
	60,463	1,025	61,488	58,004	1,772	59,776	102,320	3,018	105,338
Intergroup elimination			(1,025)			(1,772)			(3,018)
Revenue			60,463			58,004			102,320
Operating profit									
Energy			8,667			7,694			11,723
Building Services			(13)			104			131
Retail			567			460			731
Property			913			870			1,645
Other			270			388			525
			10,404			9,516			14,755
Revaluation of investment properties			-			-			40
Operating profit			10,404			9,516			14,795

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 2018.

Notes to the Condensed Interim Accounts (Unaudited)

3 Taxation

	Six months ended 31 March 2018 £000	Six months ended 31 March 2017 £000	Year ended 30 September 2017 £000
Current income tax	1,771	1,166	1,034
Deferred income tax	252	759	1,800
Total income tax	2,023	1,925	2,834

For the period ended 31 March 2018 and subsequent periods, the Company is taxable at the rate applicable to utility companies in Jersey of 20% (2017: 20%).

4 Dividends paid and proposed

	Six months ended 31 March 2018	Six months ended 31 March 2017	Year ended 30 September 2017
Dividends per share			
- paid	8.4p	8.0p	13.8p
- proposed	6.1p	5.8p	8.4p
	£000	£000	£000
Distributions to equity holders in the period	2,573	2,451	4,228

The distribution to equity holders in respect of the final dividend for 2017 of £2,573,441 (8.4p net of tax per share) was paid on 29 March 2018.

The Directors have declared an interim dividend of 6.1p per share, net of tax (2017: 5.8p) for the six months ended 31 March 2018 to shareholders on the register at the close of business on 1 June 2018. This dividend was approved by the Board on 18 May 2018 and has not been included as a liability at 31 March 2018.

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 2018.

Fair value of currency hedges	31 March 2018 £000	31 March 2017 £000	30 September 2017 £000
Derivative assets			
Less than one year	**3,337**	2,891	4,454
Greater than one year	**593**	3,807	2,790
Derivative liabilities			
Less than one year	**(8)**	(13)	-
Greater than one year	**(257)**	(327)	(172)
Total net assets	**3,665**	6,358	7,072

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 conducts a variety of transactions with the States of Jersey and its associated entities.

	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	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000	**2018 £000**	2017 £000
The States of Jersey and related entities	**5,139**	5,347	**1,165**	808	**791**	782	**564**	742	**6**	99

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.