Clear investment. Pure energy.

INVESTMENT TO POWER A SUSTAINABLE FUTURE

INTERIM REPORT 2017

6 months ended 31 March 2017

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

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
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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 2017	6 months 2016
Electricity Sales – kWh (000)	**361,123**	351,942
Revenue	**£58.0m**	£57.0m
Profit before tax	**£8.9m**	£7.9m
Profit in Energy business	**£7.7m**	£6.9m
Earnings per share	**22.88p**	20.65p
Final dividend paid per ordinary share	**8.00p**	7.60p
Proposed interim dividend per ordinary share	**5.80p**	5.50p
Net debt	**£29.4m**	£21.1m

Overall trading performance

Group revenue, at £58.0m, was 1.7% higher for the first half year of 2017 than the same period in 2016 with this £1.0m rise coming from a higher level of unit sales of electricity and also the overall increased activity in the non-Energy business units. Profit before tax was £8.9m being £1.0m 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 decreased by £1.1m to £35.5m mainly due to a marginal reduction in import costs in our Energy business. However operating expenses at £13.0m were £1.1m above last year with an increase in depreciation charges, post our continued investment in infrastructure, and pension costs being the primary drivers. The taxation charge in the period of £1.9m is £0.4m higher than during the same period in 2016 due to increased profits. Earnings per share rose to 22.88p from 20.65p in 2016. Net debt on the balance sheet at 31 March 2017 was £29.4m (2016: £21.1m) compared to £29.0m at our last year end on 30 September 2016.

Energy performance

Unit sales of electricity rose by 2.6%, from 352m to 361m kWh, compared with last year. The average temperature was lower than in the first half of the 2016 financial year, resulting in an increased use of electricity, primarily in the heating of residential properties. Revenues in our Energy business at £46.2m rose 1.5% in 2017 because of the aforementioned higher unit sales. Operating profit in Energy at £7.7m was £0.8m higher than in the same period last year with higher revenues offset by higher depreciation and increased IAS 19 pension costs. We imported 93% of our on-Island requirement from France (2016: 90%) and 5% (2016: 6%) from the Energy from Waste plant, owned by the States of Jersey. The remaining 2% of our electricity was generated in Jersey using our own plant (2016: 4%).

Investment in infrastructure

Capital expenditure was £8.6m in the first 6 months of the financial year. Our third undersea supply cable to France, Normandie 1, was successfully commissioned on 1 December ahead of schedule and below budget. We now have three cables being utilised to import electricity from France and the expanded network has performed to expectations in the post-commissioning period. We continue with work on our new West of St Helier Primary sub-station which has an estimated cost of £17m, of which £7m has been expended to date, and is planned to be commissioned in late 2018. Finally, our rollout of smart-enabled meters continues with 31,000 in customer premises at 31 March 2017 representing over 60% of our customer base.

Non-energy performance

Year-on-year revenue in our retailing business, Powerhouse.je, rose by 11% to £7.1m (2016: £6.4m) and profitability marginally increased to £0.5m in what is a very competitive marketplace, both locally and off-island. Revenue and profit remained constant for our Property portfolio (profit of £0.9m). JEBS, our contracting and business services unit, saw a £0.2m decrease in overall revenue to £2.9m whilst maintaining a profit of £0.1m, on a par with 2016, in a tight local market. Our remaining business units were ahead of target on an overall basis and produced profits of £0.4m being £0.1m ahead of the same period in 2016.

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. Customer tariffs remain frozen at the same level as when the last tariff rise of 1.5% was instigated in April 2014. Our customers have been promised no movement in tariffs until at least 2018 despite material recent rises in other jurisdictions against whom we benchmark. Our electricity purchases are materially hedged for the period 2017-20, albeit not fully. 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 continued to see volatility in foreign exchange in the last six months against the Euro primarily associated with the UK Brexit decision, which is why we seek to largely eliminate exposure. A five year extension of the existing power importation contract with EDF was agreed during May. This extends our importation framework to 2027 and will help maintain reliable, low-carbon imported electricity supplies for the next decade.

Debt and financing

The net debt figure, as expected, rose to £29.4m at 31 March 2017 compared to £29.0m at the last year end and we anticipate that this is likely to be close to our peak funding level, subject to any unexpected operational issues, post our relatively heavy level of capital spending on undersea cables, and associated infrastructure, over recent years. 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.

Pension scheme

The defined benefit pension scheme deficit (without deduction of deferred tax) on our balance sheet at 31 March 2017 was £4.8m compared to £11.5m at 30 September 2016 (and a deficit of £5.7m at 31 March 2016). Since the last financial year end assets rose by around £3m (£128m to £131m) and liabilities have fallen £4m (£139m to £135m). This decrease in scheme liabilities is due to an increase in relevant AA-rated bond yields (used in the calculation) partially offset by an increase in assumed RPI inflation. Cash paid into the scheme during the six month period was £1.0m (2016: £1.0m) with the IAS 19 charge against profit being £1.8m (2016: £1.2m). The defined benefit scheme has been closed to new members since 2013.

Dividend

Your Board proposes to pay an interim net dividend for 2017 of 5.80p (2016: 5.50p). As stated in the past we continue to aim to deliver sustained real growth each year over the medium-term. The final dividend for 2016 of 8.00p, 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 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 2017

Investor timetable for 2017

2 June	Record date for interim ordinary dividend
30 June	Interim ordinary dividend for year ending 30 September 2017
3 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 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Revenue	2	58,004	57,036	103,361
Cost of sales		(35,507)	(36,610)	(65,249)
Gross profit		22,497	20,426	38,112
Revaluation of investment properties		-	-	(350)
Operating expenses		(12,981)	(11,851)	(23,498)
Group operating profit before exceptional item		9,516	8,575	14,264
Exceptional item - La Collette rent accrual reversal		-	-	1,676
Group operating profit	2	9,516	8,575	15,940
Finance income		1	19	22
Finance costs		(588)	(668)	(1,154)
Profit from operations before taxation		8,929	7,926	14,808
Taxation	3	(1,925)	(1,573)	(3,166)
Profit from operations after taxation		7,004	6,353	11,642
Attributable to:				
Owners of the Company		7,009	6,326	11,547
Non-controlling interests		(5)	27	95
Profit for the period/year attributable to the equity holders of the parent Company		7,004	6,353	11,642
Earnings per share				
- basic and diluted		22.88p	20.65p	37.69p

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Profit for the period/year	7,004	6,353	11,642
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/(loss) on defined benefit scheme	7,547	1,595	(2,829)
Income tax relating to items not reclassified	(1,509)	(319)	566
	6,038	1,276	(2,263)
Items that may be reclassified subsequently to profit or loss:			
Fair value (loss)/gain on cash flow hedges	(2,387)	6,979	13,865
Income tax relating to items that may be reclassified	477	(1,396)	(2,773)
	(1,910)	5,583	11,092
Total comprehensive income for the period/year	11,132	13,212	20,471
Attributable to:			
Owners of the Company	11,137	13,185	20,376
Non-controlling interests	(5)	27	95
	11,132	13,212	20,471

FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheet (Unaudited)

	Note	As at 31 March 2017 £000	As at 31 March 2016 £000	As at 30 September 2016 £000
Non-current assets				
Intangible assets		**189**	198	162
Property, plant and equipment		**210,597**	192,780	209,168
Investment property		**20,110**	20,460	20,110
Trade and other receivables		**622**	708	683
Derivative financial instruments	6	**3,807**	2,281	5,957
Other investments		**5**	5	5
Total non-current assets		**235,330**	216,432	236,085
Current assets				
Inventories		**5,736**	5,853	5,962
Trade and other receivables		**20,571**	19,038	16,583
Derivative financial instruments	6	**2,891**	1,074	2,788
Cash and cash equivalents		**4,556**	8,905	1,925
Total current assets		**33,754**	34,870	27,258
Total assets		**269,084**	251,302	263,343
Current liabilities				
Trade and other payables		**13,058**	15,620	16,084
Bank overdraft		**-**	-	943
Borrowings		**4,000**	-	-
Derivative financial instruments	6	**13**	1,468	-
Current tax payable		**1,166**	619	420
Total current liabilities		**18,237**	17,707	17,447
Net current assets		**15,517**	17,163	9,811
Non-current liabilities				
Trade and other payables		**20,751**	20,930	19,600
Retirement benefit deficit		**4,764**	5,696	11,471
Derivative financial instruments	6	**327**	28	-
Financial liabilities – preference shares		**235**	235	235
Borrowings		**30,000**	30,000	30,000
Deferred tax liabilities		**21,992**	18,185	20,482
Total non-current liabilities		**78,069**	75,074	81,788
Total liabilities		**96,306**	92,781	99,235
Net assets		**172,778**	158,521	164,108
Equity				
Share capital		**1,532**	1,532	1,532
Revaluation reserve		**5,270**	5,270	5,270
ESOP reserve		**(119)**	(191)	(155)
Other reserves		**4,968**	1,369	6,878
Retained earnings		**161,119**	150,496	150,523
Equity attributable to owners of the Company		**172,770**	158,476	164,048
Non-controlling interests		**8**	45	60
Total equity		**172,778**	158,521	164,108

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 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)
As at 31 March 2017	**1,532**	**5,270**	**(119)**	**4,968**	**161,119**	**172,770**
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 2015	1,532	5,270	(97)	(4,214)	145,223	147,714
Total recognised income and expense for the period	-	-	-	-	11,547	11,547
Additional shares for employee share scheme	-	-	(114)	-	-	(114)
Amortisation of employee share scheme	-	-	56	-	-	56
Unrealised loss on hedges (net of tax)	-	-	-	11,092	-	11,092
Actuarial loss on defined benefit scheme (net of tax)	-	-	-	-	(2,263)	(2,263)
Adjustment arising from change in non-controlling interest	-	-	-	-	31	31
Equity dividends paid	-	-	-	-	(4,015)	(4,015)
As at 30 September 2016	**1,532**	**5,270**	**(155)**	**6,878**	**150,523**	**164,048**

FINANCIAL STATEMENTS

Condensed Consolidated Cash Flow Statement (Unaudited)

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Cash flows from operating activities			
Operating profit before exceptional item	**9,516**	8,575	14,264
Depreciation and amortisation charges	**5,151**	4,957	10,295
Loss on revaluation of investment property	**-**	-	350
Pension operating charge less contributions paid	**840**	300	1,351
Loss/(profit) on sale of fixed assets	**42**	-	(6)
Operating cash flows before movements in working capital	**15,549**	13,832	26,254
Decrease in inventories	**226**	386	277
Increase in trade and other receivables	**(3,928)**	(4,222)	(1,758)
(Decrease)/increase in trade and other payables	**(1,378)**	860	2,359
Interest paid	**(590)**	(654)	(1,148)
Capitalised interest paid	**(172)**	(117)	(374)
Preference dividends paid	**(4)**	(4)	(9)
Income taxes paid	**-**	-	(396)
Net cash flows generated from operating activities	**9,703**	10,081	25,205
Cash flows from investing activities			
Purchase of property, plant and equipment	**(8,508)**	(11,335)	(32,391)
Investment in intangible assets	**(63)**	(6)	(4)
Proceeds from part disposal of subsidiary	**-**	-	10
Net proceeds from disposal of fixed assets	**3**	-	9
Net cash used in investing activities	**(8,568)**	(11,341)	(32,376)
Cash flows from financing activities			
Equity dividends paid	**(2,490)**	(2,357)	(4,067)
Deposit interest received	**1**	19	22
Payment for foreign exchange option	**-**	-	(250)
Repayment of borrowings	**(14,000)**	-	(5,500)
Proceeds of borrowings	**18,000**	-	5,500
Net cash from/(used in) financing activities	**1,511**	(2,338)	(4,295)
Net increase/(decrease) in cash and cash equivalents	**2,646**	(3,598)	(11,466)
Cash and cash equivalents at beginning of period/year	**1,925**	12,503	12,503
Effect of foreign exchange rate changes	**(15)**	-	(55)
Overdraft	**-**	-	943
Net cash and cash equivalents at end of period/year	**4,556**	8,905	1,925

Notes to the Condensed Interim Accounts (Unaudited)

1 Accounting policies

Basis of preparation

The interim financial statements for the six months ended 31 March 2017 have been prepared on the basis of the accounting policies set out in the 30 September 2016 annual report and accounts using accounting policies consistent with International Financial Reporting Standards and in accordance with International Accounting Standard 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 2017			Six months ended 31 March 2016			Year ended 30 September 2016		
	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000	External £000	Internal £000	Total £000
Revenue									
Energy	46,150	70	46,220	45,462	72	45,534	81,215	144	81,359
Property	1,088	299	1,387	1,046	299	1,345	2,143	599	2,742
Retail	7,102	16	7,118	6,413	20	6,433	11,933	45	11,978
Building Services	2,413	472	2,885	2,772	280	3,052	5,120	786	5,906
Other	1,251	915	2,166	1,343	393	1,736	2,950	876	3,826
	58,004	1,772	59,776	57,036	1,064	58,100	103,361	2,450	105,811
Intergroup elimination			(1,772)			(1,064)			(2,450)
Revenue			58,004			57,036			103,361
Operating profit									
Energy			7,694			6,904			11,650
Property			870			870			1,683
Retail			460			411			452
Building Services			104			116			134
Other			388			274			695
			9,516			8,575			14,614
Revaluation of investment properties			-			-			(350)
Exceptional item:									
La Collette rent accrual reversal			-			-			1,676
Operating profit			9,516			8,575			15,940

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 2017.

FINANCIAL STATEMENTS

Notes to the Condensed Interim Accounts (Unaudited)

3 Taxation

	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Current income tax	1,166	215	420
Deferred income tax	759	1,358	2,746
Total income tax	1,925	1,573	3,166

For the period ended 31 March 2017 and subsequent periods, the Company is taxable at the rate applicable to utility companies in Jersey of 20% (2016: 20%). The mix between current and deferred income tax has changed following the utilisation of tax losses associated with capital allowances.

4 Dividends paid and proposed

	Six months ended 31 March 2017	Six months ended 31 March 2016	Year ended 30 September 2016
Dividends per share			
- paid	8.00p	7.60p	13.10p
- proposed	5.80p	5.50p	8.00p
	£000	£000	£000
Distributions to equity holders in the period	2,451	2,329	4,015

The distribution to equity holders in respect of the final dividend for 2016 of £2,451,000 (8.00p net of tax per share) was paid on 30 March 2017.

The Directors have declared an interim dividend of 5.80p per share, net of tax (2016: 5.50p) for the six months ended 31 March 2017 to shareholders on the register at the close of business on 2 June 2017. This dividend was approved by the Board on 18 May 2017 and has not been included as a liability at 31 March 2017.

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 2017.

Fair value of currency hedges	Six months ended 31 March 2017 £000	Six months ended 31 March 2016 £000	Year ended 30 September 2016 £000
Derivative assets			
Less than one year	**2,891**	1,074	2,788
Greater than one year	**3,807**	2,281	5,957
	6,698	3,355	8,745
Derivative liabilities			
Less than one year	**13**	1,468	-
Greater than one year	**327**	28	-
	340	1,496	-

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	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
The States of Jersey	**3,803**	3,761	**581**	725	**588**	1,102	**616**	732	**99**	1
JT Group Limited	**996**	980	**177**	268	**83**	19	**50**	157	**-**	3
Jersey Post Int Limited	**52**	58	**9**	-	**30**	17	**4**	7	**-**	-
Jersey New Waterworks Ltd	**496**	409	**41**	74	**81**	64	**72**	63	**-**	7

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