

# **Watlington Waterworks Limited**

Annual Report and  
Consolidated Financial Statements  
**December 31, 2008**

# **Watlington Waterworks Limited**

Directors Report of Shareholders

**For the year ended December 31, 2008**

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The company had a very strong start to the year as a winter drought created very high demand for our products and services. This formed the basis for an overall strong first half performance with consolidated group income slightly ahead of the previous year, which had been a record year for the company.

The first half performance was contrary to the anticipated downturn due to declining sales to tourist establishments and cruise ships. The second half of the year did decline as expected not only for those reasons that were predictable but also due to the onslaught of the global economic downturn that had not previously been a factor.

The lingering benefits of the winter drought and another mini-drought in July faded out as the third quarter progressed. The spiralling rise in energy prices and the predicted decline in water sales from the important tourism sector that had not been so evident earlier due to compensating local resident and commercial demand became dominant. We did anticipate the trends early and compensated by raising our prices mid-year to counter the twin factors of skyrocketing energy costs and declining unit sales. This enabled the company to raise gross revenue marginally while operating expenses increased much more significantly.

With low sales to hotels and minimal sales to ships, the company through the accruing benefits of its ongoing infrastructure strengthening and efficiency did have a more modest result than recent past years that was better than predicted in the face of stern challenges.

The company intends to maintain faith to continue infrastructure strengthening and expansion aimed at further improving efficiencies and revenue potential for the future. The year 2009 is expected to be another challenging year it is anticipated that 2009 will not be quite as strong as 2008 but we do expect a credible outcome even under the prevailing economic conditions.

# Watlington Waterworks Limited

Unaudited

Summaries of the last 5 financial years

December 31, 2008

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	Year ended December 31				
	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$
Revenue	10,073,794	9,977,561	9,612,674	9,058,987	9,045,783
Net earnings	1,980,400	2,320,671	2,056,588	2,135,670	2,286,775
Dividends	421,111	401,064	445,156	473,887	344,927
Shareholders' equity	16,100,883	14,530,331	12,569,831	14,739,360	13,051,459
Total assets	16,886,648	15,634,102	13,709,726	15,595,751	13,851,661

## Per share amounts:

Net earnings	1.88	2.20	2.16	1.68	1.98
Net earnings					
- adjusted for 2005 bonus issue	1.88	2.20	2.16	1.68	1.80
- adjusted for 2007 bonus issue	1.88	2.20	1.95	1.56	1.67
Dividends	0.40	0.38	0.40	0.37	0.30
Shareholders' equity	15.28	13.80	13.19	11.58	11.31

Consolidated Financial Statements  
**December 31, 2008**

April 8, 2009

## Auditors' Report

### To the Shareholders of Watlington Waterworks Limited

We have audited the consolidated balance sheet of **Watlington Waterworks Limited** as at December 31, 2008 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in Bermuda and Canada.



**Chartered Accountants**

A list of partners can be obtained from the above address.

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers (a Bermuda partnership) or, as the context requires, the PricewaterhouseCoopers global network or other member Firms of the network, each of which is a separate and independent legal entity.


# Watlington Waterworks Limited

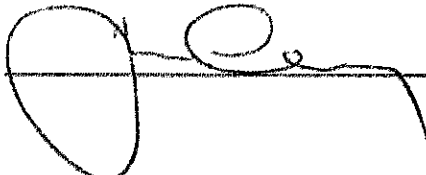
Consolidated Balance Sheet

As at December 31, 2008

	2008 \$	2007 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 5)	3,291,217	2,228,083
Accounts receivable (note 5)	1,304,362	992,276
Inventories (note 6)	1,107,813	1,006,942
Prepaid expenses and deferred costs	135,580	120,243
	5,838,972	4,347,544
<b>Property, plant and equipment</b> (note 3)	11,047,676	11,286,558
<b>Total assets</b>	16,886,648	15,634,102
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	779,100	1,095,474
Deposits held	6,665	8,297
	785,765	1,103,771
<b>Shareholders' equity</b>		
Share capital	1,053,579	1,052,629
Share premium	1,358,206	1,347,893
Capital reserve	7,000,000	7,000,000
General reserve	1,000,000	1,000,000
Retained earnings	5,689,098	4,129,809
<b>Total shareholders' equity</b> (note 4)	16,100,883	14,530,331
<b>Total liabilities and shareholders' equity</b>	16,886,648	15,634,102

Approved by the Board of Directors

  
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Director

  
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Director

The accompanying notes are an integral part of these consolidated financial statements.

# Watlington Waterworks Limited

## Consolidated Statement of Earnings and Retained Earnings For the year ended December 31, 2008

	2008 \$	2007 \$
<b>Income</b>		
Water sales	8,922,213	8,828,915
Other operating revenues	1,032,781	1,062,420
Rental	84,015	70,457
Interest	34,785	15,769
	<u>10,073,794</u>	<u>9,977,561</u>
<b>Expenses</b>		
Plant operation and distribution	5,029,596	4,616,627
Administration and general	2,072,311	1,926,977
Depreciation and amortization	991,487	1,101,918
Bank interest	-	11,368
	<u>8,093,394</u>	<u>7,656,890</u>
<b>Net earnings for the year</b>	1,980,400	2,320,671
<b>Retained earnings – Beginning of year</b>	4,129,809	3,606,387
	<u>6,110,209</u>	<u>5,927,058</u>
Dividends paid	(421,111)	(401,064)
Bonus shares issued (note 4(b))	-	(1,395,556)
Bonus shares – fractions (note 4(b))	-	(629)
<b>Retained earnings – End of year</b>	<u>5,689,098</u>	<u>4,129,809</u>

The accompanying notes are an integral part of these consolidated financial statements.

# Watlington Waterworks Limited

## Consolidated Statement of Cash Flows

For the year ended December 31, 2008

	2008 \$	2007 \$
<b>Cash flows from operating activities</b>		
Net earnings for the year	1,980,400	2,320,671
Add items not affecting cash:		
Depreciation and amortization	991,487	1,101,918
Changes in non-cash items		
Accounts receivable	(312,086)	220,655
Inventories	(100,871)	(678)
Prepaid expenses and deferred costs	(15,337)	15,746
Accounts payable and accrued liabilities	(316,374)	266,529
Deposits held	(1,632)	(2,703)
Net cash from operations	2,225,587	3,922,138
<b>Cash flow from investing activity</b>		
Purchase of property, plant and equipment	(752,605)	(1,664,770)
Net cash used in investing activity	(752,605)	(1,664,770)
<b>Cash flows from financing activities</b>		
Proceeds of shares issued	11,263	41,522
Dividends paid	(421,111)	(401,064)
Bonus issue	-	(629)
Repayment of term loan	-	(299,950)
Net cash used in financing activities	(409,848)	(660,121)
<b>Net increase cash and cash equivalents</b>	1,063,134	1,597,247
<b>Cash and cash equivalents at beginning of year</b>	2,228,083	630,836
<b>Cash and cash equivalents at end of year</b>	3,291,217	2,228,083
<b>Supplemental cash flow:</b>		
Cash paid for interest	-	11,368

The accompanying notes are an integral part of these consolidated financial statements.



# Watlington Waterworks Limited

Notes to Consolidated Financial Statements

December 31, 2008

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## 1. *Nature of business*

Watlington Waterworks Limited ("the Company") and Bermuda Waterworks Limited ("the Subsidiary") (note 2(b)) are incorporated under the laws of Bermuda and are primarily engaged in the production and distribution of water and purification of drinking water for sale at the retail and wholesale level. The group is also engaged in the provision of customer services, plumbing supplies and the supply of coolers for sale and rental.

## 2. *Significant accounting policies*

These financial statements have been prepared in accordance with accounting principles generally accepted in Bermuda and Canada. The significant accounting policies adopted by the Company are as follows:

### (a) **Basis of presentation**

The preparation of consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

### (b) **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bermuda Waterworks Limited. All significant intercompany transactions and balances are eliminated on consolidation.

### (c) **Water sales**

Water sales comprise wholesale water and bottled water sales. Wholesale water sales are based on consumption recorded by meter readings taken monthly during the year.

### (d) **Other operating revenues**

Other operating revenues comprise income from sales of plumbing supplies, sales and rental of water coolers and related equipment and utility connection fees.

### (e) **Property, plant and equipment**

Freehold land is stated at cost. Property, plant and equipment other than freehold land are being depreciated on a straight-line basis over their estimated useful lives, which generally vary from 3 to 40 years.

### (f) **Inventories**

Inventories which comprise essential utility parts, plumbing supplies and bottled water supplies are carried at the lower of average cost and net realisable value.

### (g) **Fair values of financial instruments**

Fair values of financial instruments are disclosed in the notes to the financial statements when they differ from the carrying values. Where amounts receivable and payable are subject to normal credit terms, their carrying values are used as an approximation of their fair values.

### (h) **Cash and cash equivalents**

Cash and cash equivalents include deposits having a maturity of less than three months from the date of purchase.

# Watlington Waterworks Limited

## Notes to Consolidated Financial Statements

December 31, 2008

(i) **Pension plan**

The Company sponsors a defined contribution pension plan (the "Plan") covering all eligible employees. The cost of the Plan is expensed as related benefits are earned by the employees. The Company makes monthly contributions in accordance with the Plan Agreement to the employees individual accounts, which are administered by an insurance company pursuant to and in accordance with the National Pension Scheme (Occupational Pensions) Act.

(j) **Accounting standards effective for 2008**

Effective January 1, 2008, the Company implemented the new accounting standard - Section 1535 "Capital Disclosures", which is effective for fiscal years beginning on or after October 1, 2007. The new standard requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements. The adoption of this standard does not require any changes to the Company's accounting, however does require additional note disclosure, which is included in note 7.

### 3. **Property, plant and equipment**

Fixed assets comprise:

	<b>Cost</b>	<b>Accumulated</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>Depreciation</b>	<b>Net</b>	<b>Net</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>
Freehold land	416,683	-	416,683	416,683
Production and distribution plant and facilities	20,080,749	9,827,116	10,253,633	10,490,584
Vehicles	621,243	526,733	94,510	134,154
Office equipment, computers, and rental equipment	1,335,439	1,060,241	275,198	98,210
Construction in progress	7,652	-	7,652	146,927
	<u>22,461,766</u>	<u>11,414,090</u>	<u>11,047,676</u>	<u>11,286,558</u>

As at December 31, 2008, the Company had capital commitments in respect of plant and equipment of \$48,958 (2007 - \$312,492). These commitments will be met from operations.

### 4. **Shareholders' equity**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
Authorised - 2,000,000 shares of the par value of \$1.00 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid - 1,053,579 (2007 - 1,052,629) shares of the par value of \$1.00 each	<u>1,053,579</u>	<u>1,052,629</u>

The net asset value attributable to each share, calculated on the basis of the book value as disclosed in the Company's consolidated balance sheet as at December 31, 2008 was \$15.28 (2007 - \$13.80).

**Watlington Waterworks Limited**  
Notes to Consolidated Financial Statements  
December 31, 2008

(a) **Changes in shareholders' equity**

	Share capital \$	Share premium \$	Capital reserve \$	General reserve \$	Retained earnings \$	Total \$
Balance, December 31, 2006	953,343	10,101	7,000,000	1,000,000	3,606,387	12,569,831
Net income for the year	-	-	-	-	2,320,671	2,320,671
Issuance of bonus shares (note 4 (b))	95,586	1,299,970	-	-	(1,395,556)	-
Dividend paid	-	-	-	-	(401,064)	(401,064)
Cash paid for fraction shares (note 4(b))	-	-	-	-	(629)	(629)
Issuance of shares (note 4 (c))	3,700	37,822	-	-	-	41,522
Balance, December 31, 2007	1,052,629	1,347,893	7,000,000	1,000,000	4,129,809	14,530,331
Net income for the year	-	-	-	-	1,980,400	1,980,400
Dividend paid	-	-	-	-	(421,111)	(421,111)
Issuance of shares (note 4 (c))	950	10,313	-	-	-	11,263
Balance December 31, 2008	1,053,579	1,358,206	7,000,000	1,000,000	5,689,098	16,100,883

(b) **Bonus issue**

On April 11, 2007 the Board of Directors of the Company approved the issuance of bonus shares to shareholders of record on August 31, 2007 on the basis of 1 common share of \$1 par value for every 10 common shares held. The bonus shares were issued on September 14, 2007 and were valued at book value as at August 31, 2007. The number of qualifying shares on August 31, 2007 before the bonus issue was 956,293 and the number of bonus shares issued on September 14, 2007 was 95,586 (allowing for fractions – see below). The book value of each common share at August 31, 2007 was \$14.60 and this reduced retained earnings by \$1,395,556 and increased share capital by \$95,586 and share premium by \$1,299,970.

If the number of shares held by each shareholder at August 31, 2007 was not evenly divisible by ten, a cash payment for such fractional entitlement calculated on the basis of the book value of \$14.60 per common share was due. This payment was made on October 26, 2007 and amounted in total to \$629.

(c) **Employee share purchase plan**

In June 1999, the Company introduced an employee share purchase program whereby employees with a minimum of one year's continuous service may subscribe to purchase up to a maximum of 1,000 common shares in any one calendar year. The purchase price of the common shares is 85% of the market price on the plan's subscription date. The shares purchased are issued from authorised, unissued share capital. Employees are restricted from selling the shares for a period of one year from the issuance date. During the year ended December 31, 2008, employees subscribed for and were issued 950 common shares for proceeds of \$11,263 (2007 – 3,700 shares for proceeds of \$41,522). The excess of the purchase price over the par value of the shares is recorded as share premium (see (d) below).

# Watlington Waterworks Limited

## Notes to Consolidated Financial Statements

December 31, 2008

(d) **Share premium**

The share premium balance relates to the excess of the purchase price over par value of shares of the Company.

(e) **Capital reserve**

The amount transferred from retained earnings to capital reserve represents the Company's investment in infrastructure renovations and improvements, including pipelines and reservoirs, in order to maintain the permanent capital of the Company and has been approved by the Board of Directors.

(f) **General reserve**

General reserve is an appropriation from retained earnings as a contingency for unexpected future expenditures and has been approved by the Board of Directors.

### 5. *Financial instruments*

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable.

The cash and cash equivalents consist mainly of cash deposits. The Company has deposited the cash and cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote.

The Company's credit risk with respect to its accounts receivable is minimised by the Company's large customer base, which covers consumer and business sectors in Bermuda. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Company maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

Accounts receivable consists of the following:

	2008 \$	2007 \$
Accounts receivable	1,441,322	1,101,195
Allowance for doubtful debts	(136,960)	(108,919)
	<u>1,304,362</u>	<u>992,276</u>

### 6. *Inventories*

	2008 \$	2007 \$
Spares and production parts	761,800	673,162
Goods for resale	257,290	239,253
Water bottling supplies	88,723	94,527
	<u>1,107,813</u>	<u>1,006,942</u>

The cost of inventories recognised as an expense and included in plant operation and distribution expenses is \$740,876 (2007 - \$691,913).

# **Watlington Waterworks Limited**

Notes to Consolidated Financial Statements

**December 31, 2008**

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## **7. Capital disclosures**

The Company's objectives in managing capital are to ensure sufficient liquidity to enable the internal financing of capital projects and working capital needs, thereby facilitating its expansion, to maintain a strong capital base so as to maintain investor, creditor and market confidence and to provide an adequate return to shareholders.

The Company's capital is comprised of shareholders' equity. The Company's primary uses of capital are to fund increases in non-cash working capital, along with capital expenditure for new production processes and distribution networks. The Company currently funds these requirements out of its internally generated cash flows. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year-over-year sustainable profitable growth. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders. The Company is not subject to any externally imposed capital requirements.

## **8. Directors share interests and service contracts**

Pursuant to Regulation 6.8(3) of Section 11B of the Bermuda Stock Exchange Listing Regulations, the total interest of all directors and officers of the Company as at December 31, 2008 was 242,184 (2007 – 231,918) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the managing director who qualifies under the employee share purchase plan.

There are no contracts with the Company in which a director has a material interest, either directly or indirectly.