
WATLINGTON WATERWORKS LIMITED

CONSOLIDATED Financial Statements

For the 6 months ended

JUNE 30, 2018

(Unaudited)

Watlington Waterworks Limited
Consolidated Statement of Financial Position (unaudited)
As at June 30, 2018
(Expressed in Bermuda Dollars)

	June 30, 2018	Dec 31, 2017
Assets		
Property, plant, and equipment (note 4)	\$ 19,583,497	\$ 18,968,120
Intangible assets (note 5)	93,068	113,866
Investment property (note 6)	-	-
	<u>19,676,565</u>	<u>19,081,986</u>
Total non-current assets		
Other assets (note 12)	5,387	5,017
Inventories (note 7)	1,207,811	1,199,450
Trade and other receivables (note 8)	902,606	818,096
Prepayments	167,204	198,435
Investments	3,193,280	3,183,776
Cash and cash equivalents	7,748,760	8,208,600
	<u>13,225,048</u>	<u>13,613,374</u>
Total current assets		
Total assets	\$ 32,901,613 =====	\$ 32,695,360 =====
Liabilities and equity		
Share capital	\$ 1,063,515	\$ 1,062,478
Share premium	1,484,638	1,462,757
Reserves	8,000,000	8,000,000
Retained earnings	21,428,147	20,844,424
	<u>31,976,300</u>	<u>31,369,659</u>
Total equity		
Liabilities		
Equipment deposits	2,104	1,910
Trade payables	923,209	1,323,791
	<u>925,313</u>	<u>1,325,701</u>
Total current liabilities		
Total liabilities and shareholders' equity	\$ 32,901,613 =====	\$ 32,695,360 =====

Watlington Waterworks Limited
Consolidated Statement of Comprehensive Income (unaudited)
 For the six months ended June 30, 2018
 (Expressed in Bermuda Dollars)

	June 2018 \$	June 2017 \$
Revenue (note 3)	5,788,491	5,974,004
Production costs	(1,478,833)	(1,340,266)
Gross profit	4,309,658	4,633,738
Administrative expenses	(1,549,134)	(1,609,454)
Distribution expenses	(1,357,218)	(1,385,365)
Total profit before finance income	1,403,306	1,638,919
Finance income	9,804	9,734
Profit and total comprehensive income for the period	\$ 1,413,110	\$ 1,648,653
Profit attributable to:		
Owners of the Company	\$ 1,413,110	\$ 1,648,653
Earnings per share		
Basic earnings per share	\$ 1.33	\$ 1.55

Watlington Waterworks Limited
Consolidated Statement of Changes in Equity (unaudited)
For the six months ended June 30, 2018
(Expressed in Bermuda Dollars)

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2017 (restated)	\$1,061,465	\$1,435,937	\$7,000,000	\$1,000,000	\$18,628,071	\$29,125,473
Net income for 6 months (Jan – June 2017)		-	-	-	1,648,653	1,648,653
Dividends paid	-	-	-	-	(637,330)	(637,330)
Issuance of shares	1,003	18,466				19,469
Balance at June 30, 2017	<u>\$1,062,468</u>	<u>\$1,454,403</u>	<u>\$7,000,000</u>	<u>\$1,000,000</u>	<u>\$19,639,394</u>	<u>\$ 30,156,265</u>
Net income for 6 months (July – December 2017)		-	-	-	1,523,774	1,523,774
Dividends paid	-	-	-	-	(318,744)	(318,744)
Issuance of shares	10	8,354	-	-	-	8,364
Balance Dec 31, 2017	<u>\$1,062,478</u>	<u>\$1,462,757</u>	<u>\$7,000,000</u>	<u>\$1,000,000</u>	<u>\$20,844,424</u>	<u>\$ 31,369,659</u>
Net income for 6 months (Jan – June 2018)	-	-	-	-	1,413,110	1,413,110
Dividends paid	-	-	-	-	(829,387)	(829,387)
Issuance of shares	1,037	21,881				22,918
Balance at June 30, 2018	<u>\$1,063,515</u>	<u>\$1,484,638</u>	<u>\$7,000,000</u>	<u>\$1,000,000</u>	<u>\$21,428,147</u>	<u>\$ 31,976,300</u>
	=====	=====	=====	=====	=====	=====

Watlington Waterworks Limited
Consolidated Statement of Cash Flows (Unaudited)
For the six months ended June 30, 2018
(Expressed in Bermuda Dollars)

	June 2018 \$	June 2017 \$
Operating activities		
Profit for the period	1,413,110	1,648,653
Adjustments for:		
Depreciation of property, plant and equipment	800,019	770,046
Amortization of intangible assets	29,889	11,077
Depreciation of investment property	-	-
Finance income	<u>(9,803)</u>	<u>(9,734)</u>
	2,233,215	2,420,042
<u>Changes in:</u>		
Inventories	(8,361)	(98,450)
Trade and other receivables	(84,509)	(314,168)
Prepayments	31,231	135,659
Trade and other payables	(400,582)	(107,578)
Equipment deposits	194	558
Other assets	(370)	13,790
Net cash from operating activities	<u>1,770,818</u>	<u>2,049,853</u>
Investing activities		
Interest received	9,804	9,734
Acquisition of property, plant and equipment	(1,424,487)	(1,056,841)
Investments – term deposits	(9,504)	(9,482)
Net cash used in investing activities	<u>(1,424,187)</u>	<u>(1,056,589)</u>
Financing activities		
Proceeds from shares issued	22,918	19,469
Dividends paid	(829,387)	(637,330)
Net cash used in financing activities	<u>(806,469)</u>	<u>(617,861)</u>
Net increase (decrease) in cash and cash equivalents	(459,840)	375,403
Cash and cash equivalents at beginning of period	<u>8,208,600</u>	<u>6,162,569</u>
Cash and cash equivalents at end of period	<u><u>7,748,760</u></u>	<u><u>6,537,972</u></u>

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 period.

(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 and is not depreciated. 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) Investment property

Investment property is stated at cost and depreciated over its estimated useful life of 40 years.

(g) Intangible assets

Application software is stated at cost less accumulated amortization and is amortized on a straight line basis over a useful life of three years.

(h) 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.

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2018

(i) 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.

(j) Cash and cash equivalents

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

(k) 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.

3. Revenue

	<u>June</u> <u>2018</u>	<u>June</u> <u>2017</u>
Water sales	5,377,545	5,464,507
Other operating revenues	334,169	423,525
Connection fees	46,777	55,972
Rental income	<u>30,000</u>	<u>30,000</u>
Total revenue	\$ 5,788,491 =====	\$5,974,004 =====

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2018

4. Property, plant and equipment

	Land & buildings	Plant & equipment	Fixtures & fittings	Under construction	Total
Cost					
At January 1, 2017	\$ 4,264,723	\$ 31,319,413	\$ 373,626	\$ 431,939	\$ 36,389,701
Additions	33,738	347,529	19,026	1,750,709	2,151,002
Transfers	125,762	580,867		(706,629)	-
At December 31, 2017	\$ 4,424,223	\$ 32,247,809	\$ 392,652	\$ 1,476,019	\$ 38,540,703
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At January 1, 2018	\$ 4,424,223	\$ 32,247,809	\$ 392,652	\$ 1,476,019	\$ 38,540,703
Additions	1,083	127,498	4,849	1,281,966	1,415,396
Transfers	-	-		-	-
Disposals	-	-	-	-	-
At June 30, 2018	\$ 4,425,306	\$ 32,375,307	\$ 397,501	\$ 2,757,985	\$ 39,956,099
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Depreciation					
At January 1, 2017	\$ 1,327,504	\$ 16,375,331	\$ 351,943	\$ -	\$ 18,054,778
Depreciation	207,551	1,300,033	10,221		1,517,805
Disposals					
At December 31, 2017	\$ 1,535,055	\$ 17,675,364	\$ 362,164	\$ -	\$ 19,572,583
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At January 1, 2018	\$ 1,535,055	\$ 17,675,364	\$ 362,164	\$ -	\$ 19,572,583
Depreciation	108,116	686,003	5,900	-	800,019
Disposals	-	-	-	-	-
At June 30, 2018	\$ 1,643,171	\$ 18,361,367	\$ 368,064	\$ -	\$ 20,372,602
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Carrying amounts					
At December 31, 2017	\$ 2,889,168	\$ 14,572,445	\$ 30,488	\$ 1,476,019	\$ 18,968,120
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At June 30, 2018	\$ 2,782,135	\$ 14,013,940	\$ 29,437	\$ 2,757,985	\$ 19,583,497
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**Watlington Waterworks Limited,
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2018**

5. Intangible assets

Cost	Application software
Balance at January 1, 2017	\$ 530,723
Acquisitions	105,709
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Balance at December 31, 2017	\$ 636,432
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Balance at January 1, 2018	\$ 636,432
Acquisitions	9,091
Disposals	-
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Balance at June 30, 2018	\$ 645,523
	=====
 <u>Amortization and impairment losses</u>	
Balance at January 1, 2017	\$ 493,893
Amortization for the year	28,673
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Balance at December 31, 2017	\$ 522,566
	=====
Balance at January 1, 2018	\$ 522,566
Amortization for the period January to June 2018	29,889
Balance at June 30, 2018	\$ 552,455
	=====
 <u>Carrying amounts</u>	
At December 31, 2017	\$ 113,866
	=====
At June 30, 2018	\$ 93,068
	=====

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2018

6. Investment property

Cost	Investment Property
December 31, 2016 and 2017	\$ 330,153 =====
 <u>Depreciation</u>	
Balance at December 31, 2017	\$ 330,153 _____
Balance at June 30, 2018	\$ 330,153 =====
 <u>Carrying amounts</u>	
At December 31, 2017	\$ - =====
At June 30, 2018	\$ - =====

The property was valued by an independent appraiser on November 24, 2016 at a value of \$1,275,000. The property is leased at a monthly rental of \$5,000.00 as of January 2017.

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2018

7. Inventories

	June 2018	Dec 2017
	\$	\$
Spares and production parts	800,019	886,750
Goods for resale	456,606	356,418
Water bottling supplies	39,048	44,144
Inventory provision	(87,862)	(87,862)
	1,207,811	1,199,450

The cost of inventories recognized as an expense and included in production costs and distribution expenses is \$137,257 (June 2017 - \$107,300).

8. Trade and other receivables

	June 2018	Dec 2017
	\$	\$
Accounts receivable	984,147	944,377
Allowance for doubtful debts	(81,541)	(126,281)
	902,606	818,096

9. Share capital and share premium

	June 2018	Dec 2017
	\$	\$
Authorised – 2,000,000 shares of the par value of \$1.00 each	2,000,000	2,000,000
Issued and fully paid – 1,063,515 (Dec 2017 – 1,062,478) shares of the par value of \$1.00 each	1,063,515	1,062,478

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 June 30, 2018 was \$30.06 (December 31, 2017 - \$ 29.52).

9. Share capital and share premium

(a) Employee share purchase plan

In June 1999, the Company introduced an employee share purchase plan whereby employees with a minimum of one year's continuous service may subscribe to purchase 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 authorized, unissued share capital. Employees are restricted from selling the shares for a period of one year from the issuance date.

During the 6 months ended June 30, 2018, 1,037 shares were purchased by employees \$ 22,918 (Dec 2017 – 1013 shares \$ 19,676). The excess of the purchase price over the par value of the shares is recorded as share premium.

(b) Share premium

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

10. Reserves

Capital reserve

The amount maintained in 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.

11. 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.

12. Other assets

The Company participates in a defined contribution plan on behalf of its employees with a third party insurer. As at June 30, 2018 the Company has a pension surplus of \$ 5,387 (Dec 2017 \$5,017) which is included in other assets on the consolidated statement of financial position. The pension surplus arises from contributions made by the Company for former employees who left the pension plan prior to the vesting date, and can be offset against the Company's future pension contributions payable.

13. Financial instruments

The estimated fair values of the Company's cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities and deposits held approximate their carrying values.

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

Cash and cash equivalents and investments consist mainly of cash deposits. The Company has deposited the cash and cash equivalents and investments 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 minimized by the Company's large customer base, which covers consumer and business sectors in Bermuda. The Company follows a programme 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.

Commitments

During 2010 the Company entered into a Memorandum of Understanding with the Bermuda Government to extend its pipeline from Lighthouse Road, Southampton westwards towards Somerset and the West End. At June 30, 2016 capital expenditure totaling \$4,531,906 had been incurred on this project and our obligation has been fulfilled.

As at June 30, 2018, the Company had capital commitments in respect of plant and equipment of \$68,307 (June 2017 - \$ 65,406). These commitments will be met from operations.

14. 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 flow. 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.

Watlington Waterworks Limited
Notes to Consolidated Financial Statements (Unaudited)
For the six months ended June 30, 2018

15. Summaries of the last 6 six month financial periods ended June 30

	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
Revenue (including interest)	5,798,295	5,983,738	4,780,052	4,954,274	4,820,546
Net earnings	1,413,110	1,648,653	853,797	1,050,587	967,146
Dividends	829,387	637,330	408,314	387,398	233,459
Equity	31,976,300	30,156,265	28,037,632	26,606,616	25,061,416
Total assets	32,901,613	30,900,141	28,775,567	27,357,662	26,166,768
Per share amounts					
Net earnings	1.33	1.55	0.80	0.99	0.91
Dividends	0.78	0.60	0.38	0.36	0.22
Equity	30.06	28.38	26.41	25.07	23.62

16. 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 June 30, 2018 was 119,956 (June 2017 – 225,272) shares. No rights to subscribe for shares in the Company have been granted to or exercised by any director or officer, except for the management staff 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.