WATLINGTON WATERWORKS LIMITED

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

For the Year Ended December 31, 2016

KPMG

KPMG Audit Limited
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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Watlington Waterworks Limited

We have audited the accompanying consolidated financial statements of Watlington Waterworks Limited (the "Company") and its subsidiary, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiary as at December 31, 2016, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 28, 2017

The accompanying report of KPMG is for the sole and exclusive use of the Company. No person, other than the Company, is authorized to rely upon the report of KPMG unless KPMG expressly so authorizes. Furthermore, the report of KPMG is as of March 28, 2017 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Financial Position

December 31, 2016
(Expressed in Bermuda Dollars)

	2016	2015
Assets		
Non-current assets		
Property, plant and equipment (Note 9)	$ 18,334,923	$ 18,893,403
Intangible assets (Note 10)	36,830	65,464
Investment property (Note 11)	–	16,473
Total non-current assets	18,371,753	18,975,340
Current assets		
Other assets (Note 16)	18,807	49,450
Inventories (Note 12)	1,234,175	1,124,688
Trade and other receivables (Note 17)	755,698	718,930
Prepayments	268,737	162,090
Investments (Note 3(k))	3,164,629	3,145,611
Cash and cash equivalents (Notes 13 and 17)	6,162,569	4,108,698
Total current assets	11,604,615	9,309,467
Total assets	$ 29,976,368	$ 28,284,807
Equity		
Share capital (Note 14)	$ 1,061,465	$ 1,061,440
Share premium (Note 14)	1,435,937	1,435,456
Reserves (Note 14)	8,000,000	8,000,000
Retained earnings	18,628,071	16,995,253
Total equity	29,125,473	27,492,149
Liabilities		
Current liabilities		
Equipment deposits	1,950	2,020
Trade payables (Note 17)	848,945	790,638
Total current liabilities	850,895	792,658
Total liabilities and equity	$ 29,976,368	$ 28,284,807

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

Signed on behalf of the Board

______________ Director

______________ Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2016
(Expressed in Bermuda Dollars)

	2016	2015
Revenue (Note 6)	$ 10,545,144	$ 10,215,353
Production costs	(2,597,925)	(2,623,195)
Gross profit	7,947,219	7,592,158
Administrative expenses	(3,072,913)	(2,886,904)
Distribution expenses	(2,597,482)	(2,532,028)
Total profit before finance income	2,276,824	2,173,226
Finance income	19,398	16,137
Profit and total comprehensive income for the year	$ 2,296,222	$ 2,189,363
Profit attributable to:		
Owners of the Company	$ 2,296,222	$ 2,189,363
Earnings per share		
Basic earnings per share (Note 15)	$ 2.16	$ 2.06

All amounts reported above are related to continuing operations. There are no other components of comprehensive income.

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED
Consolidated Statement of Changes in Equity

For the year ended December 31, 2016
(Expressed in Bermuda dollars)

	Attributable to owners of the Company					
	Share capital	Share premium	Capital reserve	General reserve	Retained earnings	Total
Balance at January 1, 2015	1,061,365	1,434,031	7,000,000	1,000,000	15,448,031	25,943,427
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,189,363	2,189,363
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 14)	75	1,425	–	–	–	1,500
Dividends (Note 14)	–	–	–	–	(642,141)	(642,141)
Balance at December 31, 2015	$ 1,061,440	$ 1,435,456	$ 7,000,000	$ 1,000,000	$ 16,995,253	$ 27,492,149
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,296,222	2,296,222
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 14)	25	481	–	–	–	506
Dividends (Note 14)	–	–	–	–	(663,404)	(663,404)
Balance at December 31, 2016	$ 1,061,465	$ 1,435,937	$ 7,000,000	$ 1,000,000	$ 18,628,071	$ 29,125,473

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Cash Flows

For the year ended December 31, 2016
(Expressed in Bermuda Dollars)

	2016	2015
Operating activities		
Profit for the year	$ 2,296,222	$ 2,189,363
Adjustments for:		
Depreciation of property, plant and equipment (Note 9)	1,455,323	1,333,755
Amortization of intangible assets (Note 10)	33,044	61,198
Depreciation of investment property (Note 11)	16,473	17,970
Finance income	(19,398)	(16,137)
	3,781,664	3,586,149
Changes in non-cash working capital balances:		
Inventories	(109,487)	(8,216)
Trade and other receivables	(36,768)	(9,670)
Prepayments	(106,647)	26,754
Trade payables	58,307	(85,161)
Equipment deposits	(70)	–
Other assets	30,643	115,482
Net cash provided by operating activities	3,617,642	3,625,338
Investing activities		
Interest received	19,398	16,137
Increase in investments	(19,018)	(1,015,830)
Acquisition of property, plant and equipment (Note 9)	(896,843)	(1,396,586)
Acquisition of intangible assets (Note 10)	(4,410)	(62,050)
Net cash used in investing activities	(900,873)	(2,458,329)
Financing activities		
Proceeds from shares issued	506	1,500
Dividends paid (Note 14)	(663,404)	(642,141)
Net cash used in financing activities	(662,898)	(640,641)
Net increase in cash and cash equivalents	2,053,871	526,368
Cash and cash equivalents at beginning of year	4,108,698	3,582,330
Cash and cash equivalents at end of year	$ 6,162,569	$ 4,108,698

The notes on pages 5 to 21 are an integral part of these consolidated financial statements

1. General

Watlington Waterworks Limited (the "Company") is a company domiciled in Bermuda. The address of the Company's registered office is H.P. House, 21 Laffan Street, Hamilton HM09, Bermuda. The consolidated financial statements of the Company as at and for the year ended December 31, 2016 comprise the Company and its wholly-owned subsidiary Bermuda Waterworks Ltd. The Company is primarily involved in the production and distribution of water and purification of drinking water at the retail and wholesale level. The Company is also engaged in the provision of water services, plumbing supplies and the supply of water coolers for sale and rental. There is no parent or ultimate controlling party to the Company.

2. Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorised for issue by the Board of Directors on March 28, 2017.

b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

c) Functional and presentation currency

These consolidated financial statements are presented in Bermuda Dollars, which is the Company's functional currency.

d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and the associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are described in the following notes:

- Note 3(c) – useful lives of property, plant and equipment
- Note 3(d) – useful life of intangible assets
- Note 3(e) – useful life of investment property
- Note 3(g) – impairment of financial assets and non-financial assets
- Note 12 – inventory provision
- Note 17 – allowance for impairment of receivables

3. **Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Basis of consolidation

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

b) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

c) Property, plant and equipment

Recognition and measurement
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour; and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

Depreciation
Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each asset or component.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use. Land and assets under construction have not been depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

• Buildings	40 years
• Plant and equipment including pipelines	3 – 40 years
• Fixtures and fittings	3 – 10 years

3. **Significant accounting policies** (continued)

d) *Intangible assets*

Application software is measured at cost less accumulated amortization and is amortized on a straight-line basis over a useful life of 3 years.

e) *Investment property*

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost and depreciated over the estimated useful life of 40 years. Investment property improvements are measured at cost and depreciated over an estimated useful life of 10 years.

f) *Inventories*

Inventories which comprise essential utility parts, plumbing supplies and bottled water supplies are carried at the lower of cost and net realizable value. Cost is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production and conversion costs, and other costs incurred in bringing them to their present condition and location.

g) *Impairment*

Financial assets

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables or investments. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The allowance for impairment of receivables reflects estimates of losses arising from the failure or inability of the Company's customers to make required payments. The allowance is based on the ageing of customer accounts, customer creditworthiness and the Company's historical write-off experience. Changes to the allowance may be required if the financial condition of customers improves or deteriorates. An improvement in the financial condition may result in lower actual write-offs. Historically changes to the estimates of losses have not been material to the consolidated financial position and results.

Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. Factors that are considered important and which could trigger an impairment review include the following:

- Obsolescence or physical damage;
- Significant changes in technology and regulatory environment;
- Significant under-performance relative to expected historical or projected future operating results;
- Significant changes in the use of the assets or the strategy for business; and
- Significant negative industry or economic trends.

3. **Significant accounting policies** (continued)

g) *Impairment* (continued)

The identification of impairment indicators, estimation of timing and amount of expected future cash flows, determination of application of discount rates and computation of recovered amounts for assets involves significant judgment. If any such indication exists, then the asset's recoverable amount is estimated. For assets that have indefinite useful lives, or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

h) *Trade and other receivables*

Trade receivables are classified as loans and receivables and are carried at amortized cost using the effective interest method, based on the original invoice amount to customers less provision made for impairment based on a periodic review of all outstanding amounts.

i) *Cash and cash equivalents*

Cash equivalents are highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried on the consolidated statement of financial position at cost and comprise cash and short-term deposits with maturities of three months or less from the acquisition date.

j) *Trade and other payables*

Trade and other payables are classified as other financial liabilities and are carried at amortized cost using the effective interest method.

k) *Investments*

Investments comprise of time deposits which earn a fixed interest rate of 0.6% per annum. Investments have been entered into for a term of six months from acquisition date.

3. **Significant accounting policies** (continued)

l) Finance income

Finance income represents interest on cash and cash equivalents and financial instruments, and is recorded on the accruals basis using the effective interest method.

m) Employee benefits

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.

n) Revenue

Water sales
Water sales comprise wholesale water and bottled water sales. Revenue for water sales is recognized as the water is sold and collection of the associated receivable is reasonably assured. Wholesale water sales are based on consumption recorded by meter readings taken monthly during the year. Metered sales are recognized as billed at the end of each month.

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.

Rental income
Rental income is recognized as revenue on a straight-line basis over the term of the lease.

4. **New Standards and Interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations have been issued and are not yet effective. These standards have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The Company expects no significant impact on its financial statements resulting from the adoption of IFRS 15.

(ii) IFRS 9 Financial Instruments

IFRS 9 published in July 2014 replaces the existing guidance in IAS 39 *Financial Instruments*: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment on financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

(ii) IFRS 9 Financial Instruments (continued)

IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company expects no significant impact on its financial statements resulting from the adoption of IFRS 9.

(iii) IFRS 16 Leases

IFRS 16 establishes a new framework for lessee accounting which requires that all leased assets be recognized in the statement of financial position if the lease definition is met. It replaces existing lease accounting guidance contained in IAS 17 *Leases*. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 *Revenue from Contracts with Customers* is also early adopted.

The Company is assessing the potential impact on its financial statements resulting from the application of IFRS 16.

5. Operating segments

The principal activity of the Company is the production and distribution of water. There are two primary revenue earning divisions, the Utility Division and the Bottled Water Division. The Utility Division distributes drinking water through a network of underground pipelines to the central and western parishes of Bermuda. The Bottled Water Division manufactures the Pure Water product which is distributed throughout Bermuda, is sold in grocery stores and from the Company's premises, and is also delivered directly to customers' premises. Other operations include the retail store for plumbing supplies and miscellaneous income and expenditures.

Income and expenditure by segment

	2016			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 5,961,521	$ 3,986,841	$ 460,782	$ 10,409,144
Intersegment revenues	45,311	–	–	45,311
Rentals	–	–	36,000	36,000
Interest	–	–	19,398	19,398
Provision for pension forfeiture	–	–	100,000	100,000
Total revenue	6,006,832	3,986,841	616,180	10,609,853
Expenditure				
External costs	3,273,690	2,747,835	741,955	6,763,480
Depreciation and amortization	1,136,788	134,001	234,051	1,504,840
Intersegment expenditure	–	45,311	–	45,311
Total expenditure	4,410,478	2,927,147	976,006	8,313,631
Net profit (loss) by segment	$ 1,596,354	$ 1,059,694	$ (359,826)	$ 2,296,222

5. **Operating segments** (continued)

Income and expenditure by segment (continued)

	2015			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 5,871,525	$ 3,966,839	$ 328,989	$ 10,167,353
Intersegment revenues	47,034	–	–	47,034
Rentals	–	–	48,000	48,000
Interest	–	–	16,137	16,137
Total revenue	5,918,559	3,966,839	393,126	10,278,524
Expenditure				
External costs	3,182,791	2,794,800	651,613	6,629,204
Depreciation and amortization	1,116,156	44,349	252,418	1,412,923
Intersegment expenditure	–	47,034	–	47,034
Total expenditure	4,298,947	2,886,183	904,031	8,089,161
Net profit (loss) by segment	$ 1,619,612	$ 1,080,656	$ (510,905)	$ 2,189,363

External revenues for the Utility Division include connection fees, and for the Bottled Water Division sales and rentals of coolers and related equipment are included. Intersegment revenues and expenditure refer to water supplied by the Utility Division to the Bottled Water Division and further processed to make the Pure Water product. This supply is billed at normal commercial rates.

Administrative costs have been charged to reporting segments on an actual basis wherever possible. The residual of non-allocable administrative expenditure is allocated to segments on an estimated usage basis.

Reconciliation of revenue

	2016	2015
Total revenue for reportable segments	$ 9,993,673	$ 9,885,398
Other revenue	616,180	393,126
Finance income	(19,398)	(16,137)
Elimination of intersegment revenues	(45,311)	(47,034)
Total revenue (Note 6)	$ 10,545,144	$ 10,215,353

Non-reportable segments

Revenue includes sales from the Company's plumbing supplies retail outlet, external rentals from the Company's properties and interest on invested funds. Expenditure includes the operating costs of the retail outlet, depreciation on equipment used jointly by all divisions of the Company, (e.g. computer hardware and software) and unallocated administrative costs.

5. **Operating segments** (continued)

Reconciliation of assets, liabilities and capital expenditure by segment

	Utility	Bottled Water	Total reportable Segments	Other	Total
As at December 31, 2016					
Assets	$ 16,209,248	$ 2,577,765	$ 18,787,013	$11,189,355	$ 29,976,368
Liabilities	(70,288)	(92,910)	(163,198)	(687,697)	(850,895)
Capital expenditure	617,377	219,433	836,810	64,443	901,253
As at December 31, 2015					
Assets	$ 16,947,919	$ 2,311,791	$ 19,259,710	$ 9,025,097	$ 28,284,807
Liabilities	(77,893)	(14,722)	(92,615)	(700,043)	(792,658)
Capital expenditure	473,621	608,802	1,082,423	376,213	1,458,636

6. **Revenue**

	2016	2015
Water sales	$ 9,677,128	$ 9,553,873
Other operating revenues	832,016	613,480
Rental income	36,000	48,000
	$ 10,545,144	$ 10,215,353

7. **Expenses by nature**

Expenses by nature primarily comprise of:

	2016	2015
Employee benefits (Note 8)	$ 3,482,137	$ 3,429,622
Depreciation (Note 9 and 11)	1,471,796	1,351,725
Electricity	1,017,930	1,099,152
Repairs and maintenance	389,384	308,489
Vehicle	224,664	216,151
Royalties	39,980	42,166
Amortization of intangible assets (Note 10)	33,044	61,198

8. **Employee benefit expenses**

	2016	2015
Short term employment benefits	$ 2,809,125	$ 2,779,433
Compulsory payroll tax, social insurance and health scheme contributions	535,280	524,406
Payments to defined contribution pension scheme	132,191	120,004
Other employee benefit expense	5,541	5,779
	$ 3,482,137	$ 3,429,622

9. Property, plant and equipment

	Land & buildings	Plant & equipment	Fixtures & fittings	Under construction	Total
Cost					
At January 1, 2015	$ 3,938,881	$ 29,575,141	$ 360,037	$ 222,213	$ 34,096,272
Additions	248,413	1,137,802	10,371	–	1,396,586
Transfers	24,592	122,371	–	(146,963)	–
At December 31, 2015	$ 4,211,886	$ 30,835,314	$ 370,408	$ 75,250	$ 35,492,858
At January 1, 2016	$ 4,211,886	$ 30,835,314	$ 370,408	$ 75,250	$ 35,492,858
Additions	14,682	185,028	3,218	693,915	896,843
Transfers	38,155	299,071	–	(337,226)	–
At December 31, 2016	$ 4,264,723	$ 31,319,413	$ 373,626	$ 431,939	$ 36,389,701
Accumulated depreciation					
At January 1, 2015	$ 1,034,650	$ 13,901,111	$ 329,939	$ –	$ 15,265,700
Depreciation	136,343	1,185,496	11,916	–	1,333,755
At December 31, 2015	$ 1,170,993	$ 15,086,607	$ 341,855	$ –	$ 16,599,455
At January 1, 2016	$ 1,170,993	$ 15,086,607	$ 341,855	$ –	$ 16,599,455
Depreciation	156,511	1,288,724	10,088	–	1,455,323
At December 31, 2016	$ 1,327,504	$ 16,375,331	$ 351,943	$ –	$ 18,054,778
Carrying amounts					
At December 31, 2015	$ 3,040,893	$ 15,748,707	$ 28,553	$ 75,250	$ 18,893,403
At December 31, 2016	$ 2,937,219	$ 14,944,082	$ 21,683	$ 431,939	$ 18,334,923

10. Intangible assets

		Application software
Cost		
At January 1, 2015	$	464,263
Additions		62,050
December 31, 2015	$	526,313
At January 1, 2016	$	526,313
Additions		4,410
December 31, 2016	$	530,723
Accumulated amortization		
At January 1, 2015	$	399,651
Amortization		61,198
At December 31, 2015	$	460,849
At January 1, 2016	$	460,849
Amortization		33,044
At December 31, 2016	$	493,893
Carrying amounts		
At December 31, 2015	$	65,464
At December 31, 2016	$	36,830

11. Investment property

Investment property comprises a residential property which is leased to a tenant on a month-by-month basis.

		Investment property
Cost		
At December 31, 2015 and 2016	$	330,153
Accumulated depreciation		
At January 1, 2015	$	295,710
Depreciation		17,970
At December 31, 2015	$	313,680
At January 1, 2016	$	313,680
Depreciation		16,473
At December 31, 2016	$	330,153
Carrying amounts		
At December 31, 2015	$	16,473
At December 31, 2016	$	–

The property was valued by an independent appraiser on November 24, 2016 at a value of $1,275,000. The property was vacant for the period from October 2016 to December 2016 and was leased at a monthly rental of $5,000 as of January 2017. Management believe that this appraised valuation approximates the fair value of the investment property.

12. Inventories

	2016	2015
Spares and production parts	$ 908,534	$ 877,959
Goods for resale	362,446	331,495
Water bottling supplies	60,870	26,434
Inventory provision	(97,675)	(111,200)
	$ 1,234,175	$ 1,124,688

13. Cash and cash equivalents

	2016	2015
Bank balances	$ 1,580,484	$ 1,234,950
Call deposits	4,582,085	2,873,748
	$ 6,162,569	$ 4,108,698

14. Capital and reserves

Share capital

	Ordinary shares of $1 par value	
	2016	2015
Issued as at January 1	$ 1,061,440	$ 1,061,365
Issued for cash during the year	25	75
Issued at December 31 – fully paid	$ 1,061,465	$ 1,061,440
Authorized	$ 2,000,000	$ 2,000,000

All shares rank equally with regard to the Company's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Share premium

The share premium balance relates to the excess of the consideration received over par value of shares of the Company.

Employee share purchase plan

In June 1999, the Company introduced an employee share purchase plan whereby an employee 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.

14. **Capital and reserves** (continued)

Employee share purchase plan (continued)

During the year ended December 31, 2016, employees subscribed for and were issued 25 (2015 - 75) common shares for consideration of $430 (2015 - $1,275). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date was $506 (2015 - $1,500) and is included in employee benefit expenses for the year ended December 31, 2016 (Note 8). The excess of the market price over the par value of the shares of $405 (2015 - $1,425) is recorded as share premium.

Capital reserve

The amount of the capital reserve of $7,000,000 was transferred from retained earnings and 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.

General reserve

General reserve of $1,000,000 is an appropriation from retained earnings as a contingency for unexpected future expenditures and has been approved by the Board of Directors.

Dividends

The following dividends were declared and paid by the Company for the year ended December 31:

	2016	2015
12 cents per qualifying ordinary share (2015 – 11 cents) March	$ 127,373	$ 116,750
26.5 cents per qualifying ordinary share (2015 – 25.5 cents) June	281,282	270,648
12 cents per qualifying ordinary share (2015 – 12 cents) October	127,373	127,370
12 cents per qualifying ordinary share (2015 – 12 cents) December	127,376	127,373
	$ 663,404	$ 642,141

The Company declared a dividend of .15c per share on March 15, 2017 (2016 - 12c per share) payable on March 31, 2017.

15. **Earnings per share**

The calculation of basic earnings per share for the year ended December 31, 2016 is based on the profit attributable to ordinary shareholders of $2,296,222 (2015 - $2,189,363), and a weighted average number of ordinary shares outstanding of 1,061,446 (2015 - 1,061,388), calculated as follows:

Weighted average number of ordinary shares

	2016	2015
Issued ordinary shares at January 1	$ 1,061,440	$ 1,061,365
Effect of shares issued during the year	6	23
Weighted average number of ordinary shares at December 31	$ 1,061,446	$ 1,061,388

There were no dilutive potential ordinary shares as at December 31, 2016 or 2015.

16. **Other assets**

The Company participates in a defined contribution plan on behalf of its employees with a third-party insurer. As at December 31, 2016 the Company has a pension surplus of $18,807 (2015 - $49,450) 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.

17. **Financial instruments**

Fair value

The Company's financial instruments consist of cash and cash equivalents, investments, trade and other receivables and trade payables.

All investments consist of call deposits and are carried at amortized cost.

The carrying values of financial instruments approximate fair value due to their short-term nature or the fact that they attract interest at market rates.

Fair value hierarchy

Financial instruments are carried at fair value, as classified by valuation method. The different levels of the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company does not hold any investments which are required to be disclosed in accordance with the above fair value hierarchy.

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument fails to meet its contractual obligations to the Company, and arises principally from cash and cash equivalents, trade and other receivables and investments.

The Company is exposed to credit related losses to the extent of non-performance by counterparties to the financial instruments, predominately trade and other receivable balances. There are no significant concentrations of credit risk. The Company mitigates its exposure by ensuring adequate client credit procedures are conducted prior to accepting new accounts, and investing all of its cash and cash equivalents with HSBC Bank Bermuda Limited which has an A- credit rating and Bank of N.T. Butterfield and Son Ltd. which has A- credit rating, according to S&P.

a) Cash and cash equivalents

The Company maintains the majority of its cash and cash equivalents in accounts with Bermuda-based banks. The risk of default is not considered significant by management.

17. **Financial instruments** (continued)

b) Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company's receivable balances are predominately with multiple Bermuda-based residential and commercial customers, and are subject to normal credit risks.

The maximum exposure to credit risk for receivable balances at the reporting date is represented by the carrying value on the consolidated statement of financial position.

The credit exposure is mitigated through the use of credit policies under which each new customer is analyzed individually for creditworthiness before the Company's standard payment terms and conditions are offered. The credit exposure is further mitigated through on-going monitoring and assessment of customer payment history.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. An allowance for impairment has been recorded for those past due balances for which collectability is uncertain. The aging of trade and other receivables, and the impairment provision as at the reporting date are as follows:

	2016	2015
Current	$ 766,845	$ 721,526
Past 30 days	36,048	52,681
Past 60 days	16,846	29,366
Past 90 days	56,653	55,328
	876,392	858,901
Less: allowance for impairment	(120,694)	(139,971)
	$ 755,698	$ 718,930

The movement in the allowance for impairment in respect of trade and other receivables was as follows:

	Total
Balance at January 1, 2014	$ 167,571
Decrease in allowance for impairment	(495)
Amounts written off	(27,105)
Balance at December 31, 2015	$ 139,971
Decrease in allowance for impairment	(19,277)
Amounts written off	–
Balance at December 31, 2016	$ 120,694

17. **Financial instruments** (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty meeting its financial liability obligations. The Company maintains sufficient cash together with cash generated from sales, to meet its liabilities as they fall due.

The table below categorizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due within 12 months approximate their carrying values, as the impact of discounting is not significant.

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2016					
Trade payables	$ 848,945	$ 848,945	$ 848,945	$ –	$ –
Total financial liabilities	$ 848,945	$ 848,945	$ 848,945	$ –	$ –

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2015					
Trade payables	$ 790,638	$ 790,638	$ 790,638	$ –	$ –
Total financial liabilities	$ 790,638	$ 790,638	$ 790,638	$ –	$ –

Interest rate risk

The Company does not have any significant exposure to interest rate risk.

Currency risk

Currency risk arises from changes in prevailing foreign currency rates. Assets and liabilities are predominately held in the functional currency of the Company, which is the Bermuda dollar. The Company is not exposed to significant foreign currency risk.

Capital management

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.

18. Commitments

At December 31, 2016, the Company had contracted capital commitments in respect of plant and equipment of $278,774 (2015 - $121,931). These commitments will be met from operations during 2017.

During 2010 the Company entered into a Memorandum of Understanding with the Bermuda Government to extend its pipeline from Lighthouse Road in Southampton westwards to the Government's water treatment plant and reservoir at Tudor Hill, Southampton and onwards towards Somerset Village. At December 31, 2016 expenditure totaling $4,531,906 (2015 - $4,514,115) had been incurred on this project. There was no expenditure in construction in progress (2015 - $nil). These amounts are included in property, plant and equipment as at December 31, 2016.

As at December 31, 2016, the Company had a contractual commitment via a purchase and sale agreement in respect of freehold land amounting to $1.2m.

19. Related parties

Directors' fees
Directors' fees in 2016 amounted to $35,400 (2015 - $37,500).

Key management personnel compensation
Key management compensation comprised the following:

	2016	2015
Short term employment benefits	$ 809,510	$ 785,552
Post-employment pension benefits	40,593	39,295
Dividends	9,976	9,636
	$ 860,079	$ 834,483

Directors' share interest 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, 2016 was 266,421 (2015 - 266,146) 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 (Note 14).

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