

WATLINGTON WATERWORKS LIMITED

Consolidated Financial Statements
(With Independent Auditors' Report Thereon)

For the Year Ended December 31, 2014



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Watlington Waterworks Limited

We have audited the accompanying consolidated financial statements of Watlington Waterworks Limited (the "Company") which comprise the consolidated statement of financial position as at December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform an 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of 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 present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 27, 2015

WATLINGTON WATERWORKS LIMITED

Consolidated Statement of Financial Position

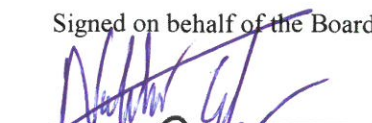
December 31, 2014

(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Assets		
Non-current assets		
Property, plant and equipment (Note 8)	\$ 18,830,572	\$ 16,419,017
Intangible assets (Note 9)	64,612	99,223
Investment property (Note 10)	<u>34,443</u>	<u>61,421</u>
Total non-current assets	<u>18,929,627</u>	<u>16,579,661</u>
Current assets		
Other assets (Note 15)	164,932	271,035
Inventories (Note 11)	1,116,472	1,423,401
Trade and other receivables (Note 16)	709,260	649,044
Prepayments	188,844	146,640
Investments	2,129,781	-
Cash and cash equivalents (Notes 12 and 16)	<u>3,582,330</u>	<u>6,383,788</u>
Total current assets	<u>7,891,619</u>	<u>8,873,908</u>
Total assets	<u>\$ 26,821,246</u>	<u>\$ 25,453,569</u>
Equity		
Share capital (Note 13)	\$ 1,061,365	\$ 1,061,139
Share premium (Note 13)	1,434,031	1,430,528
Reserves (Note 13)	8,000,000	8,000,000
Retained earnings	<u>15,448,031</u>	<u>13,835,067</u>
Total equity	<u>25,943,427</u>	<u>24,326,734</u>
Liabilities		
Current liabilities		
Equipment deposits	2,020	2,877
Trade payables (Note 16)	<u>875,799</u>	<u>1,123,958</u>
Total current liabilities	<u>877,819</u>	<u>1,126,835</u>
Total liabilities and equity	<u>\$ 26,821,246</u>	<u>\$ 25,453,569</u>

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, 2014
(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Revenue (Note 5)	\$ 10,033,168	\$ 9,740,307
Production costs	<u>(2,613,972)</u>	<u>(2,859,190)</u>
Gross profit	7,419,196	6,881,117
Administrative expenses	(2,845,399)	(2,706,087)
Distribution expenses	<u>(2,502,697)</u>	<u>(2,431,667)</u>
Total profit before finance income	2,071,100	1,743,363
Finance income	8,806	12,598
Profit and total comprehensive income for the year	\$ 2,079,906	\$ 1,755,961
Profit attributable to:		
Owners of the Company	\$ 2,079,906	\$ 1,755,961
Earnings per share		
Basic earnings per share (Note 14)	\$ 1.96	\$ 1.65

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, 2014

(Expressed in Bermuda dollars)

	<u>Attributable to owners of the Company</u>					<u>Total</u>
	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve</u>	<u>General reserve</u>	<u>Retained earnings</u>	
Balance at January 1, 2013	\$ 1,061,139	\$ 1,430,528	\$ 7,000,000	\$ 1,000,000	\$ 12,546,008	\$ 23,037,675
Total comprehensive income for the year						
Profit for the year	–	–	–	–	1,755,961	1,755,961
Transactions with owners of the Company recognized directly in equity						
Dividends (Note 13)	–	–	–	–	(466,902)	(466,902)
Balance at December 31, 2013 and January 1, 2014	\$ 1,061,139	\$ 1,430,528	\$ 7,000,000	\$ 1,000,000	\$ 13,835,067	\$ 24,326,734
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,079,906	2,079,906
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 13)	226	3,503	–	–	–	3,729
Dividends (Note 13)	–	–	–	–	(466,942)	(466,942)
Balance at December 31, 2014	\$ 1,061,365	\$ 1,434,031	\$ 7,000,000	\$ 1,000,000	\$ 15,448,031	\$ 25,943,427

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, 2014
(Expressed in Bermuda Dollars)

	<u>2014</u>	<u>2013</u>
Operating activities		
Profit for the year	\$ 2,079,906	\$ 1,755,961
Adjustments for:		
Depreciation of property, plant and equipment (Note 8)	1,159,115	1,032,164
Amortization of intangible assets (Note 9)	51,309	46,749
Depreciation of investment property (Note 10)	26,978	32,135
Finance income	<u>(8,806)</u>	<u>(12,598)</u>
	3,308,502	2,854,411
Changes in non-cash working capital balances:		
Inventories	306,928	(125,294)
Trade and other receivables	(60,216)	(37,882)
Prepayments	(42,204)	483
Trade payables	(248,158)	48,466
Equipment deposits	(857)	(678)
Other assets	<u>106,104</u>	<u>51,823</u>
	3,370,099	2,791,329
	<hr/>	<hr/>
Investing activities		
Interest received	8,806	12,598
(Increase) decrease in investments	(2,129,781)	-
Acquisition of property, plant and equipment (Note 8)	(3,570,671)	(2,442,116)
Acquisition of intangible assets (Note 9)	<u>(16,698)</u>	<u>(29,261)</u>
	(5,708,344)	(2,470,106)
	<hr/>	<hr/>
Financing activities		
Proceeds from shares issued	3,729	-
Dividends paid (Note 13)	<u>(466,942)</u>	<u>(466,902)</u>
	(463,213)	(466,902)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(2,801,458)	(134,352)
Cash and cash equivalents at beginning of year	<u>6,383,788</u>	<u>6,518,140</u>
Cash and cash equivalents at end of year	<u>\$ 3,582,330</u>	<u>\$ 6,383,788</u>

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

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

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, 2014 comprise the Company and its wholly-owned subsidiary Bermuda Waterworks Ltd. The Company primarily is 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 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 27, 2015.

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 16 – allowance for impairment of receivables

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

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 following:

- 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 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 |

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

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

d) *Intangible assets*

Application software is valued 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.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

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 in 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 stated at amortized cost using the effective interest method.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

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

k) 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.

l) 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.

m) 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.

n) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 1, 2014, however, the Company has not applied the following new or amended standards in preparing these consolidated financial statements.

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 instruments, including a new expected credit loss model for calculation impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

3. Significant accounting policies (continued)

n) New standards and interpretations not yet adopted (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. 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, 2017, with early adoption permitted.

The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

4. 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

	2014			
	<u>Utility</u>	<u>Bottled Water</u>	<u>Other</u>	<u>Total</u>
Income				
External revenues	\$ 5,836,982	\$ 3,826,938	\$ 329,248	\$ 9,993,168
Intersegment revenues	43,918	–	–	43,918
Rentals	–	–	40,000	40,000
Interest	–	–	8,806	8,806
Total revenue	5,880,900	3,826,938	378,054	10,085,892
Expenditure				
External costs	3,417,148	2,656,138	651,381	6,724,667
Depreciation and amortization	961,103	34,340	241,958	1,237,401
Intersegment expenditure	–	43,918	–	43,918
Total expenditure	4,378,252	2,734,396	893,339	8,005,986
Net profit (loss) by segment	\$ 1,502,649	\$ 1,092,542	\$ (515,285)	\$ 2,079,906

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

4. Operating segments (continued)*Income and expenditure by segment (continued)*

	<u>2013</u>			
	<u>Utility</u>	<u>Bottled Water</u>	<u>Other</u>	<u>Total</u>
Income				
External revenues	\$ 5,629,530	\$ 3,758,173	\$ 320,229	\$ 9,707,932
Intersegment revenues	42,269	-	-	42,269
Rentals	-	-	32,375	32,375
Interest	-	-	12,598	12,598
Total revenue	<u>5,671,799</u>	<u>3,758,173</u>	<u>365,202</u>	<u>9,795,174</u>
Expenditure				
External costs	3,634,965	2,621,021	629,910	6,885,896
Depreciation and amortization	889,212	39,383	182,453	1,111,048
Intersegment expenditure	-	42,269	-	42,269
Total expenditure	<u>4,524,177</u>	<u>2,702,673</u>	<u>812,363</u>	<u>8,039,213</u>
Net profit (loss) by segment	<u>\$ 1,147,622</u>	<u>\$ 1,055,500</u>	<u>\$ (447,161)</u>	<u>\$ 1,755,961</u>

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 residue of non-allocable administrative expenditure is allocated to segments on an estimated usage basis.

Reconciliation of revenue

	<u>2014</u>	<u>2013</u>
Total revenue for reportable segments	\$ 9,707,838	\$ 9,429,972
Other revenue	378,054	365,202
Finance income	(8,806)	(12,598)
Elimination of intersegment revenues	<u>(43,918)</u>	<u>(42,269)</u>
Total revenue	<u>\$ 10,033,168</u>	<u>\$ 9,740,307</u>

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.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

4. **Operating segments** (continued)

Reconciliation of assets, liabilities and capital expenditure by segment

	<u>Utility</u>	<u>Bottled Water</u>	<u>Total reportable segments</u>	<u>Other</u>	<u>Total</u>
As at December 31, 2014					
Assets	\$ 17,196,987	\$ 2,097,544	\$ 19,294,531	\$ 7,526,715	\$ 26,821,246
Liabilities	(172,827)	(39,295)	(212,122)	(665,697)	(877,819)
Capital expenditure	2,852,670	21,034	2,873,704	713,665	3,587,369
As at December 31, 2013					
Assets	\$ 15,565,125	\$ 1,689,120	\$ 17,254,245	\$ 8,199,324	\$ 25,453,569
Liabilities	(508,142)	(25,589)	(533,731)	(593,104)	(1,126,835)
Capital expenditure	1,104,223	23,424	1,127,647	1,343,730	2,471,377

5. **Revenue**

	<u>2014</u>	<u>2013</u>
Water sales	\$ 9,329,024	\$ 8,940,605
Other operating revenues	664,144	767,327
Rental income	<u>40,000</u>	<u>32,375</u>
	<u>\$ 10,033,168</u>	<u>\$ 9,740,307</u>

6. **Expenses by nature**

Expenses by nature primarily comprise of:

	<u>2014</u>	<u>2013</u>
Employee benefits (Note 7)	\$ 3,218,380	\$ 3,243,521
Electricity	1,275,248	1,366,125
Depreciation	1,186,093	1,064,299
Royalties	115,928	340,100
Repairs and maintenance	313,537	263,108
Vehicle	205,426	198,370
Amortization of intangible assets	51,309	46,749

7. **Employee benefit expenses**

	<u>2014</u>	<u>2013</u>
Short term employment benefits	\$ 2,591,168	\$ 2,600,574
Compulsory payroll tax, social insurance and health scheme contributions	507,665	528,914
Payments to defined contribution pension scheme	113,888	108,129
Other employee benefit expense	<u>6,311</u>	<u>5,904</u>
	<u>\$ 3,219,032</u>	<u>\$ 3,243,521</u>

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

8. Property, plant and equipment

	<u>Land & buildings</u>	<u>Plant & equipment</u>	<u>Fixtures & fittings</u>	<u>Under construction</u>	<u>Total</u>
Cost					
At January 1, 2013	\$ 1,400,786	\$ 25,806,111	\$ 363,954	\$ 969,029	\$ 28,539,880
Additions	1,924,891	504,167	13,058	–	2,442,116
Transfers	–	416,888	–	(416,888)	–
Disposals	<u>–</u>	<u>(353,339)</u>	<u>(22,651)</u>	<u>–</u>	<u>(375,990)</u>
At December 31, 2013	<u>\$ 3,325,677</u>	<u>\$ 26,373,827</u>	<u>\$ 354,361</u>	<u>\$ 552,141</u>	<u>\$ 30,606,006</u>
At January 1, 2014	\$ 3,325,677	\$ 26,373,827	\$ 354,361	\$ 552,141	\$ 30,606,006
Additions	613,204	2,951,790	5,676	–	3,570,671
Transfers	–	329,928	–	(329,928)	–
Disposals	<u>–</u>	<u>(80,404)</u>	<u>–</u>	<u>–</u>	<u>(80,404)</u>
At December 31, 2014	<u>\$ 3,938,881</u>	<u>\$ 29,575,141</u>	<u>\$ 360,037</u>	<u>\$ 222,213</u>	<u>\$ 34,096,272</u>
Accumulated depreciation					
At January 1, 2013	\$ 850,191	\$ 12,359,069	\$ 321,555	\$ –	\$ 13,530,815
Depreciation	61,515	953,842	16,807	–	1,032,164
Disposals	<u>–</u>	<u>(353,339)</u>	<u>(22,651)</u>	<u>–</u>	<u>(375,990)</u>
At December 31, 2013	<u>\$ 911,706</u>	<u>\$ 12,959,572</u>	<u>\$ 315,711</u>	<u>\$ –</u>	<u>\$ 14,186,989</u>
At January 1, 2014	\$ 911,706	\$ 12,959,572	\$ 315,711	\$ –	\$ 14,186,989
Depreciation	122,944	1,021,943	14,228	–	1,159,115
Disposals	<u>–</u>	<u>(80,404)</u>	<u>–</u>	<u>–</u>	<u>(80,404)</u>
At December 31, 2014	<u>\$ 1,034,650</u>	<u>\$ 13,901,111</u>	<u>\$ 329,939</u>	<u>\$ –</u>	<u>\$ 15,265,700</u>
Carrying amounts					
At December 31, 2013	<u>\$ 2,413,971</u>	<u>\$ 13,414,255</u>	<u>\$ 38,650</u>	<u>\$ 552,141</u>	<u>\$ 16,419,017</u>
At December 31, 2014	<u>\$ 2,904,231</u>	<u>\$ 15,674,030</u>	<u>\$ 30,098</u>	<u>\$ 222,213</u>	<u>\$ 18,830,572</u>

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

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9. Intangible assets

	<u>Application software</u>
Cost	
At January 1, 2013	\$ 495,904
Additions	29,261
Disposals	<u>(77,600)</u>
December 31, 2013	\$ 447,565
	<u>=====</u>
At January 1, 2014	\$ 447,565
Additions	<u>16,698</u>
December 31, 2014	\$ 464,263
	<u>=====</u>
Accumulated amortization	
At January 1, 2013	\$ 379,193
Amortization	46,749
Disposals	<u>(77,600)</u>
At December 31, 2013	\$ 348,342
	<u>=====</u>
At January 1, 2014	\$ 348,342
Amortization	<u>51,309</u>
At December 31, 2014	\$ 399,651
	<u>=====</u>
Carrying amounts	
At December 31, 2013	\$ 99,223
	<u>=====</u>
At December 31, 2014	\$ 64,612
	<u>=====</u>

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Notes to Consolidated Financial Statements

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10. **Investment property**

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

	<u>Investment property</u>
Cost	
December 31, 2013 and 2014	\$ 330,153
	<u> </u>
Accumulated depreciation	
At January 1, 2013	\$ 236,597
Depreciation	<u>32,135</u>
At December 31, 2013	\$ 268,732
	<u> </u>
At January 1, 2014	\$ 268,732
Depreciation	<u>26,978</u>
At December 31, 2014	\$ 295,710
	<u> </u>
Carrying amounts	
At December 31, 2013	\$ 61,421
	<u> </u>
At December 31, 2014	\$ 34,443
	<u> </u>

The property was valued by an independent appraiser on November 27, 2013 at a value of \$1,175,000. The property was vacant for the period from August 2013 to February 2014 and was leased at a monthly rental of \$4,000 as of March 2014. Management believe that this appraised valuation approximates the fair value of the investment property.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

11. Inventories

	<u>2014</u>	<u>2013</u>
Spares and production parts	\$ 900,037	\$ 993,444
Goods for resale	298,569	377,739
Water bottling supplies	39,698	156,756
Inventory provision	<u>(121,832)</u>	<u>(104,538)</u>
	<u>\$ 1,116,472</u>	<u>\$ 1,423,401</u>

12. Cash and cash equivalents

	<u>2014</u>	<u>2013</u>
Bank balances	\$ 3,666,565	\$ 4,735,536
Call deposits	<u>2,045,546</u>	<u>1,648,252</u>
	<u>\$ 5,712,111</u>	<u>\$ 6,383,788</u>

13. Capital and reserves

Share capital

	<u>Ordinary shares of \$1 par value</u>	
	<u>2014</u>	<u>2013</u>
Issued as at January 1	\$ 1,061,139	\$ 1,061,139
Issued for cash during the year	<u>226</u>	<u>—</u>
Issued at December 31 – fully paid	<u>\$ 1,061,365</u>	<u>\$ 1,061,139</u>
Authorized	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

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.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

13. Capital and reserves (continued)

Employee share purchase plan (continued)

During the year ended December 31, 2014, employees subscribed for and were issued 226 common shares for consideration of \$3,077 (2013 – \$nil). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date was \$3,729 (2013 – \$nil) and is included in employee benefit expenses for the year ended December 31, 2014 (Note 7). The excess of the market price over the par value of the shares of \$3,503 is recorded as share premium.

Capital reserve

The amount transferred from retained earnings to capital reserve of \$7,000,000 (2013 - \$7,000,000) 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 (2013 - \$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:

	<u>2014</u>	<u>2013</u>
11 cents per qualifying ordinary share (2013 – 11 cents) March	\$ 116,725	\$ 116,725
11 cents per qualifying ordinary share (2013 – 11 cents) June	116,734	116,725
11 cents per qualifying ordinary share (2013 – 11 cents) October	116,733	116,726
11 cents per qualifying ordinary share (2013 – 11 cents) December	<u>116,750</u>	<u>116,726</u>
	\$ 466,942	\$ 466,902

14. Earnings per share

The calculation of basic earnings per share at December 31, 2014 is based on the profit attributable to ordinary shareholders of \$2,104,778 (2013 - \$1,755,961), and a weighted average number of ordinary shares outstanding of 1,061,227 (2013 - 1,061,139), calculated as follows:

Weighted average number of ordinary shares

	<u>2014</u>	<u>2013</u>
Issued ordinary shares at January 1	1,061,139	1,061,139
Effect of shares issued during the year	<u>88</u>	<u>–</u>
Weighted average number of ordinary shares at December 31	<u>1,061,227</u>	<u>1,061,139</u>

There were no dilutive potential ordinary shares as at December 31, 2014 or December 31, 2013.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

15. **Other assets**

The Company participates in a defined contribution plan on behalf of its employees with a third party insurer. As at December 31, 2014 the Company has a pension surplus of \$164,932 (2013 - \$271,035) 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.

16. **Financial instruments**

Fair value

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

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, and 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, and the Company mitigates its exposure by ensuring adequate client credit procedures are conducted prior to accepting new accounts.

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.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

16. Financial instruments (continued)

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 impairment provision as at the reporting date are as follows:

	<u>2014</u>	<u>2013</u>
Current	\$ 727,866	\$ 662,923
Past 30 days	65,841	59,442
Past 60 days	21,331	14,044
Past 90 days	<u>61,793</u>	<u>73,618</u>
	876,831	810,027
Less: allowance for impairment	<u>(167,571)</u>	<u>(160,983)</u>
	<u>\$ 709,260</u>	<u>\$ 649,044</u>

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

	<u>Total</u>
Balance at January 1, 2013	\$ 202,516
Impairment loss reversed	(33,941)
Amounts written off	<u>(7,592)</u>
Balance at December 31, 2013	\$ 160,983
Impairment loss incurred	36,801
Amounts written off	<u>(30,213)</u>
Balance at December 31, 2014	<u>\$ 167,571</u>

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

16. Financial instruments (continued)

Trade and other receivables (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, 2014					
Trade payables	\$ <u>875,799</u>	\$ <u>875,799</u>	\$ <u>875,799</u>	\$ <u>—</u>	\$ <u>—</u>
Total financial liabilities	\$ <u>875,799</u>	\$ <u>875,799</u>	\$ <u>875,799</u>	\$ <u>—</u>	\$ <u>—</u>
	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2013					
Trade payables	\$ <u>1,123,958</u>	\$ <u>1,123,958</u>	\$ <u>1,123,958</u>	\$ <u>—</u>	\$ <u>—</u>
Total financial liabilities	\$ <u>1,123,958</u>	\$ <u>1,123,958</u>	\$ <u>1,123,958</u>	\$ <u>—</u>	\$ <u>—</u>

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.

WATLINGTON WATERWORKS LIMITED

Notes to Consolidated Financial Statements

December 31, 2014

17. Commitments

At December 31, 2014 the Company had contracted capital commitments in respect of plant and equipment of \$ 115,446 (2013 - \$802,802). These commitments will be met from operations during 2015.

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, 2014 expenditure totaling \$ 4,200,071 (2013 - \$3,054,929) had been incurred on this project together with a further \$15,311 (2013 - \$151,075) in construction in progress. These amounts are both included in property, plant and equipment as at December 31, 2014.

Watlington Waterworks Limited entered into an agreement with a third party, as amended on December 29, 1989, for the supply and treatment of brackish water. The agreement was for a period of 25 years, and commenced operationally on April 13, 1989. The agreement ended on April 13, 2014. The agreement committed Watlington Waterworks Limited to guarantee an annual minimum purchase of 100 million gallons of system-produced water from the electro dialysis reversal demineralization system owned by the third party located at Watlington Waterworks' premises at 32 Parsons Lane. The process fee was \$2.43 per thousand imperial gallons. The amount paid for 2014 up to the end of the contract was \$69,569 (2013 - \$276,760).

During 2014 the Company installed a new brackish water treatment facility which is owned and operated by the Company with no third party process fee.

18. Related parties

Directors' fees

Directors' fees in 2014 amounted to \$30,200 (2013 - \$33,050).

Key management personnel compensation

Key management compensation comprised the following:

	<u>2014</u>	<u>2013</u>
Short term employment benefits	\$ 750,322	\$ 628,052
Post-employment pension benefits	34,905	25,391
Dividends	<u>6,983</u>	<u>6,889</u>
	<u>\$ 792,210</u>	<u>\$ 660,332</u>

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, 2014 was 254,889 (2013 - 254,889) 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 13).

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