WATLINGTON WATERWORKS LIMITED

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

For the years ended December 31, 2018 and 2017

The accompanying report of KPMG Audit Limited ("KPMG") is for the sole and exclusive use of Watlington Waterworks Limited (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 April 4, 2019 and KPMG has carried out no procedures of any nature subsequent to that date which in any way extends that date.

KPMG Audit Limited
Crown House
4 Par-la-Ville Road
Hamilton HM 08 Bermuda

Mailing Address:
P.O. Box HM 906
Hamilton HM DX Bermuda

Telephone +1 441 295 5063
Fax +1 441 295 9132
Internet www.kpmg.bm

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 statements of financial position as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years 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 ("IFRS"); 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 audits. We conducted our audits 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, 2018 and 2017 and the results of their operations and their cash flows for the years then ended in accordance with IFRS.

Other matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The annual report is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it. Our opinion is not modified with respect to this matter.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
April 4, 2019

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Financial Position

December 31, 2018 and 2017
(Expressed in Bermuda Dollars)

	2018	2017
Assets		
Non-current assets		
Property, plant and equipment (Note 10)	$ 19,333,000	$ 18,968,120
Intangible assets (Note 11)	71,333	113,866
Investment property (Note 12)	-	-
Total non-current assets	19,404,333	19,081,986
Current assets		
Other assets (Note 17)	5,392	5,017
Inventories (Note 13)	1,245,959	1,199,450
Trade and other receivables (Notes 4 and 18)	757,960	818,096
Prepayments	185,840	198,435
Investments (Notes 3(g), 4 and 18)	5,160,262	3,183,776
Cash and cash equivalents (Notes 4, 14 and 18)	7,226,823	8,208,600
Total current assets	14,582,236	13,613,374
Total assets	$ 33,986,569	$ 32,695,360
Equity		
Share capital (Note 15)	$ 1,064,870	$ 1,062,478
Share premium (Note 15)	1,516,460	1,462,757
Reserves (Note 15)	8,000,000	8,000,000
Retained earnings (Note 4)	22,383,485	20,844,424
Total equity (attributable to owners of the Company)	32,964,815	31,369,659
Liabilities		
Current liabilities		
Equipment deposits (Note 4)	2,080	1,910
Trade payables (Note 18)	1,019,674	1,323,791
Total current liabilities	1,021,754	1,325,701
Total liabilities and equity	$ 33,986,569	$ 32,695,360

The notes on pages 6 to 36 are an integral part of these consolidated financial statements

Signed on behalf of the Board

Director

Director

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017
(Expressed in Bermuda Dollars)

	2018	2017 (restated – note 4)
Revenue (Notes 6 and 7)	$ 12,154,420	$ 12,064,334
Production costs	(3,098,784)	(2,848,346)
Gross profit	9,055,636	9,215,988
Administrative expenses	(3,421,182)	(3,252,008)
Distribution expenses	(2,898,279)	(2,805,676)
Impairment loss on cash and cash equivalents and investments (Note 18)	(9,792)	–
Impairment recovery (loss) on trade receivables (Note 18)	8,385	(5,587)
Total profit before finance income	2,734,768	3,152,717
Finance income	38,649	19,710
Profit and total comprehensive income for the year (attributable to owners of the Company)	$ 2,773,417	$ 3,172,427
Earnings per share		
Basic earnings per share (Note 16)	$ 2.61	$ 2.99
Diluted earnings per share (Note 16)	$ 2.53	$ 2.91

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

The notes on pages 6 to 36 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED
Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017
(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, 2017	$ 1,061,465	$ 1,435,937	$ 7,000,000	$ 1,000,000	$ 18,628,071	$ 29,125,473
Total comprehensive income for the year						
Profit for the year	–	–	–	–	3,172,427	3,172,427
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 15)	1,013	26,820	–	–	–	27,833
Dividends (Note 15)	–	–	–	–	(956,074)	(956,074)
Balance at December 31, 2017 as previously reported	1,062,478	1,462,757	7,000,000	1,000,000	20,844,424	31,369,659
Adjustment on initial application of IFRS 9 (Note 4)	–	–	–	–	(21,617)	(21,617)
Adjusted balance at January 1, 2018	1,062,478	1,462,757	7,000,000	1,000,000	20,822,807	31,348,042
Total comprehensive income for the year						
Profit for the year	–	–	–	–	2,773,417	2,773,417
Transactions with owners of the Company recognized directly in equity						
Issuance of shares (Note 15)	2,392	53,703	–	–	–	56,095
Dividends (Note 15)	–	–	–	–	(1,212,739)	(1,212,739)
Balance at December 31, 2018	$ 1,064,870	$ 1,516,460	$ 7,000,000	$ 1,000,000	$ 22,383,485	$ 32,964,815

The notes on pages 6 to 36 are an integral part of these consolidated financial statements

WATLINGTON WATERWORKS LIMITED

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017
(Expressed in Bermuda Dollars)

	2018	2017
Operating activities		
Profit for the year	$ 2,773,417	$ 3,172,427
Adjustments for:		
Depreciation of property, plant and equipment (Note 10)	1,695,488	1,517,805
Amortization of intangible assets (Note 11)	51,624	28,673
Finance income	(38,649)	(19,710)
Adjustment on initial application of IFRS 9 (Note 4)	(21,617)	–
	4,460,263	4,699,195
Changes in non-cash working capital balances:		
Inventories	(46,509)	34,725
Trade and other receivables	60,136	(62,398)
Prepayments	12,595	70,302
Trade payables	(304,117)	474,846
Equipment deposits	170	(40)
Other assets	(375)	13,790
Net cash provided by operating activities	4,182,163	5,230,420
Investing activities		
Interest received	38,649	19,710
Increase in investments	(1,976,486)	(19,147)
Acquisition of property, plant and equipment (Note 10)	(2,060,368)	(2,151,002)
Acquisition of intangible assets (Note 11)	(9,091)	(105,709)
Net cash used in investing activities	(4,007,296)	(2,256,148)
Financing activities		
Proceeds from shares issued (Note 15)	56,095	27,833
Dividends paid (Note 15)	(1,212,739)	(956,074)
Net cash used in financing activities	(1,156,644)	(928,241)
Net (decrease) increase in cash and cash equivalents	(981,777)	2,046,031
Cash and cash equivalents at beginning of year	8,208,600	6,162,569
Cash and cash equivalents at end of year	$ 7,226,823	$ 8,208,600

The notes on pages 6 to 36 are an integral part of these consolidated financial statements

1. General

Watlington Waterworks Limited (the "Company") is a company domiciled in Bermuda. The Company is listed on the Bermuda Stock Exchange ("BSX"). The address of the Company's registered office is H.P. House, 21 Laffan Street, Hamilton HM09, Bermuda. These consolidated financial statements of the Company as at and for the years ended December 31, 2018 and 2017 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*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

These consolidated financial statements were authorized for issue by the Board of Directors on April 4, 2019.

This is the first set of the Company's consolidated financial statements in which IFRS 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* have been adopted. Changes to significant accounting policies are disclosed in Note 4.

b) *Basis of measurement*

These 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 these 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.

2. **Basis of preparation** (continued)

d) Use of estimates and judgements (continued)

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 and fair value of investment property
- Note 3(h) – impairment of financial assets and non-financial assets
- Note 3(l) – timing of the transfer of control of goods and services
- Note 13 – inventory provision
- Note 18 – allowance for impairment of trade 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

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bermuda Waterworks Ltd. All 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.

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

c) *Property, plant and equipment* (continued)

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 are not 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

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.

Any gain or loss on disposal of an item of intangible assets is recognized in profit or loss.

Intangible assets are tested annually for impairment or more frequently if certain indicators of impairment are identified.

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 less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition or construction of the investment property including capitalized borrowing costs. The fair values of investment properties are disclosed in the notes to these consolidated financial statements. These are assessed using internationally accepted valuation methods, such as taking comparable properties as a guide to current market prices or by applying the discounted cash flow method. The fair value measurement for investment property has been categorized as a level 3 fair value based on the inputs to the valuation technique used.

Depreciation is calculated on the depreciable amount, which is the cost of an asset less its residual value, using the straight line method over the following estimated useful lives. Land is not depreciated.

Buildings	40 years
Improvements	10 years

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

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 weighted average, 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. Provision is made for obsolete or slow-moving inventories.

g) Financial instruments

The Company's financial assets comprise of trade and other receivables, investments and cash and cash equivalents. The Company's financial liabilities include trade payables and equipment deposits.

(i) Recognition and initial measurement

Trade and other receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument. Trade and other receivables are initially measured at the transaction price which reflects fair value. All other financial assets and financial liabilities are initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification and subsequent measurement

Financial assets – policy applicable from January 1, 2018

On initial recognition, the Company determines the classification of its financial assets. Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company classifies its financial assets at amortized cost. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL").

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flow that are solely payments of principal and interest on the principal amount outstanding.

Financial assets – Business model assessment: Policy applicable from January 1, 2018

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the Company is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice; and
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.

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

g) *Financial instruments* (continued)

(ii) *Classification and subsequent measurement* (continued)

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from January 1, 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset in initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets.

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from January 1, 2018

The Company's financial assets classified as amortized cost are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income and impairment gains and losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets – Classification and subsequent measurement: Policy applicable before January 1, 2018

The Company classified its financial assets as held to maturity and loans and receivables.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before January 1, 2018

The Company's financial assets were measured at amortized cost using the effective interest method.

Financial liabilities – Classification, subsequent measurement and gains and losses

The Company classifies its financial liabilities as amortized cost. The Company's financial liabilities are subsequently measured at amortized cost using the effective interest method.

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

g) Financial instruments (continued)

(iii) Derecognition

Financial assets

The Company derecognizes a financial asset when the contractual rights to the cash flow from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in the consolidated statement of comprehensive income.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

h) Impairment

Financial assets: Policy applicable from January 1, 2018

The Company recognizes loss allowances or expected credit losses ("ECLs") on financial assets measured at amortized cost. The Company measures loss allowances at an amount equal to 12 month ECLs for cash and cash equivalents and investments that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

Loss allowances for trade receivables and other receivables are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when it is more than 90 days past due.

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

h) *Impairment* (continued)

Financial assets: Policy applicable from January 1, 2018 (continued)

The Company considers an investment to have low credit risk when its credit risk rating is equivalent to B or higher per Standard and Poor's.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the issuer;
- a breach of contract such as a default or being more than 90 days past due;
- it is probable that the issuer will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company has a policy of writing off the gross carrying amount when the financial asset is 150 days past due based on historical experience of recoveries of similar assets.

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

h) *Impairment* (continued)

Financial assets: Policy applicable before January 1, 2018

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Losses are recognized in profit or loss and reflected in an allowance account against trade and other 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 trade and other 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 of the Company.

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.

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").

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

h) *Impairment* (continued)

Impairment of non-financial assets (continued)

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.

i) *Finance income*

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

j) *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.

(k) *Earnings per share*

The Company presents basic earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

l) *Revenue*

The Company has initially applied IFRS 15 *Revenue from contracts with customers* from January 1, 2018. The effect of initially applying IFRS 15 is described in Note 4.

The Company generates revenue primarily from the sale of metered water, bottled water and plumbing supplies. Other sources of revenue include the sale and rental of water coolers and related equipment, utility connection fees and rental income from investment property.

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

l) *Revenue* (continued)

Performance obligations and revenue recognition policies

The Company recognizes revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Revenue stream	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15 (applicable from January 1, 2018)**	**Revenue recognition under IAS 18 (applicable before January 1, 2018)**
Utility water sales	Utility water sales are based on consumption recorded by meter readings taken monthly during the year. The performance obligation is the provision of metered water. Payment is net 30 days.	Revenue is recognized as billed at the end of each month.	Revenue was recognized as billed at the end of each month.
Bottled water	Bottled water sales are based on customer purchases at point of sale or upon delivery of goods and services. The performance obligation is the transfer of bottled water to the customer. Payment is net 30 days.	Revenue is recognized at a point in time when the performance obligation is satisfied.	Revenue was recognized at a point in time when the performance obligation was satisfied.
Plumbing supplies	Plumbing sales are based on customer purchases at point of sale. The performance obligation is the transfer of supplies to the customer. Payment is net 30 days.	Revenue is recognized at the point in time when the performance obligation is satisfied.	Revenue was recognized at a point in time when the performance obligation was satisfied.
Utility connection fees	Connection fees are invoiced once the installation is complete. Payment is net 30 days.	Revenue is recognized as billed once the installation has been completed.	Revenue was recognized as billed once the installation has been completed.

Rental income

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

4. **Changes to significant accounting policies**

Except for the changes below, the Company has consistently applied its accounting policies to all periods presented in these consolidated financial statements.

The Company has initially applied IFRS 15 (see i) and IFRS 9 (see ii) from January 1, 2018. A number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the Company's consolidated financial statements (see iii).

Due to the transition methods chosen by the Company in applying these standards, comparative information throughout these consolidated financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting impairment loss on trade receivables and contract assets (see ii).

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods and services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. January 1, 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

There was no impact on the Company's consolidated statement of financial position and related consolidated statements of comprehensive income and cash flows upon transition at January 1, 2018.

Described below are the Company's revenue streams that constitute contracts with customers:

Utility water sales

Utility water sales are based on consumption recorded by meter readings taken monthly during the year. Under IAS 18, revenue from these contracts was recognized as billed at the end of each month. Under IFRS 15, the same treatment is maintained.

Bottled water sales

Under IAS 18, revenue from bottled water sales was recognized when ownership of the goods was passed to the customer at the point of sale or upon delivery of goods and services. Under IFRS 15, the same treatment is maintained as revenue is recognized at the point in time when the same performance obligation is satisfied.

Plumbing sales

Under IAS 18, revenue from plumbing sales was recognized when ownership of the goods was passed to the customer at the point of sale. Under IFRS 15, the same treatment is maintained as revenue is recognized at the point in time when the same performance obligation is satisfied.

4. **Changes to significant accounting policies** (continued)

(i) *IFRS 15 Revenue from contacts with customers* (continued)

Utility connection fees

Under IAS 18, revenue from utility connection fees was recognized as billed at the end of the month when the service was completed. Under IFRS 15, the same treatment is maintained.

IFRS 15 did not have a significant impact on the Company's accounting policies with respect to other revenue streams.

(ii) *IFRS 9 Financial Instruments*

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

As a result of the adoption of IFRS 9, the Company has adopted consequential amendments to IAS 1 *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the consolidated statement of comprehensive income. Previously, the Company's approach was to include the impairment of trade receivables in administrative expenses. Consequently, the Company has reclassified impairment losses amounting to $5,587 recognized under IAS 39 from 'administrative expenses' to 'impairment loss on trade receivables' in the consolidated statement of comprehensive income for the year ended December 31, 2017.

Additionally, the Company has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018 but have not been generally applied to comparative information.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

For an explanation of how the Company classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 3(g).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

4. **Changes to significant accounting policies** (continued)

(ii) *IFRS 9 Financial Instruments* (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Financial assets

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 8,208,600	$ 8,196,195
Investments	Held to maturity	Amortized cost	3,183,776	3,151,938
Trade and other receivables	Loans and receivables	Amortized cost	818,096	840,722
Total financial assets			$ 12,210,472	$ 12,188,855

Financial liabilities

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Trade payables	Other financial liabilities	Amortized cost	$ 1,323,791	$ 1,323,791
Equipment deposits	Other financial liabilities	Amortized cost	1,910	1,910
Total financial liabilities			$ 1,325,701	$ 1,325,701

Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and lease receivables. Under IFRS 9 credit losses are recognized earlier than under IAS 39 – see Note 3(h).

4. **Changes to significant accounting policies** (continued)

(ii) *IFRS 9 Financial Instruments* (continued)

Impairment of financial assets (continued)

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Company has determined that the application of IFRS 9's impairment requirements at January 1, 2018 results in an increased allowance for impairment as follows:

Loss allowance at December 31, 2017 under IAS 39	$	126,281
Additional impairment recognized at January 1, 2018 on:		
Cash and cash equivalents (Note 18)		12,405
Investments (Note 18)		31,838
Reduced impairment recognized at January 1, 2018 on:		
Trade and other receivables (Note 18)		(22,626)
Loss allowance at January 1, 2018 under IFRS 9	$	147,898

Additional information about how the Company measures the allowance for impairment is described in Note 18.

(iii) *Other standards*

There were a number of amendments to standards that were effective for periods beginning on or after January 1, 2018. These have been listed below:

- *Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 1 and IAS 28.*
- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2).*
- *Transfers of Investment Property (Amendments to IAS 40).*

The adoption of the above amendments does not have a material impact on these consolidated financial statements.

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

A number of new or amended standards are effective for annual periods beginning on or after January 1, 2019 and early adoption is permitted; however, the Company has not early adopted the following new or amended standards in preparing these consolidated financial statements.

(i) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 *Revenue from Contracts with Customers* at or before the date of initial application of IFRS 16.

As a lessor, the Company is not required to make any adjustments for leases except where it is an intermediate lessor in a sub-lease. The Company has no sub-leases. The Company has no material leases in its capacity as lessee at this time that would require it to recognize a right of use asset.

The Company expects that adoption of IFRS 16 will not impact its financial reporting materially. The Company plans to adopt IFRS 16 in its consolidated financial statements for the year ending December 31, 2019 with no material impact expected.

(ii) Other Standards

The following amended standards and interpretations are not expected to have a significant impact on the Company's consolidated financial statements.

- *IFRIC 23 Uncertainty over Income Tax Treatments.*
- *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*
- *Long-term interests in Associates and joint Ventures (Amendments to IAS 28)*
- *Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*
- *Annual improvements for IFRSs 2015 – 2017 Cycle – Amendments to IFRSs 3 & 11, IASs 12 & 23*
- *Amendments to References to Conceptual Framework in IFRS Standards*

6. **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

	2018			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 7,346,971	$ 4,252,510	$ 494,939	$ 12,094,420
Intersegment revenues	44,233	–	–	44,233
Rentals	–	–	60,000	60,000
Finance income	–	–	38,649	38,649
Total revenue	7,391,204	4,252,510	593,588	12,237,302
Expenditure				
External costs	3,549,859	3,252,619	870,062	7,672,540
Depreciation and amortization	1,221,205	166,282	359,625	1,747,112
Intersegment expenditure	–	44,233	–	44,233
Total expenditure	4,771,064	3,463,134	1,229,687	9,463,885
Net profit (loss) by segment	$ 2,620,140	$ 789,376	$ (636,099)	$ 2,773,417

6. **Operating segments** (continued)

Income and expenditure by segment (continued)

	2017			
	Utility	Bottled Water	Other	Total
Income				
External revenues	$ 7,278,482	$ 4,162,377	$ 563,475	$ 12,004,334
Intersegment revenues	42,333	–	–	42,333
Rentals	–	–	60,000	60,000
Finance income	–	–	19,710	19,710
Total revenue	7,320,815	4,162,377	643,185	12,126,377
Expenditure				
External costs	3,463,529	2,985,270	916,340	7,365,139
Depreciation and amortization	1,125,602	154,592	266,284	1,546,478
Intersegment expenditure	–	42,333	–	42,333
Total expenditure	4,589,131	3,182,195	1,182,624	8,953,950
Net profit (loss) by segment	$ 2,731,684	$ 980,182	$ (539,439)	$ 3,172,427

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

	2018	2017
Total revenue for reportable segments	$ 11,643,714	$ 11,483,192
Other revenue	593,588	643,185
Finance income	(38,649)	(19,710)
Elimination of intersegment revenues	(44,233)	(42,333)
Total revenue (Note 7)	$ 12,154,420	$ 12,064,334

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.

6. **Operating segments** (continued)

Reconciliation of assets, liabilities and capital expenditure by segment

	Utility	Bottled Water	Total reportable segments	Other	Total
As at December 31, 2018					
Assets	$ 15,173,549	$ 2,228,379	$ 17,401,928	$ 16,584,641	$ 33,986,569
Liabilities	(112,704)	(86,842)	(199,546)	(822,208)	(1,021,754)
Capital expenditure	112,802	34,991	147,793	1,921,666	2,069,459
As at December 31, 2017					
Assets	$ 15,773,400	$ 2,378,956	$ 18,152,356	$ 14,543,004	$ 32,695,360
Liabilities	(255,428)	(86,907)	(342,335)	(983,366)	(1,325,701)
Capital expenditure	898,756	252,865	1,151,621	1,105,090	2,256,711

7. **Revenue**

	2018	2017
Revenue from contracts with customers	$ 10,660,831	$ 10,619,370
Other revenue		
Revenue from bottled water cash sales	1,272,035	1,226,495
Pure Water equipment sales	161,474	155,822
Rental income	60,000	62,167
Book sales	80	480
	$ 12,154,420	$ 12,064,334

7. **Revenue** (continued)

Disaggregation of revenue from contracts with customers

In the following tables, revenue from contracts with customers is disaggregated by major product and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments.

	2018			
	Utility	Bottled Water	Other	Total
Major products and service lines				
Utility water sales	$ 7,241,233	$ –	$ –	$ 7,241,233
Bottled water sales	–	2,819,001	–	2,819,001
Plumbing supplies	–	–	494,859	494,859
Utility connection fees	105,738	–	–	105,738
	7,346,971	2,819,001	494,859	10,660,831
Timing of revenue recognition				
Products and services transferred over time	7,346,971	–	–	7,346,971
Products and services transferred at a point in time	–	2,819,001	494,859	3,313,860
Revenue from contracts with customers	7,346,971	2,819,001	494,859	10,660,831
Other revenue	–	1,433,509	60,080	1,493,589
External revenue as reported in Note 6	$ 7,346,971	$ 4,252,510	$ 554,939	$ 12,154,420

7. **Revenue** (continued)

Disaggregation of revenue from contracts with customers (continued)

	2017			
	Utility	Bottled Water	Other	Total
Major products and service lines				
Utility water sales	$ 7,195,840	$ –	$ –	$ 7,195,840
Bottled water sales	–	2,780,060	–	2,780,060
Plumbing supplies	–	–	560,828	560,828
Utility connection fees	82,642	–	–	82,642
	7,278,482	2,780,060	560,828	10,619,370
Timing of revenue recognition				
Products and services transferred over time	7,278,482	–	–	7,278,482
Products and services transferred at a point in time	–	2,780,060	560,828	3,340,888
Revenue from contracts with customers	7,278,482	2,780,060	560,828	10,619,370
Other revenue	–	1,382,317	62,647	1,444,964
External revenue as reported in Note 6	$ 7,278,482	$ 4,162,377	$ 623,475	$ 12,064,334

8. **Expenses by nature**

Expenses by nature primarily comprise of:

	2018	2017
Employee benefits (Note 9)	$ 3,760,717	$ 3,658,532
Depreciation (Note 10)	1,695,488	1,517,805
Electricity	1,357,467	1,268,871
Repairs and maintenance	303,879	302,974
Vehicle	211,679	219,234
Amortization of intangible assets (Note 11)	51,624	28,673
Royalties	44,157	41,735

9. **Employee benefit expenses**

	2018	2017
Short term employment benefits	$ 2,984,747	$ 2,945,644
Compulsory payroll tax, social insurance and health scheme contributions	620,412	573,997
Payments to defined contribution pension scheme	141,176	125,304
Other employee benefit expense	14,382	13,587
	$ 3,760,717	$ 3,658,532

10. **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
Additions	–	247,989	10,498	1,801,881	2,060,368
Disposals	–	(85,490)	–	–	(85,490)
Transfers	1,580,561	534,841	124,178	(2,239,580)	–
At December 31, 2018	$ 6,004,784	$ 32,945,149	$ 527,328	$ 1,038,320	$ 40,515,581
Accumulated 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
At December 31, 2017	1,535,055	17,675,364	362,164	–	19,572,583
Disposals	–	(85,490)	–	–	(85,490)
Depreciation	267,844	1,408,263	19,381	–	1,695,488
At December 31, 2018	$ 1,802,899	$ 18,998,137	$ 381,545	$ –	$ 21,182,581
Carrying amounts					
At January 1, 2017	$ 2,937,219	$ 14,944,082	$ 21,683	$ 431,939	$ 18,334,923
At December 31, 2017	$ 2,889,168	$ 14,572,445	$ 30,488	$ 1,476,019	$ 18,968,120
At December 31, 2018	$ 4,201,885	$ 13,947,012	$ 145,783	$ 1,038,320	$ 19,333,000

11. Intangible assets

		Application software
Cost		
January 1, 2017	$	530,723
Additions		105,709
December 31, 2017		636,432
Additions		9,091
December 31, 2018	$	645,523
Accumulated amortization		
At January 1, 2017	$	493,893
Amortization		28,673
At December 31, 2017		522,566
Amortization		51,624
At December 31, 2018$		574,190
Carrying amounts		
At January 1, 2017	$	36,830
At December 31, 2017	$	113,866
At December 31, 2018	$	71,333

12. **Investment property**

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

	Investment property
Cost	
At January 1, 2017, December 31, 2017 and 2018	$ 330,153
Accumulated depreciation	
At January 1, 2017, December 31, 2017 and 2018	$ 330,153
Carrying amounts	
At January 1, 2017, December 31, 2017 and 2018	$ –

The property was valued by an independent appraiser, having appropriate recognized professional qualifications and recent experience in the location and category of the property being valued, on November 24, 2016 at a value of $1,275,000. The property is leased at a monthly rental of $5,000. Management believe that this appraised valuation approximates the fair value of the investment property. Earned rental income for the year ended December 31, 2018 was $60,000 (2017 - $60,000).

13. **Inventories**

	2018	2017
Spares and production parts	$ 892,243	$ 886,750
Goods for resale	393,110	356,418
Water bottling supplies	61,196	44,144
Inventory provision	(100,590)	(87,862)
	$ 1,245,959	$ 1,199,450

Included in the consolidated statement of comprehensive income are recognized inventory expenses of $1,117,128 (2017 - $1,007,267). Inventories totaling $34,280 (2017 - $6,334) were written down in the year.

14. **Cash and cash equivalents**

	2018	2017
Bank balances	$ 2,174,308	$ 1,303,731
Call deposits	5,052,515	6,904,869
	$ 7,226,823	$ 8,208,600

15. Capital and reserves

Share capital

	Ordinary shares of $1 par value	
	2018	2017
Issued as at January 1	$ 1,062,478	$ 1,061,465
Issued for cash during the year	2,392	1,013
Issued at December 31 – fully paid	$ 1,064,870	$ 1,062,478
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.

During the year ended December 31, 2018, employees subscribed for and were issued 2,392 (2017 - 1,013) common shares for consideration of $47,681 (2017 - $23,658). The difference between the discounted price at which the shares were issued and the market price at the plan's subscription date was $8,414 (2017 - $4,175) and is included in employee benefit expenses for the year ended December 31, 2018 (Note 9). The excess of the market price over the par value of the shares of $53,703 (2017 - $26,820) 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.

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

Dividends

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

	2018	2017
15 cents per qualifying ordinary share (2017 – 15 cents) March	$ 159,372	$ 159,220
63 cents per qualifying ordinary share (2017 – 45 cents) June	670,013	478,110
18 cents per qualifying ordinary share (2017 – 15 cents) October	191,677	159,372
18 cents per qualifying ordinary share (2017 – 15 cents) December	191,677	159,372
	$ 1,212,739	$ 956,074

Subsequent to the year-end, the Company declared a dividend of 38c per share on March 15, 2019 payable on March 29, 2019.

16. **Earnings per share**

Basic earnings per share

The calculation of basic earnings per share for the year ended December 31, 2018 is based on the profit attributable to ordinary shareholders of $2,773,417 (2017 - $3,172,427), and a weighted average number of ordinary shares outstanding of 1,063,534 (2017 - 1,062,137), calculated as follows:

Weighted average number of ordinary shares

	2018	2017
Issued ordinary shares at January 1	1,062,478	1,061,465
Effect of shares issued during the year	1,056	672
Weighted average number of ordinary shares at December 31	1,063,534	1,062,137

Diluted earnings per share

Share options with a dilutive effect were issued in June 1999 (Note 15). The calculation of diluted earnings per share for the year ended December 31, 2018 is based on the profit attributable to ordinary shareholders of $2,773,417 (2017 - $3,172,427), and a weighted average number of ordinary shares outstanding after adjustment of the effects of dilutive potential ordinary shares of 1,094,142 (2017 - 1,091,124), calculated as follows:

	2018	2017
Weighted average number of ordinary shares at December 31	1,063,534	1,062,137
Effect of dilutive ordinary shares	30,608	28,987
Weighted average number of ordinary shares at December 31 (diluted)	1,094,142	1,091,124

17. Other assets

The Company participates in a defined contribution pension plan on behalf of its employees with a third-party insurer. As at December 31, 2018 the Company has a pension surplus of $5,392 (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.

18. Financial instruments

Fair value

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

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

The carrying value of the Company's financial assets and liabilities approximate their 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.

a) Cash and cash equivalents and investments

The Company maintains the majority of its cash and cash equivalents in accounts with Bermuda-based banks, HSBC Bank Bermuda Limited, Bank of N.T. Butterfield and Son Ltd. and Clarien Bank Limited. The risk of default is not considered significant by management.

18. **Financial instruments** (continued)

Credit risk (continued)

a) *Cash and cash equivalents and investments* (continued)

Investments comprise of time deposits carried at cost and which earn fixed interest rates between 1.22% and 2.4% per annum. Investments have been entered into for a term of six months from acquisition date. The Company maintains its investments in term deposits with three Bermuda-based banks, HSBC Bank Bermuda Limited, Clarien Bank Limited, and Bermuda Commercial Bank Limited.

The following table presents an analysis of the credit quality of cash and cash equivalents and investments at amortized cost (2017 – loans and receivables and held-to-maturity) by reference to the external credit rating and default rates published by Standard and Poor's:

	2018	2017
Cash and cash equivalents		
A-	$ –	$ 101,743
BBB+	6,170,717	8,085,847
B	1,076,098	21,010
	7,246,815	8,208,600
Impairment loss	(19,992)	–
	$ 7,226,823	$ 8,208,600
Investments		
A-	$ 1,000,000	$ –
BB+	2,000,000	–
B	2,194,305	3,183,776
	5,194,305	3,183,776
Impairment loss	(34,043)	–
	$ 5,160,262	$ 3,183,776

Impairment on cash and cash equivalents and investments has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. 12-month and lifetime probabilities of default are based on historical data supplied by Standard and Poor's for each credit rating and are recalibrated based on current bond yields and credit default swap prices. The Company considers that its cash and cash equivalents and investments have low credit risk based on the external credit ratings of the counterparties.

On initial application of IFRS 9, the Company recognized an impairment allowance as at January 1, 2018 on cash and cash equivalents and investments in the amount of $12,405 and $31,838 respectively (see Note 4). The amount of the allowance increased to $19,992 and $34,043 respectively for the year ended December 31, 2018.

18. **Financial instruments** (continued)

Credit risk (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 credit risks in the normal course of business.

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.

Expected credit loss assessment for individual customers

The Company uses an allowance matrix to measure the ECLs of trade receivables from individual customers, which comprise a large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the type of product purchased.

The following table provides information about the exposure to credit risk and ECLs for trade receivables from individual customers as at December 31, 2018:

As at December 31, 2018	Weighted - average loss rate	Gross carrying amount	Loss allowance	Credit - impaired
Current	1%	$ 719,282	$ (7,193)	No
Past 30 days	9%	45,137	(4,062)	No
Past 60 days	90%	7,091	(6,381)	No
Past 90 days	95%	81,720	(77,634)	Yes
		$ 853,230	$ (95,270)	

Loss rates are based on the actual credit loss experience over the past 3 years. These rates are multiplied by scalar factors to reflect the difference between economic conditions during the period over which the historical data has been collected, current conditions and the Company's view of economic conditions over the expected lives of the receivables.

18. **Financial instruments** (continued)

Credit risk (continued)

Movements in the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018	2017 Individual impairments
Balance at January 1 under IAS 39	$ 126,281	$ 120,694
Adjustment on initial application of IFRS 9 (Note 4)	(22,626)	–
Balance at January 1 under IFRS 9	103,655	
Amounts written off	(2,600)	(3,800)
Net re-measurement of loss allowance	(5,785)	9,387
Balance at December 31	$ 95,270	$ 126,281

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, 2018					
Trade payables	$ 1,019,674	$ 1,019,674	$ 1,019,674	$ –	$ –
Equipment deposits	2,080	2,080	2,080	–	–
Total financial liabilities	$ 1,021,754	$ 1,021,754	$ 1,021,754	$ –	$ –

	Carrying amount	Contractual cash flows	0 - 3 months	4 - 12 months	Greater than 1 year
As at December 31, 2017					
Trade payables	$ 1,323,791	$ 1,323,791	$ 1,323,791	$ –	$ –
Equipment deposits	1,910	1,910	1,910	–	–
Total financial liabilities	$ 1,325,701	$ 1,325,701	$ 1,325,701	$ –	$ –

18. **Financial instruments** (continued)

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.

19. **Commitments**

As at December 31, 2018, the Company had contracted capital commitments in respect of plant and equipment of $99,904 (2017 - $95,268). These commitments will be met from operations during 2018.

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, 2018 expenditure remained at $4,531,906 (2017 - $4,531,906) as the commitment for this phase of the project has been completed. There was no expenditure in construction in progress during 2018 (2017 - $nil). These amounts are included in property, plant and equipment as at December 31, 2018.

As at December 31, 2018, the Company had a contractual commitment via a purchase and sale agreement to acquire freehold land amounting to $1.2 million.

20. Related parties

Directors' fees
Directors' fees in 2018 amounted to $37,450 (2017 - $37,183).

Key management personnel compensation
Key management compensation comprised the following:

	2018	2017
Short term employment benefits	$ 910,038	$ 827,283
Post-employment pension benefits	46,416	43,510
Dividends	20,508	15,062
	$ 976,962	$ 885,855

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, 2018 was 120,616 (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 managing director who qualifies under the employee share purchase plan (Note 15).

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

21. Subsequent events

The Company entered into a sales and purchase agreement ("SPA") in 2016 to purchase Lot 6B, Luke's Pond Drive, Southampton. The SPA was conditional upon the Company being granted permission to develop the property to build water reservoirs and a water treatment building.

Permission in principle to develop the property was granted in 2018. Due to conditions attached to the in-principle permission, the SPA was amended to bring forward the sales execution to be completed after a building permit was granted to excavate the property and subject to vacant possession and the vendor removing all construction equipment, structures and metallic debris.

The Planning Department issued a building permit for excavation to the Company during March of this year. It is anticipated the sale will be completed subject to the terms of the SPA during April of this year.