ASCENDANT group

# ASCENDANT GROUP LIMITED

SIX-MONTH REPORT **2016**

**ASCENDANT GROUP** LIMITED

Ascendant Group Limited (AGL.BH) is a publicly traded investment holding company, listed on the Bermuda Stock Exchange (BSX).

## OUR VISION

To be Bermuda's trusted, preferred provider of energy & infrastructure solutions

## OUR MISSION

We will always meet our commitments

## OUR STRATEGY

Develop and implement the Integrated Resource Plan, achieve excellent operational performances in all businesses and grow our non-utility energy and infrastructure businesses

## OUR VALUES

Accountability
Innovation
Integrity
Reliability
Respect
Safety
Stewardship

## INTRODUCTION

The Company has prepared its condensed consolidated interim financial statements in accordance and compliance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

## RESULTS OF OPERATIONS

Ascendant Group Limited's operating earnings, excluding the impact of discontinued operations, was $6.0 million during the first six months of the year, a $3.5 million or 134.8% improvement relative to Ascendant Group's comparable operating earnings of $2.6 million in 2015. The increase in operating earnings realized was driven by a $3.1 million, or 59.1%, increase in Bermuda Electric Light Company Limited (BELCO) net earnings, due to higher electricity sales revenues and lower operating costs. The Group's operating earnings exclude the financial results of Bermuda Gas & Utility Company Limited (Bermuda Gas), which was sold in April 2016.

Ascendant Group's consolidated net income for the first six months of 2016 was $18.6 million as compared to $970,000 in the comparable period in 2015. The significant increase in net earnings is due primarily to a $12.5 million gain recognized from the sale of Bermuda Gas. Bermuda Gas also realized net earnings of $78,000 during the period as compared to a loss of $1.6 million recognized in the first six months of 2015, which was largely due to non-recurring charges associated with restructuring and the closure of its residential appliance and service business.

The sale of Bermuda Gas to RUBiS Energy Bermuda Ltd. (RUBiS) closed in April 2016 at a purchase price of $17.7 million plus adjustments for working capital and pension liabilities. Net proceeds from the sale, inclusive of pre-closing dividends received, as well as transaction costs, were approximately $19.0 million. Under the agreement, all 18 Bermuda Gas employees were retained.

In 2015, Bermuda Gas exited the retail appliance sales, parts and repair business to focus on competitiveness in its core propane distribution market. While Ascendant was not actively seeking to exit the propane distribution business, the sale of Bermuda Gas to a well respected, experienced local company at an attractive valuation provided an opportunity for the Company to reserve capital for anticipated new energy infrastructure investments in Bermuda and other corporate needs.

A summary of the Group's financial results is highlighted as follows (in $000's):

| | 2016 | 2015 | Change |
|---|---|---|---|
| BELCO | $ 8,306 | $ 5,221 | 59.1% |
| AG Holdings | $ 598 | $ (774) | 177.3% |
| ABIL | $ 220 | $ 211 | 4.3% |
| Ascendant Unallocated Expenses | $ (3,079) | $ (2,084) | -47.7% |
| Ascendant Operating Earnings | $ 6,045 | $ 2,574 | 134.8% |
| Net Earnings/(Loss) from Discontinued Operations | $ 78 | $ (1,604) | 104.9% |
| Gain on Sale of Discontinued Operations | $ 12,453 | $ - | - |
| Net Income | $ 18,576 | $ 970 | - |

BELCO's basic tariff electricity sales revenue (excluding fuel adjustment sales) increased $2.7 million, or 3.9%, when compared to the same period last year. The improvement in basic tariff electricity sales revenues is primarily due to an increase in basic tariff rates that were approved by the Energy Commission (EC) in March 2016 and came into effect on 1 June 2016.

Overall electricity sales, as measured on an accrual basis, declined 597,000 kWh or 0.2% compared to 2015. By customer class, Demand customer kWh sales for the comparative periods were relatively flat, while Commercial customer kWh sales increased 0.4% (approximately 171,000 kWh). Residential customer kWh sales declined 0.7% (approximately 845,000 kWh).

The marginal increase in Commercial customer kWh sales is due in part to electricity consumption associated with the newly established physical presence in Bermuda of three America's Cup team bases, warmer weather, partially offset by continuing energy efficiency initiatives, including the BELCO LED streetlight project, a Bermuda Government project being constructed and financed by BELCO that commenced in the second half of 2015. This project will ultimately result in the replacement of 4,400 high pressure sodium streetlight fixtures with LED technology, ultimately putting Bermuda at the forefront of jurisdictions switching to LED street lighting. It also represents a move towards utility-scale energy conservation.

The decrease in Residential kWh sales is attributed to an increased use of solar PV, an increase in conservation and the efficient use of energy, as well as one-off sales adjustments in the first half of 2015 stemming from the metering audit of current transformer (CT) rated residential customers.

While the basic tariff increased in June 2016, the overall impact to customers' electricity bills was somewhat offset by lower Fuel Adjustment Rates (FAR). The FAR is approved by the EC on a monthly basis, based on the actual cost of fuel purchased, and is at the lowest level in nine years. In the March 2016 directive, the EC also instructed BELCO to review discounts. BELCO intends to continue the 5% early payment discount that, as of 1 July 2016, applies only to the energy and facilities charge portion of the bill.

BELCO's fuel adjustment sales decreased $8.8 million or 26.9% as compared to 2015. The average cost per barrel of fuel was $87.79 (includes taxes, duty, shipping, storage, local pipeline transportation and working capital costs for the on-Island fuel reserves) in 2016, versus $107.02 for the first half of 2015, a decrease of 18.0% per barrel. The decrease in the average cost of a barrel of fuel is responsible for $7.8 million of the total decrease, with the balance due to improved fuel efficiency in the current period as compared to 2015. The decrease in the fuel adjustment rate has continued despite Bermuda Government's increase on Custom Duty on fuel oil imports from $23.03 per barrel to $31.79 per barrel in the 2016/17 Bermuda Government Budget. For the month of June 2016, the Government tax on fuel accounted for approximately $0.05 (5 cents), or 65%, of the FAR. Prior to the 2015/16 Bermuda Government Budget, Customs Duty on fuel oil imports was $15.10 per barrel and would have accounted for approximately $0.023 (2.3 cents) or 45% of the FAR.

AG Holdings Limited operating earnings for the first six months totaled $598,000, a 177.3% improvement compared to 2015, largely due to improved charge-out revenues at iEPC, as well as a turnaround in profitability at iFM Limited (iFM).

Air Care Ltd.'s (Air Care) net earnings for the first six months totaled $906,000, a 10.8% increase from comparable period earnings of $818,000 in 2015. Air Care gross sales increased 2.5% in 2016 to $9.5 million when compared to 2015 sales, due to an increase in its maintenance base as well as project revenues associated with several new large projects currently underway. Notable new projects include the long-term energy efficiency agreement signed in July 2015 with the Bermuda Institute of Oceanic Sciences (BIOS), which incorporates both maintenance service as well as a loan to fund Air Care's installation of more efficient air conditioning and LED lighting, as well as fixtures and the installation of a new fire alarm system, HVAC and lighting at Mintflower Place. The Company also expects equipment part sales to increase through increased visibility once it settles into its new office and showroom location at 25 Serpentine Road in September this year.

iFM, a joint venture company that is 60% owned by Ascendant Group and 40% by a Bermuda-registered, exempted subsidiary of Black & McDonald Limited, recognized a profit of $190,000, compared to a $208,000 loss in the comparable period in 2015, a 191.3% improvement. The significant improvement in results is attributed to cost control measures. In response to a loss of the maintenance agreement contract with HSBC Bank of Bermuda Limited in January 2015 and a reduction in The Bank of N.T. Butterfield & Sons Limited property portfolio, iFM's Management was able to reduce subcontractor support contract costs and reduce labor and related costs through reorganization and staff reduction.

Ascendant Properties Limited, the Company's property management company, also presented improved earnings with a loss of $169,000 recognized in 2016 as compared to a loss of $719,000 in 2015. The loss recognized in the first half of 2015 is attributed to $725,000 in additional depreciation on property, plant, equipment and investment property associated with the Company's accounting transition from Generally Accepted Accounting Principles (GAAP) to International Financial Reporting Standards (IFRS). The 2015 semi-annual depreciation adjustment was later reversed in 2015 following final agreed resolution of IFRS transition accounting requirements. Rental revenues have decreased in 2016 as compared to 2015, due to loss of tenancy associated with the closure of Bermuda Gas' residential and service business lines in June 2015, and its ultimate sale in April 2016, as well as one other property in its property portfolio. Rental revenues will improve when affiliate, Air Care, occupies the tenancy space vacated by Bermuda Gas in September 2016.

Ascendant unallocated expenses increased 47.7% from $2.1 million to $3.1 million when compared to 2015 interim results. This increase is attributed to higher consulting fees associated with the CEO succession process, higher corporate donations related to the Group's support of the America's Cup Bermuda Youth Team, higher IT maintenance costs stemming from new systems and increased infrastructure, and budgeted accruals related to long-term executive compensation.

Ascendant Group's share price as at 30 June 2016 was $5.06 versus $5.00 on 30 June 2015. The Company has maintained its quarterly dividend payout to shareholders at $0.075 (7.5 cents) per share. Basic earnings per share from continuing operations increased from $0.24 in 2015 to $0.57 in 2016 when comparing the two six-month periods. In May 2016, the Board of Directors of the Company authorized using a portion of the proceeds from the sale of Bermuda Gas to repurchase up to 1.5 million Company shares (representing approximately 14.1% of outstanding shares) through an open market program to run for a one-year initial duration (see Appendix A). The primary objective of the share buyback program is to provide liquidity and to stimulate interest in the Company's shares, which appear to be appreciably undervalued. The remaining funds will enable Ascendant to invest in new and existing initiatives throughout the Group as we evolve to meet Bermuda's future energy needs.

## LOOKING AHEAD

Bermuda's National Electricity Sector sets the vision for Bermuda's energy future through its objectives of having the least cost, high quality, secure, environmentally sustainable and affordable electricity system for Bermuda. It is no secret that, in anticipation of a transitioning regulatory environment in the energy sector, BELCO has invested heavily in time, financial and human resources, in preparing for this new future. What may not be fully understood, however, are the roles and opportunities that exist for the remaining Ascendant Group companies.

Whether considering the need for BELCO to replace aging plant and modernize the electricity grid, or recognizing the critical role that energy efficiency and conservation and renewable resources will play in Bermuda's future energy mix, each company within the Group is well-placed and has a distinct role to play in supporting the achievement of the Government's energy vision.

On 30 June 2016, BELCO submitted its Integrated Resource Plan (IRP) in accordance with the Energy Commission's directive. The IRP is a technical and economic analysis of future energy mix options for Bermuda and aligns with the objectives of the National Electricity Sector Policy of Bermuda. As per the Electricity Act 2016, BELCO is required to file an IRP that serves as the catalyst for national discussion leading to a regulatory decision process on future energy choices.

Developed in consultation with U.S.-based engineering consultants, Leidos Engineering LLC, a leading systems integration company focused on the utility industry, the IRP studied a wide range of supply and demand-side activities and provides a ranking of energy planning scenarios based on economic and qualitative factors including supply quality, environmental sustainability, security and cost resilience, logistics and economic development.

The main objective of the IRP is to recommend options for alternative sustainable energy sources for electricity generation that will help to stabilize tariff rates, reduce carbon emissions, integrate more renewable energy into Bermuda's energy mix and improve energy efficiency on the part of both BELCO and customers that can ultimately reduce overall cost.

The IRP studied seven energy planning scenarios and, based on extensive analyses, suggests transitioning to Liquefied Natural Gas (LNG) as the primary fuel source for electricity generation, implementing utility-scale solar renewable energy, battery energy storage for spinning reserve and to support the intermittency of renewable generation, aggressive energy efficiency initiatives and widespread promotion of conservation.

BELCO's ability to replace existing aging plant is critical to being able to meet forecasted electricity demand. Should new plant not be installed and online by 2019, we believe that the continued use of aging plant, well beyond its planned retirement, will reduce system reliability, increase the risk of more frequent and prolonged loadshed events and jeopardize our employees' safety in the workplace. Consequently, independent of the alternative fuel debate implicit in the IRP, BELCO will be submitting an action plan for the purchase of replacement engines to mitigate this increasing reliability and safety risk.

Further, the implementation of an island-wide Advanced Metering Infrastructure (AMI) is necessary in order for BELCO to meet National Policy goals and facilitate demand-side management, energy efficiency, greater conservation and distributed energy resources. When fully deployed, AMI will give BELCO's customers the ability to choose their own billing date, pre-paid billing options and the ability to track and better manage their own energy usage (and thus billing levels) through a customer portal. It will also provide BELCO with more information about the BELCO Grid, enabling more efficient system management from its Grid Operations facilities and provide BELCO with 'real time' awareness of customer outages down to the individual meter.

Recognizing both the cost and environmental benefits of electric vehicle adoption, Ascendant's intended rollout of a Group-wide electric vehicle initiative provides an opportunity for our companies to reduce maintenance, operating and fuel costs, while decreasing the environmental impact through decreased vehicle emissions.

Air Care, while predominantly known for its commercial HVAC services and residential air-conditioning products and services, had a natural entry into the energy efficiency domain through cutting-edge product technology and expanded service offerings. In addition to offering more environmentally focused systems, Air Care also offers energy management systems, energy efficient LED lighting solutions and fire alarm and fire suppression systems. As more commercial entities and consumers become focused on implementing energy efficiency and cost-cutting measures, Air Care is well placed to achieve growth in these areas.

Within its facilities management services, iFM works closely with clients on energy model development and energy management. In addition, iFM has developed an energy management tool that provides forecasting and trend analysis of clients' energy usage, the only one of its kind in Bermuda. As a result, clients can better understand the impact of energy conservation measures on utility bills and also have the opportunity to implement timely solutions to address any usage issues.

Achieving Bermuda's future energy vision is not a task for the Ascendant Group alone. It requires all stakeholders – Government, residential customers, industry and the commercial sector – to embrace and participate in the transition and be open to new ways of working productively together. It also requires a new approach to energy demand, supply, usage and management.

This is a critical time for developing Bermuda's energy future and the Ascendant Group of Companies stand ready, willing and able to play their parts.

**WALTER M. HIGGINS**
*President & Chief Executive Officer*

# CONDENSED CONSOLIDATED
# INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2016

| | NOTES | 30 JUNE **2016** | 31 DECEMBER **2015** |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 5 | $ 266,385,527 | $ 267,579,557 |
| Investment property | 7 | 2,302,878 | 2,354,348 |
| Intangible assets and goodwill | 6 | 10,094,795 | 11,585,967 |
| Investment in joint venture | 12 | 803,832 | 708,662 |
| | | 279,587,032 | 282,228,534 |
| Current assets | | | |
| Cash and cash equivalents | | 19,607,254 | 7,573,709 |
| Investments | 8 | 140,071 | 156,065 |
| Accounts receivable | | 24,282,164 | 18,535,039 |
| Assets classified as held for sale | 20 | - | 8,600,150 |
| Inventory | 9 | 53,294,689 | 44,938,343 |
| Prepaid expenses and other assets | | 2,899,737 | 1,660,448 |
| | | 100,223,915 | 81,463,754 |
| Regulatory deferral account debit balances | 4 | 70,566 | - |
| TOTAL ASSETS AND REGULATORY DEFERRAL ACCOUNT DEBIT BALANCES | | $ 379,881,513 | $ 363,692,288 |
| **EQUITY AND LIABILITIES** | | | |
| Non-current liabilities | | | |
| Bank borrowing | 13 | $ 8,165,176 | $ 8,696,770 |
| Asset retirement obligation | 18 | 14,449,064 | 14,084,674 |
| Environmental clean-up obligation | 18 | 1,356,785 | 1,307,030 |
| Defined benefit obligation | 15 | 26,466,600 | 24,832,500 |
| Other post-retirement benefits | 15 | 32,542,000 | 30,150,690 |
| | | 82,979,625 | 79,071,664 |
| Current liabilities | | | |
| Customer deposits | | 249,579 | 259,629 |
| Trade and other payables | 18 | 29,738,780 | 16,736,746 |
| Liabilities classified as held for sale | 20 | - | 2,689,914 |
| Deferred revenues | | 1,225,342 | 1,027,440 |
| Bank borrowing | 13 | 7,853,806 | 13,915,079 |
| | | $ 39,067,507 | $ 34,628,808 |

*The notes on pages 13 to 33 are an integral part of these condensed consolidated interim financial statements.*

# CONDENSED CONSOLIDATED
# INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2016

| | NOTES | 30 JUNE 2016 | 31 DECEMBER 2015 |
|---|---|---|---|
| Equity | | | |
| Share capital | 10 | $ 10,754,099 | $ 10,710,391 |
| Share premium | 10 | 30,587,772 | 30,414,724 |
| Treasury stock | 10 | (860,959) | (845,803) |
| Contributed surplus | | 22,549,745 | 22,549,745 |
| Accumulated OCI | | (30,026,278) | (21,343,310) |
| Retained earnings | | 224,830,002 | 207,413,980 |
| Total Equity | | 257,834,381 | 248,899,727 |
| Regulatory deferral account credit balances | 4 | - | 1,092,089 |
| TOTAL EQUITY, LIABILITIES AND REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES | | $ 379,881,513 | $ 363,692,288 |

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## CONDENSED CONSOLIDATED
# INTERIM STATEMENT OF INCOME (UNAUDITED)

For the six-month period ended 30 June 2016

| | NOTES | 30 JUNE 2016 | 30 JUNE 2015 |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenues** | | | |
| Operating revenues | | $ 95,518,969 | $ 99,710,943 |
| Other income | | 920,005 | 749,150 |
| | 17 | 96,438,974 | 100,460,093 |
| **Expenses** | | | |
| Operating and administrative expenses | 15,19 | 40,416,586 | 38,653,729 |
| Purchased power/energy | | 839,420 | 958,091 |
| Fuel | | 35,549,180 | 44,489,453 |
| Depreciation, amortization and accretion | | 12,774,058 | 13,923,328 |
| | | 89,579,244 | 98,024,601 |
| **Operating income** | | 6,859,730 | 2,435,492 |
| **Finance expense** | | | |
| Foreign exchange loss | | 254,430 | 150,007 |
| Change in fair value of investments | | 15,994 | - |
| Interest expense | | 431,681 | 398,964 |
| Net finance expense | | 702,105 | 548,971 |
| Share of earnings/(loss) of equity accounted investee | | 95,170 | (104,066) |
| **Earnings before net movements in regulatory deferral account balances** | | 6,252,795 | 1,782,455 |
| Net movement in regulatory account deferral balances related to profit and loss | 4 | (207,938) | 791,736 |
| **Earnings after net movements in regulatory deferral account balances** | | 6,044,857 | 2,574,191 |
| **Discontinued operations** | | | |
| Earnings/(loss) for the period | 20 | 77,945 | (1,604,653) |
| Gain on sale of discontinued operations | 20 | 12,453,032 | - |
| **Net earnings for the period** | 17 | $ 18,575,834 | $ 969,538 |
| **Basic earnings per share from:** | | | |
| Continuing operations | 11 | $ 0.57 | $ 0.24 |
| Discontinued operations | 11 | $ 1.17 | $ (0.15) |
| **Net earnings for the period** | 11 | $ 1.74 | $ 0.09 |
| **Fully diluted earnings per share** | 11 | $ 1.72 | $ 0.09 |

*The notes on pages 13 to 33 are an integral part of these condensed consolidated interim financial statements.*

# CONDENSED CONSOLIDATED
# INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six-month period ended 30 June 2016

| | | 30 JUNE **2016** | | 30 JUNE **2015** |
|---|---|---|---|---|
| Net earnings for the period | $ | 18,575,834 | $ | 969,538 |
| Other comprehensive income: | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Actuarial gains/(losses) on post-retirement plans: | | | | |
| 1) Medical benefit plan | | (2,059,657) | | - |
| 2) Defined benefit pension plan | | (5,798,639) | | - |
| 3) Life insurance plan | | (380,557) | | - |
| | | (8,238,853) | | - |
| Total comprehensive income for the period | $ | 10,336,981 | $ | 969,538 |

*The notes on pages 13 to 33 are an integral part of these condensed consolidated interim financial statements.*

# CONDENSED CONSOLIDATED
# INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the six-month period ended 30 June 2016

| | NOTES | SHARE CAPITAL | SHARE PREMIUM |
|---|---|---|---|
| Balance at 1 January 2015 | | $ 10,681,740 | $ 30,305,714 |
| **Total comprehensive income for the period** | | | |
| Net earnings for the period | | - | - |
| **Transactions with owners of the Company recognized directly in equity** | | | |
| Dividends | 10 | - | - |
| Issue of ordinary shares | | 24,711 | 110,720 |
| Balance at 30 June 2015 | | $ 10,706,451 | $ 30,416,434 |
| Balance at 1 January 2016 | | $ 10,710,391 | $ 30,414,724 |
| **Total comprehensive income for the period** | | | |
| Net earnings for the the period | 20 | - | - |
| Movement in OCI | | - | - |
| **Transactions with owners of the Company recognized directly in equity** | | | |
| Dividends | 10 | - | - |
| Issue of ordinary shares | 10, 21 | 43,708 | 173,048 |
| Balance at 30 June 2016 | | $ 10,754,099 | $ 30,587,772 |

*The notes on pages 13 to 33 are an integral part of these condensed consolidated interim financial statements.*

| ATTRIBUTABLE TO EQUITY OWNERS OF THE COMPANY | | | | |
|---|---|---|---|---|
| TREASURY STOCK | CONTRIBUTED SURPLUS | ACCUMULATED OCI | RETAINED EARNINGS | TOTAL EQUITY |
| $ (845,803) | $ 22,549,745 | $ - | $ 173,632,725 | $ 236,324,121 |
| - | - | - | 969,538 | 969,538 |
| - | - | - | (1,598,365) | (1,598,365) |
| - | - | - | - | 135,431 |
| $ (845,803) | $ 22,549,745 | $ - | $ 173,003,898 | $ 235,830,725 |
| $ (845,803) | $ 22,549,745 | $ (21,343,310) | $ 207,413,980 | $ 248,899,727 |
| - | - | (444,115) | 19,019,949 | 18,575,834 |
| - | - | (8,238,853) | - | (8,238,853) |
| - | - | - | (1,603,927) | (1,603,927) |
| (15,156) | - | - | - | 201,600 |
| $ (860,959) | $ 22,549,745 | $ (30,026,278) | $ 224,830,002 | $ 257,834,381 |

# CONDENSED CONSOLIDATED
# INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the six-month period ended 30 June 2016

| | NOTES | 30 JUNE 2016 | 30 JUNE 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net earnings for the period | | $ 18,575,834 | $ 969,538 |
| **Adjustments for:** | | | |
| Gain on sale of discontinued operations | | (12,453,032) | - |
| Earnings for the period associated with discontinued operations | | (77,945) | - |
| Depreciation, amortization and accretion | | 12,774,058 | 13,923,328 |
| Share of (earnings)/loss of equity accounted investee | | (95,170) | 104,066 |
| **Changes in:** | | | |
| Short-term investments | | 15,994 | - |
| Deferred revenues | | 197,902 | 114,190 |
| Accounts receivable | | (4,085,239) | 406,587 |
| Inventory | | (8,049,276) | 5,578,760 |
| Prepaid expenses and other assets | | (1,182,420) | (4,500,131) |
| Regulatory deferral account debit balances | | (1,162,655) | (2,886,729) |
| Defined benefit obligation and other post-retirement obligations | | (5,898,050) | 695,679 |
| Customer deposits | | (10,050) | 1,950 |
| Trade and other payables | | 11,996,727 | 2,566,681 |
| Asset retirement and environmental clean-up obligations | | 414,145 | 316,296 |
| Net cash generated from operating activities | | 10,960,823 | 17,290,215 |
| **Cash flow from investing activities** | | | |
| Net proceeds from sale of BGU | | 15,623,712 | - |
| Acquisition of property, plant and equipment, investment property and intangible assets | | (6,555,794) | (8,366,639) |
| Net cash generated from/(used in) investing activities | | 9,067,918 | (8,366,639) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of capital stock | 10, 21 | 201,600 | 135,431 |
| Dividends paid | 10 | (1,603,927) | (1,598,365) |
| Net repayment of bank borrowing | | (6,592,869) | (7,558,403) |
| Net cash (used in) financing activities | | (7,995,196) | (9,021,337) |
| **Increase/(decrease) in cash and cash equivalents** | | 12,033,545 | (97,761) |
| **Cash and cash equivalents beginning of period** | | 7,573,709 | 9,209,034 |
| **Cash and cash equivalents end of period** | | $ 19,607,254 | $ 9,111,273 |

*The notes on pages 13 to 33 are an integral part of these condensed consolidated interim financial statements.*

## 1 OPERATIONS

Ascendant Group Limited (the Company) is domiciled in Bermuda. The Company's registered office is at 27 Serpentine Road, Pembroke, HM07, Bermuda. These condensed consolidated interim financial statements comprise the Company, its subsidiaries as well as former subsidiary Bermuda Gas & Utility Company Limited (Bermuda Gas), a distributor of propane gas, until it was sold during the period (refer to Note 20). The Company's subsidiaries are mainly involved in Energy (electric power generation, transmission and distribution, and small-scale renewable systems) and Infrastructure (sale and service of heating, ventilation and air-conditioning systems, air quality monitoring, building automation and energy management, commercial plumbing, fire protection, commercial refrigeration, property and facilities management and engineering consulting service) businesses.

| Principle Operating Subsidiaries | Principle Activity |
|---|---|
| Bermuda Electric Light Company Limited (BELCO) | Electric utility (generation, transmission, distribution and retail) |
| Ascendant Bermuda Insurance Limited (ABIL) | Captive property insurance |
| AG Holdings Limited (AG Holdings) | Parent company of the following non-utility business operations: |
| • Air Care Ltd. (Air Care) | Sale and service of air-conditioning systems, air quality monitoring, building automation and energy management, commercial plumbing, fire protection and commercial refrigeration services |
| • iFM Limited (iFM) | Property and facilities management services |
| • PureNERGY Renewables Ltd. (PureNERGY) | Small-scale renewable energy systems and solutions |
| • iEPC Limited (iEPC) | Engineering procurement, contracting and consulting services |
| • Ascendant Properties Limited (Ascendant Properties) | Property management |

The consolidated financial statements of the Company as at 31 December 2015, which were prepared in accordance with International Financial Reporting Standards (IFRS), are available upon request from the Company's registered office above or at www.ascendant.bm.

## 2 BASIS OF PREPARATION

### a Statement of compliance

These condensed consolidated interim financial statements, as at, and for the six-month period ended 30 June 2016, have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements under International Financial Reporting Standards (IFRS).

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 1 September 2016.

### b Basis of measurement

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following items in the consolidated statement of financial position:

- Defined benefit obligation
- Other post-retirement benefits
- Held for trading financial assets are measured at fair value

### c Functional and presentation currency

These condensed consolidated interim financial statements are presented in Bermuda Dollars, the Company's functional currency, which is on par with the US Dollar.

### d Use of estimates and judgments

The preparation of the condensed consolidated interim 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, 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. Revision 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 condensed consolidated interim financial statements are described in the following notes:

- Note 3(c) – useful lives of property, plant and equipment;
- Note 3(h) – defined benefit pension plan and other post-retirement benefits;
- Note 3(i) – useful lives of intangible assets;
- Note 3(j) – useful lives of investment property;
- Note 3(l)(i) – impairment of financial assets;
- Note 3(l)(ii) – impairment of non-financial assets; and
- Note 3(m) – provisions including asset retirement and environmental clean-up obligations.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these condensed consolidated interim financial statements.

### a Principles of consolidation

*Consolidation*

IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

These condensed consolidated interim financial statements include financial statements of the Company and its controlled subsidiaries, BELCO, ABIL and AG Holdings, as well as results from operations and sale of Bermuda Gas until sold during the period (refer to Note 20). All material intercompany accounts and transactions have been eliminated upon consolidation.

The financial statements of subsidiaries are included in the consolidated financial statements only from the date that control commences until the date that the control ceases.

*Joint arrangements*

A joint arrangement is an arrangement in which two or more parties have joint control. Under IFRS 11, the Company classifies its interest in joint arrangements as either joint operations or joint ventures depending on the Company's rights to the assets and obligations for the liabilities of the arrangements. When making the assessment, the Company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

For joint ventures, the Company applies the equity method of accounting and investments are initially recognized at cost. Under the equity method, the Company's share of profit or loss and other comprehensive income of the joint venture (equity accounted investee) is included from the date that joint control commences until the date joint control ceases.

## b Revenue recognition

The sales of electricity are based on consumption recorded by meter readings taken monthly during the year. The Company accrues for unread consumption at the end of each reporting period. Sales of propane gas and appliances were recognized on delivery to customers. Sales of appliance parts sold over the counter were recognized at time of sale, and service sales were recognized at the time the service project was completed. Sales from contracts are provided for using the percentage of completion method. Maintenance sales are earned over the term of the individual contracts. The unearned portion, calculated on a pro rata basis, is deferred and included in the condensed consolidated statement of financial position as deferred revenues. Where revenues recognized on long-term contracts based on the percentage completion method exceed the amount billed to date, unbilled revenue is recorded.

Revenues from the regulated distribution of electricity in Bermuda include variable and fixed charges. Variable charges are recognized using meter readings on delivery of the commodity to customers and include an estimate of usage not yet billed. Fixed charges are based on the distribution service provided during the reporting period.

Other revenues are recognized when products are delivered or services are rendered. Billings in excess of earned revenue are classified as deferred revenues on condensed consolidated statement of financial position.

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income over the term of the lease.

## c Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset, and includes the cost of dismantling and removing the assets and restoring the site on which they are located. Interest cost on funds borrowed for the construction of certain long-term assets has been capitalized. Capitalized interest is recorded as part of the asset to which it relates and is depreciated over the estimated useful life of the asset. 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.

Major overhaul costs are capitalized and depreciated on a straight-line basis over the period to the next major overhaul, which varies from three to eight years. The cost of repairs and maintenance activities, which are performed every two years or less and do not extend or enhance the life of the asset, are charged to earnings during the period in which they are incurred.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted where necessary.

Depreciation of property, plant and equipment is calculated on a straight-line basis. The calculation of depreciation is based on the cost of each group of assets from the actual date that they are brought into service. Significant components of individual assets are reviewed annually. If a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately. Land is not depreciated.

Depreciation for generation plant, transmission and distribution equipment, general plant and other physical assets, less residual value is calculated over periods ranging from three to 24 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in profit or loss in the condensed consolidated statement of income.

*Strategic spare parts*

The Group holds major spare parts and stand-by equipment, measured at cost less accumulated depreciation, under property, plant and equipment.

The Company allocates the amount initially recognized in property, plant and equipment to its significant components and depreciates each component separately. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted where necessary.

Depreciation of spare parts is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful economic lives, and is generally recognized in profit or loss.

*Reclassification to investment property*

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognized in profit and loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain or loss recognized in other comprehensive income and presented in the revaluation reserve. Any loss is recognized in profit or loss.

### d Cash and cash equivalents

Cash and cash equivalents include cash on account and short-term, highly liquid investments with maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash, and which are subject to insignificant risk of change in value. No significant interest rate risk is associated with cash and cash equivalents held as at 30 June 2016 and 31 December 2015.

### e Inventory

Inventory is comprised of materials and supplies as well as fuel and lubricants. Materials and supplies are recorded at the lower of average cost, less provision for obsolescence and net realizable value. Fuel and lubricants are recorded at cost on a first-in, first-out basis.

### f Foreign currency translation

Monetary assets and liabilities have been translated into Bermuda Dollars at rates of exchange that approximate those rates prevailing at the end of the Company's reporting period. Transactions in foreign currencies during the reporting period have been recorded at actual rates of exchange when incurred. Gains or losses arising on foreign currency translations are included in earnings for the period.

### g Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the reporting period adjusted for treasury shares held. Diluted earnings per share are determined by adjusting the weighted average number of shares for the effects of all dilutive potential shares that comprise options granted to employees.

### h Pensions and employee future benefits

#### i Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### ii Defined contribution pension plan

A defined contribution pension plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

#### iii Defined benefit pension plan (DB Plan)

A defined benefit pension plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of the DB Plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The Company's net obligation in respect of the DB Plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting the amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan and reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

The Company recognizes all actuarial gains and losses in other comprehensive income (OCI) and expenses related to the DB Plan in personnel expenses in profit or loss.

Remeasurements of the net defined liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB Plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss when the plan benefit changes or curtailment occurs. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

### iv Other long-term employee benefits

BELCO provides post-retirement medical benefits for substantially all employees on retirement. The Company uses the accrual basis of accounting for these benefits, whereby an accrual is made for the present value of future benefits to be provided in the reporting period in which the employee has provided the related service. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in OCI in the condensed consolidated interim statement of comprehensive income in the period in which they arise.

BELCO provides post-retirement life insurance to existing retirees. The Company accounts for post-retirement life insurance in line with accounting for the DB Plan.

### v Shared-based payment transaction

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes. The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the employees unconditionally become entitled to payment. The liability is remeasured at each reporting date. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

### i Intangible assets

The Company classifies goodwill and computer software as intangibles. Goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment on an annual basis, or more frequently if impairment indicators arise, using the discounted cash flow valuation method. As at 30 June 2016 and 31 December 2015 there was no impairment of the Company's goodwill. Computer software is amortized on a straight-line basis over periods ranging from five to 10 years. Software in progress is not subject to amortization until brought into service. The method of amortization, residual values and useful lives of the assets are reviewed annually and adjusted where necessary.

### j 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 purpose. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and any adjustment for impairment.

Investment property is amortized over the estimated useful life of 24 years. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its depreciated historical cost at the date of reclassification becomes its cost for subsequent accounting.

### k Financial instruments

The Company classifies short-term investments as held for trading. Financial assets other than those held for trading are classified as loans and receivables. Financial liabilities are classified as other financial liabilities.

The carrying values of cash and cash equivalents, accounts receivable, bank borrowings, customer deposits, trade and other payables approximate fair value because of their short-term maturities.

#### i Financial assets and financial liabilities – recognition and derecognition

The Company initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the 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 it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or canceled, or expire.

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

#### ii Financial assets – measurement

*Financial assets at fair value through profit or loss*

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss.

*Loans and receivables*

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

iii Financial liabilities – measurement

Financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

iv Fair value hierarchy

In estimating fair value, the Company utilizes quoted market prices when available. Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Management's judgment as to the significance of a particular input to the fair value measurement may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

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

The fair value hierarchy requires the use of observable market inputs wherever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

v Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity. When common shares are repurchased the amount of consideration paid is recognized as a deduction from equity. Repurchased shares are classified as treasury shares.

## l Impairment

i Financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security; or
- Observable data indicating that there is a measureable decrease in the expected future cash flows from a Company's financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

*Financial assets measured at amortized cost*

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the assets original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

ii Non-financial assets

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than investment property and inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets 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 (cash generating units or CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to 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.

m **Provisions**

The Company recognizes provisions when there is a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in the interest expense.

Management evaluates the likelihood of the contingent events based on the probability of exposure to the potential loss. Actual results could differ from these estimates.

A contingent asset is not recognized in the condensed consolidated interim financial statement. However, a contingent asset is disclosed when an inflow of economic benefit is probable.

*Asset retirement obligations*

Asset retirement obligations (ARO) are legal and constructive obligations connected with the retirement of tangible long-lived assets. These obligations are measured at management's best estimate of the expenditure required to settle the obligation and are discounted to present value when the effect is material. Cash flows for ARO are adjusted to take risks and uncertainties into account and are discounted using a pre-tax, risk-free discount rate.

Initially, an ARO is recorded in provisions, with a corresponding increase to property, plant and equipment. Subsequently, the carrying amount of the provision is accreted over the estimated time period until settlement of the obligation, with the accretion expense recognized as interest expense. The asset is depreciated over its estimated useful life. The carrying value is evaluated annually, or more frequently if events or circumstances dictate, taking into account changes in the estimate of future cash flows and a discount rate that reflects the current market assessment of the time value of money.

*Environmental clean-up obligation*

In accordance with the Company's published environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land, and the related expense, is recognized when the land is contaminated.

## n Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

## o Income tax

As the Company is domiciled in Bermuda, it is not subject to taxation on profit or capital gains. Accordingly, no provision for income tax or deferred tax has been made in the condensed consolidated interim financial statements.

## p Finance expense

Finance expense is comprised of interest on borrowings, changes in fair value of held for trading investments and foreign currency gains and losses incurred in the year.

## q Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision-maker (CODM), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer, Chief Financial Officer, three Chief Operating Officers and members of the Board of Directors, who make decisions about resources to be allocated to the segment and assess its performance principally on the basis of profit or loss adjusted for regulatory items as shown in Note 17, Segmented Information.

## r Standards issued but not yet adopted

Accounting standards and amendments to standards that are not yet effective are listed below.

*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 1 January 2018, with early adoption permitted.

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

*IFRS 15 Revenue from Contracts with Customers*

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Company is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

*IFRS 16 Leases*

In January 2016 the International Accounting Standards Board issued IFRS 16 *Leases*.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019 and will replace IAS 17 *Leases*. Early adoption is permitted, but only in conjunction with IFRS 15. Under the previous guidance in IAS 17, a lessee had to make a distinction between a finance lease and an operating lease. IFRS 16 requires the lessee to recognize almost all lease contracts on the statement of financial position; the only optional exemptions are for certain short-term leases and leases of low value assets.

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

## 4 RATE REGULATION

The Company's wholly owned subsidiary, BELCO, is an electric utility subject to rate regulation as outlined under the Bermuda Energy Act 2009.

### Nature and economic effects of rate regulation in Bermuda

In June 2015, the National Electricity Sector Policy of Bermuda (the "Policy") was established. The Policy seeks to achieve the objectives, by enabling the introduction of new technologies to the Island, of lower cost of service, reducing local pollution as well as the emissions of global greenhouse gases produced by electricity generation, improve the security of supply and improve affordability, all while maintaining or improving quality of service.

In support of the Policy, the Electricity Act 2016 was tabled in the legislature in December 2015 and received Royal Assent in March 2016. The Electricity Act 2016 provides for the transfer of responsibility for the regulation of electricity from the Bermuda Energy Commission (EC) to the Regulatory Authority of Bermuda (RA).

The new law establishes a regulatory framework for the electricity sector in Bermuda which:

- Transfers and expands the scope associated with independent regulatory oversight of the electricity sector to the RA;
- Outlines an integrated resource planning process for setting detailed policy that is participative and encourages the achievement of competing objectives in the manner that best serves the public interest; and
- Establishes policy-implementing rules and processes regarding:
  - Generation planning and procurement, which promote least cost, diversification in the primary energy sources and technologies for electricity generation and demand reduction;
  - Electricity supply restrictions, which include a licensing framework that confirms BELCO as a transmission, distribution, and retail services licensee as well as a bulk generation licensee; facilitates competition with respect to new bulk electricity generation requirements; and is open to distributed electricity generation by end-users;
  - Electricity supply standards that promote reliable, high quality electricity supply in line with industry best practice, encourage responsive and reasonable customer service, and safeguards against public safety and property loss; and
  - Tariff-setting principles, which will provide for the recovery of reasonable costs inclusive of efficiently incurred operating costs, prudently incurred investment in assets, a return on investment commensurate with returns in business undertakings with comparable risks and that is sufficient to attract needed capital.

While the Electricity Act 2016 received Royal Assent in March 2016, as of 30 June 2016, the Ministry of Economic Development had not yet set a commencement date. Consequently, the regulation of the electricity sector currently remains with the EC.

### EC Directive

On 3 June 2015, BELCO submitted a rate filing to the EC increasing its electricity tariffs to adjust for declining electricity sales and a corresponding reduction in profitability that was beginning to impact BELCO's ability to continue to invest in Bermuda's electricity infrastructure and maintain high levels of reliability. The rate filing started a lengthy review process, inclusive of an invitation for public comments, the receipt of expert consultant advice and a dialogue seeking clarification from BELCO on a number of issues.

Subsequently, in the Directive dated 31 March 2016, the EC approved an adjustment to the tariffs, whereupon BELCO was allowed to earn a return on equity (ROE) of 7% for fiscal year 2016 and 8% for fiscal year 2017. The ROE rates are to be applied to BELCO's rate base (excluding the portion funded by debt). In addition to the ROE amount, interest costs associated with BELCO's debt should be included in its calculated revenue requirements. In the event that the targeted ROE is likely to be exceeded for a given fiscal year, the excess differential shall be allocated to a tariff stabilization account in accordance with standard industry practice with a priority for utility directed initiatives, deferral of tariff increases or to make up revenue requirement shortfalls similar to the fuel adjustment rate (FAR) balancing account concept.

The directive also ordered BELCO to comply with a number of other requirements, including the elimination of fuel discounts and credit card fees, further disclosure on various costs and expenditures, the separation of Hotels as a new customer class from the current Demand category, establishment of appropriate fuel efficiency metrics and the obligation to file the Integrated Resource Plan by no later than 30 June 2016. BELCO subsequently implemented an increase to its tariffs on 1 June 2016, inclusive of an additional adjustment to reflect the impact of the delayed approval relative to a permitted return for a full year period.

### Financial statement effects of rate regulation

As at 30 June 2016, total under-recovered fuel purchase costs associated with barrels of fuel used to meet electric sales demand totaled $70,566. As at 31 December 2015, the Company over-recovered under the EC approved fuel adjustment rate (FAR) $1,092,089 in order to limit the need to increase future FAR in light of projected increased fuel costs to be used in operations to meet demand.

In accordance with IFRS 14, Regulatory Deferral Accounts, the Company has accounted for these balances as regulatory deferral account debit and credit balances and changes in the regulatory deferral account related to profit and loss. The net movement in regulatory account deferral balances related to profit and loss, per the Company's condensed consolidated statement of income as at 30 June 2016, was a change of $207,938 (30 June 2015: a credit of $791,736).

## 5 PROPERTY, PLANT AND EQUIPMENT

| | ORIGINAL COST | ACCUMULATED DEPRECIATION | 30 JUNE **2016** | 31 DECEMBER **2015** |
|---|---|---|---|---|
| Utility plant | $596,977,963 | $383,308,651 | $213,669,312 | $220,351,769 |
| Other physical property | 144,393,341 | 91,677,126 | 52,716,215 | 47,227,788 |
| | $741,371,304 | $474,985,777 | $266,385,527 | $267,579,557 |

Total capital work in progress of $22,526,464 (31 December 2015: $17,380,403) is embedded in property, plant and equipment in utility plant noted above. Capital work in progress is not subject to depreciation until brought into service.

Asset retirement obligations included in utility plant as at 30 June 2016 amounted to $2,467,983 (31 December 2015: $2,681,372).

Freehold land of $6,014,262 (31 December 2015: $6,014,262) is embedded in property, plant and equipment noted above in other physical property. Freehold land is not subject to depreciation.

## 6 INTANGIBLE ASSETS AND GOODWILL

| | ORIGINAL COST | ACCUMULATED AMORTIZATION | 30 JUNE **2016** | 31 DECEMBER **2015** |
|---|---|---|---|---|
| Goodwill | $ 6,914,976 | $ - | $ 6,914,976 | $ 7,632,982 |
| Software in Progress | 122,061 | - | 122,061 | 282,990 |
| Software | 15,136,179 | 12,078,421 | 3,057,758 | 3,669,995 |
| | $ 22,173,216 | $ 12,078,421 | $ 10,094,795 | $ 11,585,967 |

There was no impairment of intangible assets for the period ended 30 June 2016 (2015: Nil). During the six-month period ended 30 June 2016, $37,260 of intangible assets subject to amortization were acquired (year ended 31 December 2015: $393,900). Unamortized goodwill associated with the original acquisition of Bermuda Gas totaling $718,006 was written off during the period following the sale of Bermuda Gas in April 2016 (refer to Note 20).

## 7 INVESTMENT PROPERTY

Investment property comprises residential and commercial properties, which are leased to tenants on a month-by-month basis.

| | ORIGINAL COST | ACCUMULATED DEPRECIATION | 30 JUNE **2016** | 31 DECEMBER **2015** |
|---|---|---|---|---|
| Investment property | $ 4,233,101 | $ 1,930,223 | $ 2,302,878 | $ 2,354,348 |

Freehold land of $1,132,393 (31 December 2015: $1,132,393) is embedded in investment property noted above. Freehold land is not subject to depreciation.

Investment property comprises a number of commercial properties that are leased to third parties. Each lease contains an initial non-cancellable period of two years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

The Company uses the cost model in accounting for investment property. Under the cost model, the Company depreciates the cost of investment property over its estimated useful life using the straight-line method and deducts any accumulated impairment losses.

## 8 INVESTMENTS

The Company's investments are all actively traded on the Bermuda Stock Exchange and therefore have been classified as Level 1. There have been no transfers between the levels during the year.

## 9 INVENTORY

During the six-month period ended 30 June 2016, the Company expensed inventory totaling $41,462,840 (30 June 2015: $53,045,351) as part of normal operations. No inventory was written off during the period (30 June 2015: $641,039).

Inventory is comprised as follows:

| | 30 JUNE **2016** | 31 DECEMBER **2015** |
|---|---|---|
| Material and supplies | $ 27,985,391 | $ 28,730,738 |
| Fuel and lubricants | 25,309,298 | 16,207,605 |
| | $ 53,294,689 | $ 44,938,343 |

## 10 SHARE CAPITAL

| | 30 JUNE 2016 | 31 DECEMBER 2015 |
|---|---|---|
| Share capital comprises:<br>Authorized – 20 million shares of a par value of $1 each<br>(2015: 20 million par value $1) | $ 20,000,000 | $ 20,000,000 |
| Issued and fully paid – 10,754,099 shares of a par value of $1 each<br>(2015: 10,710,391 per value $1) | $ 10,754,099 | $ 10,710,391 |

Movement in issued and fully paid share capital was attributed to:

(1) The Company's employee share purchase plan (employees may acquire stock at a 10% discount of the stock market trade value price of Company shares at time of purchase);

(2) Stock issued to Directors as part of total annual Director fee compensation; and

(3) Employee awards for long service, retirement and accomplishment.

The impact of these items on capital stock and share premium for the six-month period ending 30 June 2016, and the year ending 31 December 2015 was as follows:

| | SHARES ISSUED AND FULLY PAID | CAPITAL STOCK $ | SHARE PREMIUM $ |
|---|---|---|---|
| **1 January 2015** | **10,681,740** | **10,681,740** | **30,283,782** |
| Employee share purchase plan | 12,707 | 12,707 | 67,629 |
| Directors' fee compensation | 14,400 | 14,400 | 57,600 |
| Awards (Long service, retirement, accomplishment) | 1,544 | 1,544 | 5,713 |
| | 28,651 | 28,651 | 130,942 |
| **31 December 2015** | **10,710,391** | **10,710,391** | **30,414,724** |
| Employee share purchase plan | 10,036 | 10,036 | 38,696 |
| Directors' fee compensation | 33,672 | 33,672 | 134,352 |
| | 43,708 | 43,708 | 173,048 |
| **30 June 2016** | **10,754,099** | **10,754,099** | **30,587,772** |

There were no shares issued during the six-month period ending 30 June 2016 and the year ending 31 December 2015 attributed to the Company's long-term incentive plan described in detail in Note 21.

*Dividends*

The following dividends were declared and paid by the Company for the six-month period ending 30 June:

| | 30 JUNE 2016 | 30 JUNE 2015 |
|---|---|---|
| 15 cents per qualifying ordinary share (30 June 2015: 15 cents) | $ 1,603,927 | $ 1,598,365 |

*Treasury stock*

A total of 44,200 shares were held as treasury shares as at 30 June 2016 (31 December 2015: 41,200 shares).

## 11 EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing net earnings by the weighted average number of ordinary shares outstanding during the reporting period. Earnings per share are diluted by potential shares. Potential shares are issuable under the Company's long-term incentive program (LTIP). The Company's LTIP is described in detail in Note 19.

Time-vested and performance-based retention shares to be issued in the future under the LTIP have had a dilutive effect on EPS. The dilutive impact of these shares in the current period is to reduce EPS by $0.02 (Period ended 30 June 2015: $0.00).

The following table sets forth the computation for basic and fully diluted EPS:

| | 30 JUNE 2016 | 30 JUNE 2015 |
|---|---|---|
| **Numerator** | | |
| Net earnings from continuing operations before rate regulated activities | $ 6,252,795 | $ 1,782,455 |
| Less: rate regulated activities | (207,938) | 791,736 |
| Net earnings from continuing operations after rate regulated activities | 6,044,857 | 2,574,191 |
| **Results from discontinued operations** | | |
| Earnings/(loss) for the period | 77,945 | (1,604,653) |
| Gain on sale of discontinued operations | 12,453,032 | - |
| Net earnings | $ 18,575,834 | $ 969,538 |

| | 30 JUNE 2016 | 30 JUNE 2015 |
|---|---|---|
| **Denominator** | | |
| Weighted average number of shares outstanding – Basic | $ 10,681,356 | $ 10,648,353 |
| Add: Dilutive potential shares from the LTIP | 106,944 | 11,111 |
| Weighted average number of shares outstanding – Fully diluted | 10,788,300 | 10,659,464 |
| **Basic and fully diluted earnings/(loss) per share:** | | |
| Basic EPS: | | |
| Continuing operations before rate regulated activities | $ 0.59 | $ 0.17 |
| Effect of rate regulation | (0.02) | 0.07 |
| Continuing operations after rate regulated activities | 0.57 | 0.24 |
| Discontinued operations | 1.17 | (0.15) |
| Net earnings | $ 1.74 | $ 0.09 |
| Fully Diluted EPS: | | |
| Continuing operations | 0.56 | 0.24 |
| Discontinued operations | 1.16 | (0.15) |
| Net earnings | $ 1.72 | $ 0.09 |

## 12 JOINT VENTURE

iFM is a joint venture company that is 60% owned by the Company and 40% owned by a Bermuda-registered, exempted subsidiary of Black & McDonald Limited (B&M). B&M, a privately held Canadian company, is a leading electrical, mechanical and facilities maintenance management contractor operating across Canada, the United States and Bermuda. iFM brings together these strategic partners from Bermuda and Canada to deliver world-class facilities management services to clients in Bermuda.

iFM has been accounted for in the Company's financial statements using the equity method as in accordance with IFRS 11 *Joint Arrangements*.

## 13 BANK BORROWING

Bank borrowing is comprised as follows:

| | 30 JUNE 2016 | 31 DECEMBER 2015 |
|---|---|---|
| **Current Liabilities** | | |
| The Bank of N.T. Butterfield & Son Limited overdraft facility | $ 5,806,034 | $ 10,944,355 |
| The Bank of N.T. Butterfield & Son Limited loan facility | 2,047,772 | 2,970,724 |
| | $ 7,853,806 | $ 13,915,079 |

BELCO's overdraft facility with The Bank of N.T. Butterfield & Son Limited, which expired on 30 June 2016, has a maximum amount of $21 million in Bermuda Dollars, bearing variable interest rates based on the Bank's Bermuda Dollar Base Rate on borrowings. The Facility was renewed and extended to 28 February 2017 with the Company's Board approving a $3 million decrease in the overdraft facility limit, which as at 30 June 2016 was $21 million, to $18 million on the facility renewal date. As of 30 June 2016, total drawdown on this facility amounted to $5,806,034 bearing interest of approximately 4.8% (31 December 2015; $10,944,355, bearing interest of approximately 4.8%).

As of 30 June 2016, the current portion of the total drawdown against the loan facility used to finance the acquisition of Air Care amounted to $2,047,772 (31 December 2015: $2,970,724).

| | 30 JUNE 2016 | 31 DECEMBER 2015 |
|---|---|---|
| **Non-current Liabilities** | | |
| The Bank of N.T. Butterfield & Son Limited revolving loan facility | $ 8,165,176 | $ 8,696,770 |

In May 2012 the Company obtained, through one of its affiliated companies, a loan facility in the maximum principal amount of $15.5 million from the Bank to finance the acquisition of Air Care. Drawdowns were available during a revolving period of 39 months, a period during which interest only was payable. The loan is for a term of eight years and interest is payable at 1.5% per annum above the Bank's Bermuda Dollar Base Rate. The loan is secured by a debenture over the assets of Air Care and undertakings as well as a guarantee from Ascendant Group. As of 30 June 2016, the non-current portion of the total drawdown against the loan facility amounted to $8,165,176 (31 December 2015: $8,696,770).

## 14 CAPITAL MANAGEMENT

The Company's objectives, when managing capital, are to maintain sufficient liquidity and ongoing access to capital in order to allow the Company to build and maintain its operational infrastructure and administrative systems. The Company's short-term capital management strategy is to generate and utilize positive cash flows from operations to meet annual capital expenditure and dividend payment requirements. Where a shortfall exists between internally generated cash inflows and required cash outflows, short-term debt financing will be utilized. The Company currently utilizes a bank overdraft facility to address fuel financing, small-scale renovation work and other requirements. The

Company's long-term strategic capital management plan considers all alternative financing options available to address large-scale plant generation expansion or replacement, and transmission and distribution projects. The Company is not subject to any externally imposed minimum capital requirements.

## 15 POST-RETIREMENT BENEFIT PLANS

### *Defined Contribution Pension Plan*

Total employer contributions paid to the defined contribution pension plan during the period by the Company and included in operating and administrative expenses are as follows:

| | 30 JUNE **2016** | 30 JUNE **2015** |
|---|---|---|
| Ascendant Group | $ 119,594 | $ 123,803 |
| BELCO | 548,561 | 549,386 |
| AG Holdings | 178,499 | 180,251 |
| | $ 846,654 | $ 853,440 |

### *Defined Benefit Pension Plan & Other Post-Retirement Benefits*

Amounts related to the Company's defined benefit (DB) pension plan obligation and other post-retirement benefit obligations are as follows:

| | 30 JUNE **2016** | | 31 DECEMBER **2015** | |
|---|---|---|---|---|
| | DEFINED BENEFIT PLAN | OTHER POST-RETIREMENT BENEFITS | DEFINED BENEFIT PLAN | OTHER POST-RETIREMENT BENEFITS |
| **Closing balance** | $ 26,466,600 | $ 32,542,000 | $ 24,832,500 | $ 30,150,690 |

### *Defined Benefit (DB) Pension Plan*

The Company's subsidiary, BELCO, maintained a trusteed, non-contributory Defined Benefit (DB) Pension Plan, covering all full-time employees hired before 1 January 2006. The DB Pension Plan provided a pension benefit to members equal to a percentage of an employee's average salary prior to retirement. The percentage benefit is based upon an employee's years of service up to a maximum of benefit of 65%, while the average salary is calculated as the average earnings over a consecutive three-year period in the 10 years immediately prior to retirement.

As at 31 December 2011, BELCO imposed a soft freeze of the DB Pension Plan. Under the terms of this soft freeze, the percentage benefit was frozen, however the pensionable earnings benefit to which the fixed percentage will be applied will continue to be calculated as previously noted.

Effective 1 January 2012, all full-time employees covered under this plan were transitioned to a DC Pension Plan.

On 20 October 2015, the Company filed a Deed of Amendment with the Bermuda Pension Commission (Pension Commission) to hard freeze benefits effective 31 December 2015 for members who were employed and remunerated on a salaried basis at 31 December 2015. To compensate members for the reduction in future benefits associated with the hard freeze, the Company will provide additional defined contribution payments up to the affected members' earliest eligible retirement date. The Pension Commission approved this amendment. As a result of the amendment, the Company recognized a curtailment gain of $5,005,000 in its year-end 2015 results.

Subsequently, the Company filed an additional Deed of Amendment to clarify the intent to limit the benefits hard freeze only to members who will not satisfy eligibility requirements to retire with an unrestricted pension by 31 December 2025. This subsequent amendment was approved by the Pension Commission on 11 July 2016.

As at 30 June 2016, the Company has determined liability for its post-retirement DB pension plan was $26,466,600 (31 December 2015: $24,832,500). The discount rate used by the Company's actuary in determining the post-retirement defined benefit pension plan obligation as at 30 June 2016 was 4.20% (31 December 2015: 4.90%).

*Group Life Insurance Plan*

The Company's subsidiary, BELCO, maintains a group life insurance plan that provides coverage until death for all active employees and existing retirees. The current life insurance plan for active employees represents a standard employment benefit and net premiums are expensed as incurred. Continuation of these benefits at retirement is at the discretion of the Company. The current life insurance plan for existing retirees is a non-standard benefit, which has been accounted for in accordance with IAS 19 in line with DB Pension Plan accounting requirements. As at 30 June 2016, the Company has determined liability for existing retirees entitled to death benefits under the group life insurance plan was $4,222,000 (31 December 2015: $3,784,790). The discount rate used by the Company's actuary in determining the post-retirement group life insurance plan obligation for existing retirees as at 30 June 2016 was 3.65% (31 December 2015: 4.40%).

*Medical Benefit Plan*

The Company's subsidiary, BELCO, provides post-retirement medical benefits for substantially all employees on retirement. As at 30 June 2016, the Company has determined liability for its post-retirement medical benefit plan was $28,320,000 (31 December 2015: $26,365,900). The discount rate used by the Company's actuary in determining the post-retirement medical benefit plan obligation as at 30 June 2016 was 3.65% (31 December 2015: 4.40%).

## 16 EQUITY SETTLED SHARE PURCHASE PLAN

The Company provides an opportunity for all of its current and retired employees to participate in an Employee Share Purchase Plan. Under the terms of the plan, an employee must have completed six months of employment to be eligible to subscribe for shares. The shares are sold at a market price, as determined by the Bermuda Stock Exchange at the close of business on the day of subscription, less a discount of 10%, up to a maximum of 2,000 shares in any one year. Shares can also be paid for via the Company payroll deduction mechanism; when subscribing for shares through this mechanism a minimum purchase of 50 shares is necessary. The market price prevailing on the date of application less 10% discount will be the price that is paid for shares even though they might not be completely paid for until some months later (up to a maximum period of one year). Shares issued under this plan must be held by the employee for a minimum period of one year under which time the related discounts will vest; any disposition of shares before this period would require the discounts previously given to be refunded to the Company. During the period ended 30 June 2016, 10,036 shares were issued to employees under the employee share purchase plan (31 December 2015 – 12,707 shares were issued to employees under this plan).

## 17 SEGMENTED INFORMATION (In $000's)

Reportable segments correspond to the Company's internal organization structure. The Company operates the reportable segments noted below, which are managed as separate business units as they operate in different industries requiring different marketing strategies and technologies. The Company evaluates each segment's performance based on its contribution to profit or loss. The accounting policies of the reportable segments are the same as described in Note 3.

- BELCO – Provides electric utility services and is a rate-regulated company.
- AG Holdings – A subsidiary of AGL and parent company of entities other than BELCO and Ascendant Bermuda Insurance Limited (ABIL) that provide the following services:
  1) Property and facility management services;
  2) Property management;
  3) Renewable energy solutions;
  4) Engineering procurement, contracting and consulting; and
  5) HVAC, air quality monitoring, building and energy management.
- ABIL – A captive property insurance company.

| CONTINUING OPERATIONS | BELCO | AG HOLDINGS | ALL OTHER (a) | TOTAL |
|---|---|---|---|---|
| Six months ended 30 June 2016 | | | | |
| Revenues from external customers | $ 95,279 | $ 9,830 | $ (21) | $ 105,088 |
| Revenues from internal customers | 19 | 307 | 249 | 575 |
| Segment revenues | 95,298 | 10,137 | 228 | 105,663 |
| Segment profit (loss) | 13,388 | 132 | 5,056 | 18,576 |
| Segment assets and regulatory deferral account debit balances | 334,590 | 31,705 | 13,587 | 379,882 |
| Segment liabilities and regulatory deferral account credit balances | 108,644 | 12,131 | 1,272 | 122,047 |

| CONTINUING OPERATIONS | BELCO | AG HOLDINGS | ALL OTHER (a) | TOTAL |
|---|---|---|---|---|
| Six months ended 30 June 2015 | | | | |
| Revenues from external customers | $ 99,737 | $ 10,445 | $ 10 | $ 110,192 |
| Revenues from internal customers | 37 | 604 | 239 | 880 |
| Segment revenues | 99,774 | 11,049 | 249 | 111,072 |
| Segment profit (loss) | 5,439 | (561) | (3,908) | 970 |
| Segment assets and regulatory deferral account debit balances | 332,454 | 37,797 | 4,312 | 374,563 |
| Segment liabilities and regulatory deferral account credit balances | 127,283 | 14,357 | 2,112 | 143,752 |

(a) All other, representing segments below the quantitative thresholds are attributable to AGL, the ultimate parent company, and ABIL.

Reconciliation of the segment revenues to total Company revenues is noted below.

| | 30 JUNE 2016 | 30 JUNE 2015 |
|---|---|---|
| Revenues from external customers | $ 105,088 | $ 110,192 |
| Cost of goods sold and discounts | (8,649) | (9,732) |
| Total Company revenues | $ 96,439 | $ 100,460 |

## 18 PROVISIONS

*Asset retirement obligation (ARO)*

The ARO provision represents the present value of decommissioning and restoration costs associated with the Company's power generation engines and related facilities. The Company estimates that the undiscounted amount of cash flow required to settle the ARO is approximately $16.8 million (31 December 2015: $16.8 million), which will be incurred between 2021 and 2036. The discount rate used to calculate the fair value of the ARO was 5% (31 December 2015: 5%).

*Environmental clean-up obligations*

The environmental clean-up provision represents the present value of environmental clean-up costs associated with the decommissioning and remediation of its Old Power Station at the Central Power Station. The present value of the costs to be incurred for site restoration has been estimated at approximately $1.4 million (31 December 2015: $1.3 million). The discount rate used to calculate the fair value of the ARO was 5% (31 December 2015: 5%).

*Over-billed metered sales liability*

The Company's subsidiary, BELCO, maintains a provision for over-billed metered sales determined to exist following an audit initiated in 2013 of both demand and commercial customer meter installations. As at 30 June 2016, this provision was $504,680 (31 December 2015: $504,680). The audit of remaining customer accounts is expected to be completed before the end of 2016. The over-billed metered sales liability provision is included in trade and other payables.

## 19 RELATED PARTIES

*Key management personnel compensation*

Key management personnel include both Directors and Executives of Ascendant Group.

Compensation paid to key management personnel for employee services for the six-month period ended 30 June is as follows:

| | 30 JUNE **2016** | 30 JUNE **2015** |
|---|---|---|
| Salaries, fees and other short-term employment benefits | $ 2,181,017 | $ 1,595,439 |

Effective 1 January 2013, the Company has implemented a Long-Term Incentive Plan ("LTIP") aimed at retaining the services of its officers and incentivizing performance in the best interest of its shareholders. LTIP grants were authorized by the Board of Directors in 2013, 2014, 2015 and 2016. The LTIP is comprised of an initial grant of a target number of restricted performance shares of the Company, based on a calculated percentage of each officer's salary divided by the average 30-day share price in the previous December. Each LTIP initial grant will vest on the third anniversary of the effective award date, multiplied by a factor of 0% – 150%, based on the achievement of certain pre-determined objectives as solely determined by the Board of Directors. The 2013 LTIP grant vested on 1 January 2016, but no shares were issued as the Board of Directors determined that the pre-established objectives were not met.

In addition to the LTIP program, the Company has issued a total of 225,000 restricted shares to certain officers in 2014 and 2015 for retention and performance alignment purposes. These restricted shares will vest on the third anniversary of each award date, with 125,000 shares subject to performance. The performance-restricted shares can vest early for an officer's retirement or change of control of the Company, subject to the satisfactory fulfillment of strategic objectives, as solely determined by the Board of Directors. The time-restricted shares can only vest early for a change in control of the Company, in which case, they would vest on a pro rata basis relative to time served.

As at the reporting date, the performance conditions associated with the LTIP have not been met, while 50% of the performance conditions associated with the retention program have been assumed to have been met as at 30 June 2016. Consequently, for the purpose of calculating diluted EPS, 106,944 retention-related shares have been included in the diluted EPS computation on a pro rata basis relative to the three-year vesting period.

| | INITIAL GRANT @TARGET | CURRENT GRANT @TARGET | DILUTIVE SHARES |
|---|---|---|---|
| 2014 LTIP | 90,189 | - | - |
| 2015 LTIP | 154,631 | - | - |
| 2016 LTIP | 160,166 | - | - |
| Retention (Performance) | 125,000 | 62,500 | 62,500 |
| Retention (Time) | 100,000 | 44,444 | 44,444 |
| | 629,986 | 106,944 | 106,944 |

## 20 SALE OF BERMUDA GAS & UTILITY COMPANY LIMITED

In April 2016, the Company sold its subsidiary, Bermuda Gas for $17.7 million plus final adjustments to reflect the working capital in the business. The Company has recognized a net gain on sale of Bermuda Gas of $12.5 million. The gain on sale is net of a recycled OCI loss of $444,115 related to Bermuda Gas' post-retirement medical benefit plan.

*Earnings/(loss) from discontinued operations*

Earnings/(loss) from discontinued operations for the six months ended 30 June 2016 represent Bermuda Gas operating results from 1 January 2016 to the date the company was sold in April 2016. The loss from discontinued operations for the comparative 2015 period represents results from Bermuda Gas' retails sales segment following a decision in June 2015 to discontinue this division of its business.

| FOR THE SIX MONTHS ENDED 30 JUNE | 2016 | 2015 |
|---|---|---|
| **Results of discontinued operation** | | |
| Revenue | $ 1,378,597 | $ 3,323,624 |
| Expenses | (1,300,652) | (4,928,277) |
| **Earnings/(loss) from operating activities and for the period** | 77,945 | (1,604,653) |
| **Cash flows used in discontinued operation** | | |
| Net cash used in operating activities | 77,945 | (1,604,653) |
| **Effect on cash flows** | $ 77,945 | $ (1,604,653) |

*Assets / Liabilities classified as held for sale*

In accordance with IFRS 5, the assets and liabilities of Bermuda Gas for the year ending 31 December 2015 were presented in the consolidated statement of financial position as held for sale following approval of the Company's Board to explore the potential sale of Bermuda Gas. All Bermuda Gas assets and liabilities were disposed of when this subsidiary was sold in April 2016.

Assets classified as held for sale is comprised as follows:

| | 30 JUNE 2016 | 31 DECEMBER 2015 |
|---|---|---|
| Cash & cash equivalents | $ - | $ 3,092,735 |
| Trade and other receivables | - | 1,661,885 |
| Inventories | - | 307,070 |
| Property, plant and equipment | - | 3,412,168 |
| Intangible assets | - | 69,423 |
| All other assets | - | 56,869 |
| | $ - | $ 8,600,150 |

Liabilities classified as held for sale is comprised as follows:

| | 30 JUNE 2016 | 31 DECEMBER 2015 |
|---|---|---|
| Trade and other payables | $ - | $ 909,124 |
| Provisions | - | 96,183 |
| Employee benefit obligations | - | 1,684,607 |
| | $ - | $ 2,689,914 |

## 21 SHARE REPURCHASE PROGRAM

Effective 13 May 2016, the Company's Board of Directors authorized using a portion of the proceeds from the sale of Bermuda Gas to repurchase up to 1.5 million of its shares through an open market program. The share repurchase program was filed with the Bermuda Stock Exchange (BSX) in accordance with its listing regulations. The authorized repurchase represents approximately 14.1% of the Company's total outstanding shares. The initial duration of the repurchase program is one year, commencing 19 May 2016. The intention of the share repurchase program is to improve shareholder liquidity and facilitate growth in share value. The initial 500,000 shares repurchased will be maintained as treasury stock and made available to cover potential dilution associated with the Company's long-term incentive plan (LTIP) program (refer to Note 19). Repurchases in excess of this amount will be canceled subject to a review on the appropriate capital structure strategy at the time. For the period ending 30 June 2016, a total of 3,000 shares have been repurchased under the share repurchase program at an average approximate cost per share of $5.05 (total cost: $15,156).

## 22 CHANGES TO PRIOR-YEAR PRESENTATION

Certain comparative period balances on the condensed consolidated interim statement of income, condensed consolidated interim statement of cash flows and accompanying notes have been reclassified to conform to the current 2016 semi-annual report presentation.

ASCENDANT
group

13th May, 2016

Bermuda Stock Exchange
Mr. James McKirdy
Chief Compliance Officer
30 Victoria Street
Hamilton HM12

Dear Mr. McKirdy:

**Ascendant Group Limited Notice – Share Repurchase Program**

The Board of Directors of Ascendant Group Limited ("the **Company**") has, by way of Resolution, authorized management to notify the Bermuda Stock Exchange ("BSX") of the Company's intention to implement a share repurchase program (**Share Repurchase Program**). Therefore, pursuant to BSX Listing Regulations 6.38 and 6.39 the Company hereby indicates as follows:-

(i) The Company has a present intention of repurchasing through the BSX its listed securities pursuant to the Company's proposed share repurchase program for the twelve month period commencing on or around 19th May, 2016;

(ii) The Board of Directors has determined that management may acquire up to 1.5 million shares through the share repurchase program;

(iii) The intended purchases represent 14.1% of the Company's overall listed securities;

(iv) The share repurchase program is being implemented for the purposes of improving shareholder liquidity;

(v) There have been no repurchases of the Company's securities during the previous year;

(vi) To the extent known by the Company, there is no intention by the Company's directors or executive officers, associates or insiders of the Company to sell their securities during the course of the share repurchase program;

(vii) There are no direct or indirect benefits to any persons as specified in (vi) herein by selling or not selling the Company's securities during the currency of the share repurchase program.

The Company is hereby seeking the BSX's acceptance of this notice to institute the proposed share repurchase program accordingly.

Yours sincerely,

Cherl-Ann Mapp
General Counsel & Corporate Secretary
for Ascendant Group Limited

P.O. Box HM 3392, Hamilton HM PX, Bermuda
telephone: 441.298.6100
fax: 441.292.8975
e-mail: info@ascend.bm
website: www.ascendantgroup.bm

## DIRECTORS

**Peter C. Durhager**
Chairman of the Board
Director since 2003
Chairman, America's Cup Bermuda (ACBDA)
Retired, Executive Vice President &
Chief Administrative Officer,
RenaissanceRe Holdings Ltd.

**L.A. Joaquin,** JP, FCA
Deputy Chairman
Director since 2005
Retired, Managing Partner,
Ernst & Young Bermuda

**Walter M. Higgins**
Director since 2012
President & Chief Executive Officer,
Ascendant Group and BELCO

**Gavin R. Arton,** MBA
Director since 2000
Retired, Senior Vice President,
XL Capital Ltd.

**James B. Butterfield**
Director since 1993
Managing Director, Butterfield & Vallis

**Leah J. M. Dean**
Director since 2016
Senior Vice President of Group Human
Resources, RenaissanceRe Services Ltd.

**A. David Dodwell,** JP
Director since 1988
President, The Reefs Resort & Club

**A. Shaun Morris**
Director since 2013
General Counsel & Group Chief Legal Officer,
The Bank of N.T. Butterfield & Son Limited

**Donna L. Pearman,** JP
Director since 2008
President, People's Pharmacy Limited

**Michael L. Schrum**
Director since 2013
Chief Financial Officer,
The Bank of N.T. Butterfield & Son Limited

**Dr. Wilbert N.E. Warner,** FRCP(C), DACP
Director since 1999
Specialist Consultant, Internal Medicine

**W. Edward Williams**
Director since 1993
Sales Representative,
Coldwell Banker (Bermuda Realty)

**Alasdair Younie**
Director since 2013
Director, ICM Limited

*Total shares held by Directors*
*127,174 as at 30 June 2016*

## EXECUTIVE CORPORATE OFFICERS

**Walter M. Higgins**
President & Chief Executive Officer,
Ascendant Group and BELCO

**Michael D. Daniel,**
C.Eng, MIET, AMI, MechE
Senior Vice President,
& Chief Strategic Development Officer

**Zehena J. Davis**
Vice President,
Human Resources

**Cheryl-Ann Mapp,** LLB
General Counsel & Corporate Secretary

**Linda C. Smith**
Senior Vice President,
Corporate Relations

**Mark Takahashi**
Senior Vice President &
Chief Financial Officer,
Ascendant Group and BELCO

**Judith Uddin**
Senior Vice President,
Chief Operating Officer, AG Holdings

**Denton E. Williams,** MIET, MIEEE
Senior Vice President,
Chief Operating Officer, BELCO

## OFFICERS

### ASCENDANT GROUP

**Abayomi S. Carmichael**
Vice President,
Risk, Management & Analysis and Treasurer

**David Faries**
Vice President,
Group Controller

**Caroline Rance**
Vice President,
Information Technology

**Carol Ross-DeSilva**
Vice President,
Internal Audit & Process Improvement

*Total shares held by Officers*
*39,504 as at 30 June 2016*

*Total shares held by Directors and Officers*
*166,678 as at 30 June 2016*

## MANAGEMENT TEAM

### BELCO

**Ian Maule**
Vice President,
Fuel & Logistics

**Dennis Pimentel**
Vice President,
Grid Operations

**Roger L. Todd**
Vice President,
Power Generation

### AG HOLDINGS

**Brendan Stones**
General Manager,
Air Care

**Michael Maughan**
Vice President,
iEPC and PureNERGY

**Warren Moulaison**
iFM

### ASCENDANT GROUP LIMITED

Publicly traded investment holding company for energy and infrastructure services

**REGISTERED OFFICE**
27 Serpentine Road
Pembroke HM07, Bermuda

**MAILING ADDRESS**
P.O. Box HM 3392
Hamilton HMPX, Bermuda

TEL: 441.298.6100
FAX: 441.292.8975
E-MAIL: info@ascendant.bm
WEBSITE: www.ascendant.bm

**Walter M. Higgins**
President & Chief Executive Officer

### BERMUDA ELECTRIC LIGHT COMPANY LIMITED

Electric utility services

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**Walter M. Higgins**
President & Chief Executive Officer

**Denton E. Williams**
Senior Vice President
& Chief Operating Officer

### AG HOLDINGS LIMITED

Non-utility energy and infrastructure investment holding company

**REGISTERED OFFICE**
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**MAILING ADDRESS**
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**Judith Uddin**
Senior Vice President
& Chief Operating Officer

### AIR CARE LTD.

HVAC, air quality monitoring, building automation and energy management, commercial plumbing, fire protection and commercial refrigeration services

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**Brendan Stones**
General Manager

### ASCENDANT PROPERTIES LIMITED

Property management company

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### SERPENTINE PROPERTIES LIMITED

Property and rental development company

**REGISTERED OFFICE**
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### IEPC LIMITED

Engineering procurement, contracting and consulting

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### IFM LIMITED*

Property and facilities management services

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* Jointly owned with Black & McDonald Limited

### PURENERGY RENEWABLES LTD.

Renewable energy solutions

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### ASCENDANT BERMUDA INSURANCE LIMITED

Captive property insurance company

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Hamilton HM11, Bermuda

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To sign up for electronic receipt of Direct Deposit of Dividend notification and Six-Month Reports, Annual Reports and Proxy Materials, send a message to info@ascendant.bm or download the Electronic Election Form at www.ascendant.bm

To sign up for Direct Deposit of Dividends, send a message to info@ascendant.bm or download the Dividend Direct Deposit Form at www.ascendant.bm.

## ASCENDANT GROUP LIMITED

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