ANNUAL REPORT 2018

ASCENDANT

FINANCIAL HIGHLIGHTS

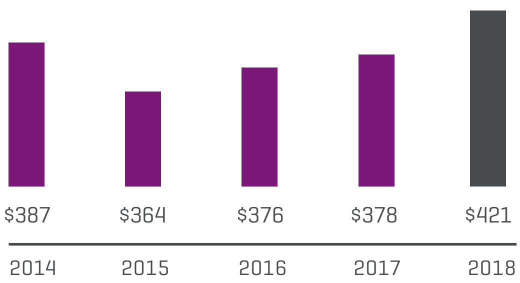
30%
NON-REGULATED CORE EARNINGS
$1.0 MILLION

763%
GROWTH CAPITAL
$41.4 MILLION

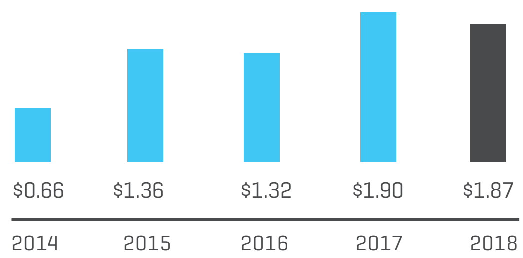
-9%
CORE EARNINGS PER SHARE
$1.87/SHARE

73%
SHARE PRICE
$16.90

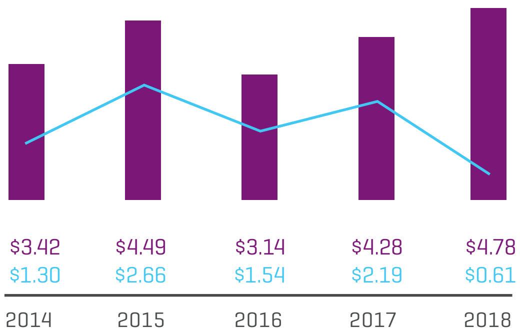
TOTAL ASSETS ($ Millions)



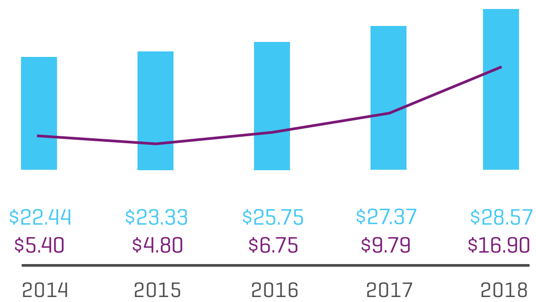
CORE EARNINGS PER SHARE



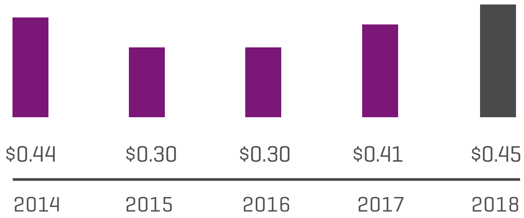
FUNDS FROM OPERATIONS PER SHARE
FREE CASH FLOW PER SHARE

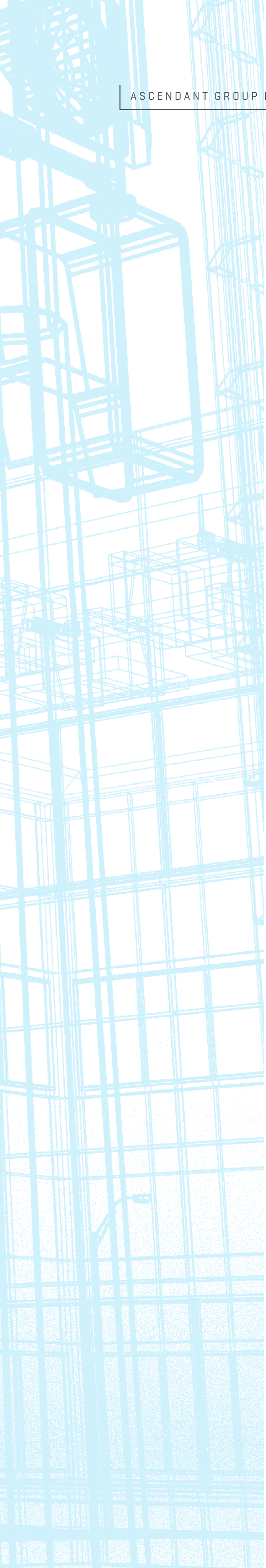


SHARE PRICE &
BOOK VALUE PER SHARE



DIVIDENDS PER SHARE





CONTENTS

.01 FINANCIAL HIGHLIGHTS
.05 STRATEGIC PLAN
.06 LETTER FROM OUR CHAIRMAN OF THE BOARD & CEO
.09 MANAGEMENT'S DISCUSSION & ANALYSIS
.21 MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING
.22 INDEPENDENT AUDITOR'S REPORT
.29 CONSOLIDATED FINANCIAL STATEMENTS
.38 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
.85 FIVE-YEAR SUMMARY: 2014-2018
.86 BOARD OF DIRECTORS
.87 GROUP EXECUTIVE
.88 CORPORATE INFORMATION
.89 SHAREHOLDER INFORMATION

IN 2019 WE WILL CONTINUE TO BUILD A SOLID FOUNDATION FOR THE FUTURE OF THE COMPANY AND ALL OF BERMUDA.

BELCO AIRCARE iEPC

MISSION

Everyday we provide the people of Bermuda with energy and services to enhance their lives.

VISION

By 2021, Ascendant Group is the most respected, sustainable and progressive energy and services organisation in the Atlantic.

STRATEGIC PLAN

ENGAGED PASSIONATE PEOPLE

We have a highly motivated and engaged workforce who are passionate about the success of the Company and are highly customer focused. They are the brand ambassadors of Ascendant.

OPERATIONAL EXCELLENCE

Continual process improvements lead to improved costs, operation and controls that exceed stakeholders' expectations. We have been able to increase asset utilisation, improve the return on capital investments, reduce operating expenses and increase profits.

SUPERIOR CUSTOMER EXPERIENCE

We are the preferred provider of energy and services and exceed our customer expectations. Our customers view us as trusted advisors and partners. They value us for identifying and delivering progressive solutions.

GROW THE BUSINESS

Through innovative, entrepreneurial ideas and decision making, we have increased the asset base of the Company and have acquired complimentary businesses to increase shareholder value.

VALUES

TEAMWORK

ACCOUNTABILITY

RESPECT

INTEGRITY

SAFETY

CONTINUOUS IMPROVEMENT

DEAR SHAREHOLDERS,

Building a sustainable foundation for Bermuda's energy future was the primary objective in 2018 for the Ascendant Group of Companies ("Ascendant" or "the Company"). The framework for building the foundation was outlined in 2016 when the Company embarked on a five-year plan that had several strategic priorities.

These include:

- Transition the Bermuda Electric Light Company Limited ("BELCO") to a productive and stable regulatory environment that supports the investment required to deliver safe, reliable and cost-effective power to our customers;
- Execute on BELCO's Capital Plan; a $250 million investment to modernise BELCO's power generation and delivery systems including implementing new technologies such as battery storage, advanced metering infrastructure and system improvements to support the addition of renewable energy;
- Achieve a more competitive capital structure through low-cost, long-term debt and accessing equity at the lowest possible cost;
- Reducing our cost structure and increasing the efficiency of our operations;
- Continue to grow our non-regulated businesses – AIRCARE, IFM, iEPC.

The Company made great progress on all these initiatives in 2018 which is a testament to the dedication and professionalism of the more than 300 men and women of Ascendant.

Progress has been made on the regulatory front with BELCO receiving approval by the Regulatory Authority ("the Authority") in March 2018 to begin construction of the replacement generation and Battery Energy Storage System (BESS) which is now online and fully operational. In October 2018, BELCO received regulatory clarity in respect of future rate setting and timing through the issuance by the Authority of a new Retail Tariff Methodology. Advanced planning for future generation was progressed through the submission and public consultation on BELCO's Integrated Resource Plan (IRP). Following the public consultative process, the IRP is being considered by the Authority with the final IRP expected to be implemented in 2019.

The Company entered into new financing facilities totaling $158 million to support the capital plan and enhance the Company's capital structure. This enabled the Company to begin construction of the replacement generation and BESS, as well as embark on the first phase of the five-year grid modernisation plan - parts of which include replacing cables that are more than 60 years old. Work continues rebuilding the Airport substation to accommodate the needs of the new terminal as well as the future energy that will be fed-in from the Airport Solar Finger project which is expected to generate approximately 6 Megawatts (MW).

BELCO continued to embrace renewable technologies and now has approximately 500 customers feeding 5 MW of energy into the grid from small scale renewables, mainly rooftop solar. Steady progress is also being made in transitioning the Company's entire vehicle fleet to electric vehicles. BELCO also continues to promote energy efficiency as the most cost-effective way for our customers to reduce their monthly bills. Installation of advanced meters (AMI) began in the fall of 2018 and will continue through 2020. The new meters will afford our customers several benefits including monitoring and controlling their energy use by logging on to the new BELCO website. BELCO also continued to promote energy efficiency through meetings with various stakeholder and community groups as well as online and through traditional media. In addition, AIRCARE and IFM are working with numerous clients to install energy efficient systems into commercial buildings.

Continued efforts to reduce costs led to a series of measures, including; functional realignment allowing for the more efficient delivery of work; a hiring freeze; and a voluntary early retirement programme designed to increase efficiency and reduce labour costs over time.

2018 was also another challenging year with respect to falling electricity sales to our customers, increased Government taxes and labour unrest in the face of necessary strategic changes. In October, Dennis Pimentel, BELCO's VP of Grid Operations, was appointed President of BELCO and has assumed all operational accountabilities for BELCO. Dennis started as an apprentice and through continuous study and hard work rose through the ranks to now head the Company. Dennis led negotiations on a new Collective Bargaining Agreement with the Electricity Supply Trade Union which has been put in place for the next three years which provides clarity and alignment for the future.

With these accomplishments, the Company has laid the foundation for Bermuda's energy future. The infrastructure improvements contemplated in the capital plan allow Bermuda to pursue any energy mix it chooses and ensure a cost effective, reliable supply of energy for the foreseeable future.

The Company's non-utility businesses continued their strong performance from 2017 with 30%

year-over-year core earnings growth. AIRCARE, IFM and iEPC were much more aligned this past year and were able to offer more comprehensive energy management, HVAC and engineering services to their clients which was reflected in the strong growth within this group. These companies continue to be an important part of our overall business and now contribute approximately 24% to the Group's core earnings.

The progress made in 2018 is reflected in the Company's share price which increased by 73% to $16.90 per share by 31 December, 2018. While this is encouraging, our share price continues to trade well below book value.

The Company has a long tradition of community engagement and this continued in 2018. Our staff support many local charities and engage in community work with a particular focus on education. In the spring of 2018, staff from Ascendant adopted Harrington Sound Primary School and built a vegetable garden, donated laptops for the school computer lab and helped with measures to improve energy efficiency. Our summer intern and STEM Camp programmes continue to inspire the next generation of Bermudian students and these programmes will continue in 2019.

BELCO's Apprenticeship Programme continued in 2018 with eight young Bermudians selected for the Programme. Initially launched in 1993, the Apprenticeship Programme helps Bermudians between the ages of 18 and 25 build their careers in the industrial trades. It combines on-the-job training from a qualified tradesperson with work experience and overseas technical training.

In January, 2019, the Board announced that it has begun a process of evaluating strategic alternatives, including the potential sale of Ascendant Group Limited. This decision was taken following extensive analysis of the Company's future needs, objectives and BELCO's regulatory environment. The Board understands that its responsibility is to a broad group of stakeholders, including shareholders, customers, employees, and regulators. Each of these stakeholders brings to bear on the Company a wide range of perspectives and expectations. Furthermore, the industry in which the Company operates is facing unprecedented change, and—with change—we must have the ability to explore and leverage new opportunities for the betterment of Bermuda.

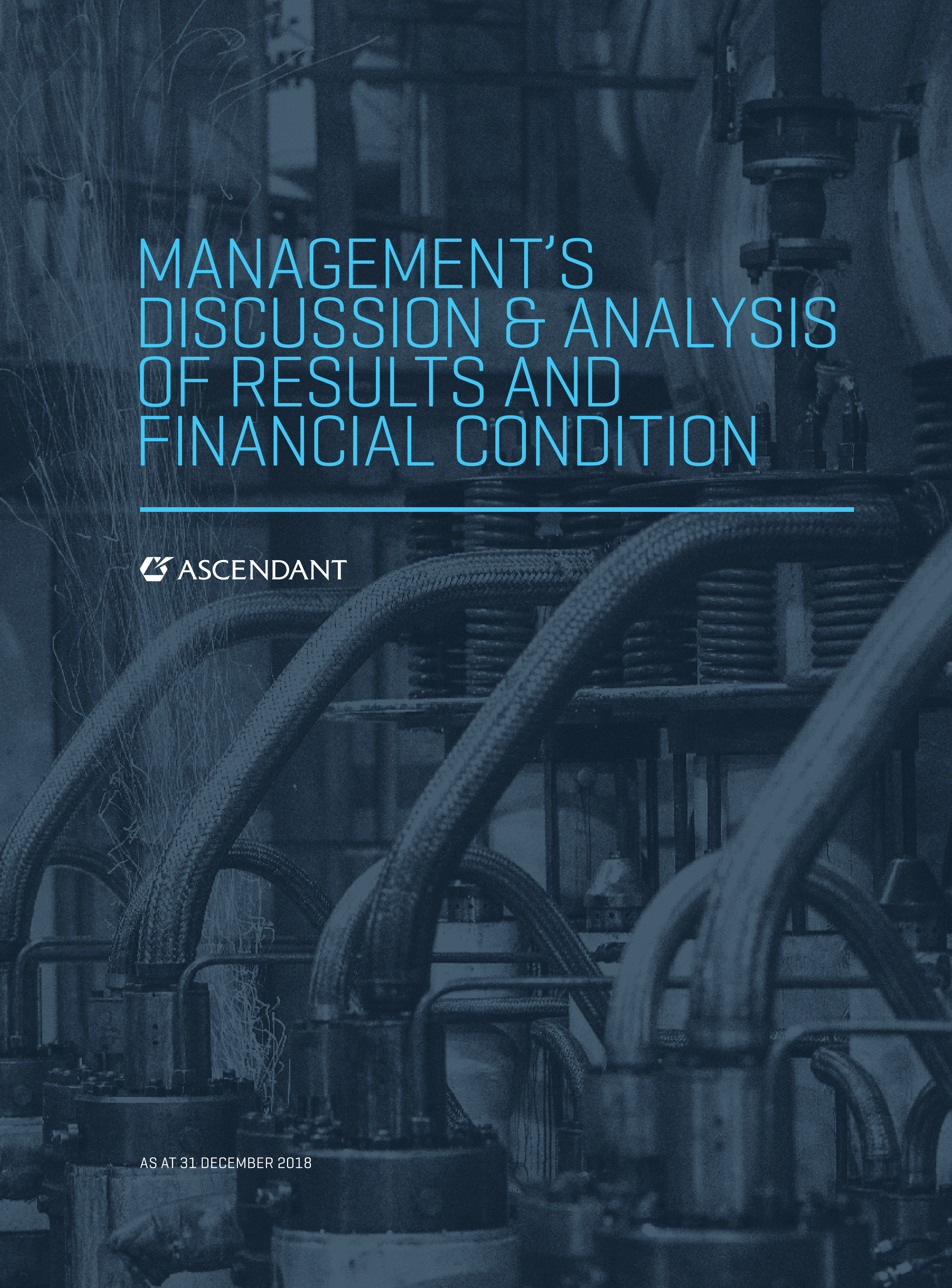
Among the range of alternatives being assessed, is exploring the potential benefits that a new owner of Ascendant can bring to Bermuda — including greater access to capital for domestic investment and the infrastructure development expertise necessary to accelerate the next phase of BELCO's evolution.

The Board remains enthusiastic about the future prospects of Ascendant, to the benefit of all of its stakeholders, and will continue to communicate progress on strategic alternatives for the Company as this process continues.

Everyone in the Ascendant Group can be proud of their hard work and accomplishments during a difficult year. These accomplishments are reflected not only in the excellent progress made in executing our strategic plan but also in the improved financial value of the Company. In 2019 we will continue to build a solid foundation for the future of the Company and all of Bermuda.

Peter C. Durhager
Chairman of The Board

Sean M. Durfy
Chief Executive Officer



MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

ASCENDANT

AS AT 31 DECEMBER 2018

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

Management's Discussion & Analysis (the "MD&A") provides a review of the results of operations and financial condition of Ascendant Group Limited and its subsidiaries ("Ascendant" the "Company" or the "Group") during the full year of 2018 relative to 2017.

This discussion and analysis should be read in conjunction with the Company's audited consolidated financial statements and notes thereto as at and for the year ended 31 December 2018.

Ascendant's 2018 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All figures are expressed in Bermuda dollars, which trades at par with the United States dollar, except where noted.

This MD&A contains forward-looking statements that reflect management's current beliefs with respect to the Company's future growth, results of operations, performance, business prospects and opportunities. Statements that are not historical facts, including statements about management's beliefs and expectations, are forward-looking statements. These statements are based on information currently available to Ascendant's management and should not be read as guarantees of future events, performance or results and will not necessarily be accurate indications of whether, or the time at which, such events, performance or results will be achieved.

The forward-looking information is based on reasonable assumptions and is subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical results or results anticipated by the forward-looking information. Factors that could cause results or events to differ from current expectations are discussed in the "Primary Factors Affecting Ascendant's Business" section of the MD&A and may also include: capital market and liquidity risk; estimated energy consumption rates; maintenance of adequate insurance coverage; changes in customer energy usage patterns; developments in technology that could reduce demand for electricity; interest rate risk; credit risk; foreign exchange risk; risks associated with pension plan performance and funding requirements; loss of service area; risk of failure of information technology infrastructure and cybersecurity risks; and availability of labour and management resources.

Readers are cautioned not to place undue reliance on forward-looking information as actual results could differ materially from the plans, expectations, estimates or intentions and statements expressed in the forward-looking information.

NON-IFRS FINANCIAL MEASURES

Certain financial measures discussed in this MD&A are not defined under IFRS and, therefore, should not be considered in isolation or as an alternative to or to be more meaningful than net earnings attributable to common shareholders or cash flow from operating activities, as determined in accordance with IFRS, when assessing our financial performance or liquidity. These measures may not be comparable to similar measures presented by other issuers and should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

Core earnings, funds from operations ("FFO"), and free cash flow ("FCF") are non-IFRS measures. Core earnings excludes certain non-recurring items and discontinued operations from net earnings. FFO is an important metric as it provides a proxy for cash generated from operating activities before changes in working capital and restructuring charges, and provides the ability to evaluate cash flow trends in comparison with results from prior periods. FCF is an important metric as it represents the amount of cash that is available to invest in growth initiatives, make debt payments, pay common share dividends or repurchase common shares.

Changes in working capital are excluded from FFO and FCF to eliminate distortions that we consider temporary in nature, reflecting, among other things, the impact of seasonal factors and timing of receipts and payments. FCF is calculated by deducting from FFO non-growth capital incurred during the year. FFO per share and FCF per share are calculated using the weighted average number of common shares outstanding during the period.

STRATEGIC OVERVIEW

Ascendant is a Bermuda-based, publicly traded provider of energy and energy-related services and infrastructure services. Its primary business is conducted through its wholly-owned, rate-regulated, fully-integrated utility, Bermuda Electric Light Company Limited ("BELCO").

At 31 December 2018, BELCO:
- Employed 263 staff or 67.6% of total staff employed by the Group;
- Held $382 million or 90.8% of total assets reported by the Group;
- Sold 568 million kilowatt hours to customers during 2018 resulting in total revenue of $223.5 million net of discount.

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

Ascendant also has a growing non-utility energy services and infrastructure business through its wholly-owned subsidiary AG Holdings Limited ("AG Holdings") and its subsidiaries and affiliates. AG Holdings is the sole owner of the following operating companies:

- AIRCARE Ltd. ("AIRCARE"), offering heating, ventilation and air conditioning ("HVAC"), air quality monitoring, building automation and energy management, commercial plumbing, fire protection, and commercial refrigeration services;
- IFM Limited ("IFM"), offering property and facilities management services;
- iEPC Limited ("IEPC"), offering engineering procurement, contracting and consulting services; and
- Ascendant Properties Limited ("Ascendant Properties"), the Group's property management company.

Ascendant's vision is to be the most respected, sustainable and progressive energy and services organisation in the Atlantic by 2021. It seeks to provide the people of Bermuda with energy and services to enhance their lives in a safe, reliable and cost competitive manner.

For investors, Ascendant seeks to deliver consistent earnings, cash flow and long-term growth, and accordingly, the primary measures of performance are earnings per share, FFO per share and FCF per share. The Company adopted a strategic plan in 2016 with the following key objectives:

- Transition by BELCO to a productive and stable regulatory environment that supports the investment required to deliver reliable power to its customers;
- Execute on BELCO's $250 million capital plan that includes the investment required to modernise BELCO's power generation and transmission and distribution systems in Bermuda, including implementing new technologies such as battery storage, advanced metering and system improvements to support the addition of natural gas and renewable energy (the "Capital Plan");
- Achieve a more competitive capital structure by using appropriate amounts of low-cost, long-term debt and accessing equity at the lowest possible cost;
- Reduce its cost structure by investing wisely and by increasing the efficiency of its operations; and
- Grow its non-utility businesses such as AIRCARE as well as invest in electrifying transportation in Bermuda.

The Company's strategy is designed to increase shareholder value, reduce customer electricity rates over time, and provide a strong future for its employees.

The Company has made great strides in respect of this strategic plan during 2018, including the following key accomplishments:

- Received an order to proceed from the Regulatory Authority ("the Authority") in March 2018 to begin construction of 56 MW of replacement generation ("Replacement Generation") and a 10 MW battery storage system ("Battery Storage");
- Received regulatory clarity in respect of future rate setting through the issuance by the Authority of a new retail tariff methodology in October 2018 providing clarity on future rate setting methods and timing;
- Significantly advanced planning for future generation through the submission and public consultation of the Integrated Resource Plan ("IRP");
- Invested $12.8 million (shown as restructuring charges in our consolidated financial review below) to reduce future staffing costs through a series of measures, including:
    - A management restructuring undertaken in 2017 and 2018, which reduced the total executive group from 17 to 9;
    - Functional realignment allowing for the more efficient delivery of work together with a hiring freeze and early retirement programme designed to reduce the Company's workforce with minimal disruption over time; and
    - Utilisation of consultants to assist management with their review of Company strategy, capital structure and operations as well as to address executive succession planning requirements.
- Investment in Replacement Generation and Battery Storage is also designed to materially improve the fuel and operational efficiency of our generation plant;
- Executed an engineering, procurement and construction contract providing for the construction of the Replacement Generation and Battery Storage;
- Closed new financial facilities totaling $158 million to support the Capital Plan and improve the Company's capital structure;
- Continued to grow the non-utility businesses, with 30% year-over-year core earnings growth;
- The Company's share price continued its upward trajectory, increasing by 73% to $16.90 per share by 31 December 2018.

With these accomplishments, the Company has laid the groundwork for Bermuda's energy future. The infrastructure improvements contemplated in the Capital Plan allows Bermuda to pursue any energy mix it chooses and ensures a cost effective, reliable supply of energy for the foreseeable future.

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

These positive strides were not without challenges. During the fall of 2018, BELCO experienced an industrial action, largely resulting from the restructuring activities described above. BELCO and its union were able to come to an agreement and return to work and finalised a 3-year Collective Bargaining Agreement ("CBA") in the first quarter of 2019. Community feedback during the IRP consultation process makes it clear that Bermuda's future energy mix is a controversial topic. The principle concern expressed during the consultation process was that electricity rates are too high. The actions taken by the Company, as noted above, are intended to address this concern.

Considering the foundation laid by the Company for future success, the degree of change in the electric power industry, and the competing demands of our stakeholders, the Board of Directors announced in January 2019 that it was beginning a process of evaluating strategic alternatives for the Company, including the potential sale of Ascendant Group Limited.

CONSOLIDATED FINANCIAL REVIEW

The following table presents an analysis of our net earnings for the years ended 31 December 2018 and 2017. Changes in the individual business units are presented in the Results of Operations section.

$000's	2018	2017	VARIANCE	
BELCO	$21,356	$23,987	$(2,631)	(11%)
AG Holdings	4,430	3,409	1,021	30%
ABIL	660	534	126	(24%)
Unallocated Group Expenses	(8,183)	(7,562)	(621)	(8%)
Core earnings	18,263	20,368	(2,105)	(10%)
Discontinued operations (Bermuda Gas)	-	(361)	361	NM
Restructuring charges	(12,827)	(1,551)	(11,276)	NM
Income on sale of property (Ascendant Properties)	-	759	(759)	NM
Uplift in Investment (AIRCARE)	-	985	(985)	NM
Net earnings	$5,436	$20,200	$(14,764)	(73%)

The Company's core earnings decreased 10% to $18.3 million due to lower results at BELCO and higher Group expenses, offset by continued growth in non-utility earnings at AG Holdings. The Company's net income declined 73% from $20.2 million to $5.4 million, largely as a result of the non-recurring $12.8 million restructuring charge related to cost efficiency measures referenced earlier.

The following table presents an analysis of FFO, FCF and selected per share figures for the years ended 31 December 2018 and 2017.

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

	2018		2017		VARIANCE	
	$000'S	$ / SHARE (BASIC)	$000'S	$ / SHARE (BASIC)	$000'S	$ / SHARE (BASIC)
Funds from operations	$46,783	$4.78	$44,101	$4.45	$2,682	$0.33
Free cash flow	$5,925	$0.61	$21,890	$2.21	$(15,965)	$(1.60)
Core earnings	$18,263	$1.87	$20,368	$2.06	$(2,105)	$(0.19)

The Company generated $46.8 million FFO and $5.9 million in FCF during the period, compared to $44.1 million and $21.9 million respectively in 2017. FFO, which excludes restructuring charges, has increased due to a reduction in cash expenses. The decrease in FCF reflects the larger restructuring charges and higher maintenance capital expense recorded in 2018.

The Company continued with its share repurchase programme in 2018 in light of its strong financial position and the material discount to book value of its share price. Share repurchases during the year totaled 650,745 shares at an average price of $16.43 per share, which compares to the book value of its shares of $28.57 per share at 31 December 2018. These repurchases have increased 2018 core earnings per share and FFO per share, by approximately 6.2%, or $0.12 per share and $0.30 per share, respectively.

The Company's earnings and cash flow enabled its Board to maintain the annual dividend rate at $0.45 per share, thus continuing the Company's proud history of paying a regular dividend.

PRIMARY FACTORS AFFECTING ASCENDANT'S BUSINESS

The following is a summary of the primary factors we expect will continue to have the greatest impact on Ascendant's performance.

Bermuda's Economy – The general economic condition of Bermuda has a significant impact on the Group as changes in population, consumer income, employment and housing are all factors that can impact sales. Tourism continued to improve in 2018, with total visitor arrivals increasing by 11% over 2017 and visitor spending up 28%. International business has indicated an erosion in its level of confidence in Bermuda and in 2018 there was a decline in the number of captive insurance companies (3.8%). Retail sales declined for ten consecutive months between March and December, 2018. Projected population decline, potential new taxes and international pressure on offshore jurisdictions all create uncertainty in the future of Bermuda's economy.

Regulatory Environment – BELCO is an electric utility that operates within a regulated environment. As such, it is subject to the inherent uncertainties associated with rate setting and the associated opportunity to recover its costs and realise a timely and fair return on its investments. The underlying framework for this regulation changed with the Electricity Act 2016 (the "Act"), which became operative on 28 October 2016 and transferred independent regulatory oversight of the electricity sector from the Energy Commission (the "EC") to the Authority. BELCO continues to follow the tariff and allowed return methodology established by the EC in its March 2016 directive. However, we anticipate that a new retail tariff will be implemented in 2019 based on the Retail Tariff Methodology released by the Authority on 19 October 2018.

Aging Infrastructure and Asset Operations – Approximately 50% of BELCO's generation is near end-of-life and is the subject of a decommissioning and disposal notice to the Authority. Approximately 25% of BELCO's transmission and distribution system is over 60 years old. The advanced age of BELCO's infrastructure presents a variety of operational risks, including system reliability, safety, cost and availability of parts and overall cost to maintain and operate. This is being addressed through BELCO's Capital Plan to ensure the continued supply of electricity to Bermuda on a reliable and cost-effective basis.

Fuel Supply – Fuel represented approximately 45% of BELCO's total operating expenses in 2018 and as

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

such, is an important input to BELCO's operations. Both the availability and cost of fuel are important risks in BELCO's operations. Fuel costs generally track movements in crude oil, which saw the average price increase approximately 15% in 2018 compared to 2017, but which fell dramatically in the fall of 2018. In order to ensure a reliable and cost-competitive supply of fuel, BELCO regularly conducts competitive bids for fuel supply, whereby suppliers are selected based on their proven ability to reliably supply fuel to Bermuda, their financial stability and their supply cost.

Labour – People are essential to the Company's operation, particularly in ensuring the reliable supply of electricity to Bermuda. Compensation and benefits represent the second largest category of expenses for the Company. Over the last several years, Ascendant has taken steps to mitigate increasing legacy benefit costs through proposed changes to its retirement benefit programmes. The Company regularly reviews its staffing levels and employment policies to ensure that the right level of skilled staff are in place to meet operational requirements, replace an aging workforce and remain efficient in an evolving regulatory environment. In November 2018 an Early Retirement Programme was announced, which offered benefits to eligible staff. It is anticipated that the result will be a reduction of staff levels through attrition, while ensuring staffing levels are maintained at a level which continues to ensure safety for staff and the community, and reliability of electricity supply.

Relationship with Company Unions – Staff in several of our operating companies belong to bargaining units, represented by either the Electricity Supply Trade Union (the "ESTU") or the Bermuda Industrial Union (the "BIU" and collectively, the "Unions"). The Company strives to maintain productive relationships with the Unions to ensure that it retains a motivated and well-trained staff to support operating activities. During the fall of 2018, BELCO experienced an industrial action, largely resulting from the restructuring activities described earlier. BELCO and the ESTU were able to come to agreement and return to work. The CBA for the period 2019 to 2021 was finalised in the first quarter of 2019.

Access to Capital – The electricity business is capital intensive and as such, access to capital at a competitive cost is essential to the continued provision of reliable and cost-effective electricity. The Company's approach to managing its capital resources is described more fully in the Liquidity and Capital Resources section.

Competition – Bermuda is a competitive marketplace for the Group's non-utility businesses and, for BELCO, the Act has established a framework to allow competitive sources of power generation to enter the Bermuda market over time. It is anticipated that the utility-scale solar generation near the airport will be completed by the end of 2019, and various alternative energy generation options are being considered by the Authority through the IRP. The Group endeavors to offer outstanding energy, energy-related and infrastructure services and products on a cost-competitive basis. In all of our operating subsidiaries, the objective is to be price-competitive, as well as efficient and effective at meeting customers' requirements in order to compete successfully.

Weather Conditions – Weather stimulates buyers to consider purchasing air conditioning and other products and services from the Group. It also has a significant impact on the amount of heating or air conditioning related electric demand. Consequently, the operations of most Group operating subsidiaries are affected, positively or negatively, by climatic conditions. In some years, hurricanes and winter storms result in significant costs to replace damaged assets and restore electricity service, while also causing revenue to be lost through service outages. In order to mitigate some of this risk, the Company maintains commercial insurance coverage, which management believes is reasonable and consistent with other similar companies.

Environmental Matters – BELCO's operations are subject to Bermuda environmental protection laws concerning air emissions, water discharge, noise, land use activities and the handling and disposal of materials and waste products. In order to manage its overall environmental risk and minimise the impact on the environment, BELCO implemented its Environmental Management System to the ISO 14001: 2004 standard. Under this standard, companies are required to establish, document, implement, maintain and continually improve their environmental performance with the aim of pollution minimisation. In 2018 BELCO successfully maintained its certification to the ISO 14001:2015 Standard for Environmental Management Systems. As part of its conversion to IFRS in 2015, BELCO recognised certain asset retirement obligations as liabilities on its balance sheet. As only a portion of the expense related to these obligations have been recovered in electricity tariffs, BELCO will be seeking cost recoveries as its plans for the decommissioning of these assets are developed.

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

RATES AND REGULATION

In 2018, BELCO's electricity rates continued to reflect those implemented by the EC in March 2016. The EC methodology allows for target return on rate base with excess returns allocated to a tariff stabilisation fund that can be drawn upon for subsequent return deficiencies or to defer rate increases. In October 2018 the Authority released its Retail Tariff Methodology and BELCO is in the process of developing its rate case for submission to the Authority in the first half of 2019 for 2020 to 2024. The Company earned less than its allowed return in 2018, and is evaluating how this will be treated in its first rate case filing under the new methodology.

BELCO submitted the IRP to the Authority in February 2018 providing details relating to electricity demand, existing generation and reliability, and environmental considerations. The Authority is conducting the second round of public consultations to obtain input from all stakeholders with respect to meeting Bermuda's future energy requirements. Results of this consultation will be incorporated into a final BELCO transmission and distribution IRP to be approved by the Authority.

In March 2018, BELCO received an order from the Authority to proceed to begin construction of 56 MW of dual-fuel generating units and a 10MW utility-scale battery storage system. This will replace ageing generation units that are scheduled to be decommissioned in 2020. Construction commenced in the second quarter of 2018 and is expected to be complete in early 2020.

In October 2018 the Regulatory Authority (Feed in Tariff Methodology) General Determination 2018 became effective and set the methodology by which the Authority will determine the feed-in tariff that BELCO will pay to distributed generators that have entered into Standard Contracts with BELCO as required under the Act. Until such time as the Authority approves a new feed-in tariff, BELCO will continue to pay the feed-in-tariff set by the Regulatory Authority (Renewable Energy Metering Scheme) General Determination 2018 that became operative on 2 March 2018.

RESULTS OF OPERATIONS

BELCO

$ millions	2018	2017	VARIANCE	
Operating revenues net of discounts	$223.5	$216.5	$7.0	3.2%
Operating & administrative expense	82.1	78.5	(3.6)	(4.6%)
Purchased power/energy	3.9	3.8	(0.1)	(2.6%)
Fuel	93.7	85.1	(8.6)	(10.1%)
Depreciation, amortisation and accretion	24.7	24.4	(0.3)	(1.2%)
Inventory obsolescence & provision for engine decommission	1.1	6.0	4.9	81.7%
Regulatory fees	3.1	1.7	(1.4)	(82.4%)
Finance expenses	0.7	0.5	(0.2)	(40%)
Total expenses	209.3	200.0	(9.3)	(4.7%)
Earnings before net movement in regulatory account balances	14.2	16.5	(2.3)	(13.9%)
Net movement in regulatory account balances	1.0	6.7	(5.7)	(85.1%)
Net earnings	15.2	23.2	(8.0)	(34.5%)
Add back restructuring costs	6.2	0.7	5.5	785.7%
Core earnings	$21.4	$23.9	$(2.5)	(10.5)%

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

BELCO's core earnings decreased 10.5%, or $2.5 million, to $21.4 million for the year, as compared to 2017 results of $23.9 million.

BELCO's operating revenues net of discounts are comprised of base tariff net electricity sales, fuel adjustment revenue, regulatory fee revenue and other income. Base tariff net electricity sales for 2018 totaled $149.7 million, as compared to $152.2 million in 2017, a decrease of $2.5 million, or 1.6%, primarily due to lower sales volumes. BELCO's sales decreased 16.7 million kWh, or 2.9%, from 584.5 million kWh sold in 2017 to 567.8 million kWh sold in 2018. This decrease is due to a combination of factors, including the sales increase in 2017 from the 35th America's Cup event, an increase in office vacancies in Hamilton in 2018 and a trend toward energy efficiency measures undertaken by commercial customers.

Revenues from the regulatory fee passed on to the consumer during the current year totaled $2.7 million (2017: $2.2 million).These fees are calculated based on kWh sales and 2018 included a full year, while 2017 included 9 months as the fees became payable 1 April 2017.

Fuel adjustment revenues increased $9.7 million from $60.8 million in 2017 to $70.5 million in 2018 due to increases in fuel costs, as noted below.

BELCO SALES STATISTICS: 2014 – 2018

	2018	2017	2016	2015	2014
Maximum demand (KILOWATTS)	103,800	110,700	110,600	108,000	106,800
Kilowatt hours generated (in 000s kWh)	629,371	662,228	653,376	662,307	648,863
Electricity sales (in 000's kWh):					
Residential	240,302	245,124	245,105	245,498	235,523
Commercial	274,770	284,866	286,588	290,552	291,350
Other	52,755	54,528	54,081	54,377	50,492
Total	567,827	584,518	585,774	590,427	577,365
Total metered connections	38,013	37,908	37,841	37,786	37,693

BELCO's total expenses increased $9.3 million or 4.7% in 2018 to $209.3 million, compared to $200.0 million in 2017.

Operating and administration expense increased $3.6 million or 4.6% from $78.5 million in 2017 to $82.1 million in 2018. The increase in the current year is largely due to the following:

- Restructuring charges recorded in the year totaled $6.2 million in 2018 compared to $682,000 in 2017, an increase of $5.5 million.
- Maintenance costs increased $1.2 million in 2018, largely from lower capitalisation of these costs in 2018 stemming from the planned decommissioning of engines upon completion of the replacement generation.
- Shared service charges from the parent company increased by $1.9 million to reflect BELCO's use of these services.
- Increase in lube oil expense of $484,000 from $2.6 million in 2017 to $3.1 million in 2018 resulting from increased market prices.

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

- Regulatory receivables totaling $444,000 were written off in 2018 following disallowance of certain costs by the Authority.
- These cost increases were offset by:
  - A $1.4 million decrease in staff compensation and benefits expenses, excluding restructuring charges;
  - A $1.9 million decrease in outside contractors, maintenance contracts and consultants associated with a shift in the approach to maintain assets to be decommissioned;
  - A $1.1 million decrease in bad debts expense due to a change in calculation methodology associated with the adoption of IFRS standards; and
  - A $1.5 million decrease in various other expenses including legal fees, transport costs and donations.

Purchased power/energy expenses were stable at $3.9 million in 2018 compared to $3.8 million in 2017.

Fuel expenses increased $8.6 million or 10.1% from $85.1 million in 2017 to $93.7 million in 2018. This is primarily due to the average price of fuel, which increased from $93.86 per barrel in 2017 to an average price of $108.31 per barrel in 2018. Duty on fuel imports remained at $31.79 per barrel and represents approximately 29% of the 2018 average price.

Fuel usage declined 4.6% from 906,300 barrels in 2017 to 864,500 barrels in 2018. This reduction was a result of decreased generation due to lower sales.

In light of BELCO's planned decommissioning of engines, management has continued to review its inventory, fixed assets, asset lives, and asset retirement and environmental remediation obligations to assess the impact of this event. This review resulted in the adjustments to inventory obsolescence and depreciation described below.

Depreciation, amortisation, accretion and impairment expense was stable at $24.7 million in 2018 compared to $24.4 million recognised in 2017. The Company recognised an additional $802,000 inventory obsolescence expense and provision for inventory parts used solely by the engine generation units set to be decommissioned further to the $5.1 million recognised in 2017. The 2018 year-end provision for these parts was updated based on the likelihood that these parts will not be used prior to the decommissioning. A further obsolescence expense totaling $266,000 was recognised in the current year (2017: $933,000) stemming from a detailed operational review of all remaining parts inventory.

Total regulatory fee expenses associated with BELCO's transmission, distribution and retail ("TD&R") licence and its bulk generation licence recognised in 2018 totaled $3.1 million (2017: $1.7 million). The 2017 expense represented a partial year as regulatory fees become effective 1 April 2017, and was further reduced by the reversal of a 2016 regulatory fee expense. In addition, Government fees as specified in the Act were payable for a full year in 2018, but became payable in December 2017.

Regulatory fees associated with the TD&R licence are noted as a dedicated charge on consumer bills as provided for under the Electricity (Regulatory Authority Fees) Regulations 2017, while BG licence regulatory fees are recoverable through the retail tariff.

Finance expenses increased only slightly from 2017, as interest costs recognised in 2018 associated with the new debt facilities were capitalised to the Replacement Generation project. Interest will continue to be capitalised until the project is completed, and will be expensed thereafter.

In 2017 BELCO had recognised $6.6 million of additional revenue due to tariff stabilisation fund withdrawals to meet its 2017 permitted return, leaving a balance of $Nil in the fund. Accordingly, there were no withdrawals in 2018. The tariff stabilisation fund methodology is documented in detail in the Company's consolidated financial statements note 4. The 2018 movement in regulatory deferral balances related to a decrease in the surplus balance with respect to recovery of the fuel adjustment revenue.

AG HOLDINGS

Core earnings from AG Holdings for 2018 of $4.4 million represents an increase of $1.0 million when compared to 2017 core earnings of $3.4 million. AG Holdings manages the Group's non-utility, non-regulated business operations through AG Holdings and its subsidiaries AIRCARE, IFM, IEPC and Ascendant Properties.

The strategic focus for AG Holdings continues to be on growth. Overall revenue has increased over the last three years by 96%, with net profit increasing by 670%.

AIRCARE's profit margin increased 3% with net income increasing from $3.0 million in 2017 to $3.9 million in 2018.

AIRCARE continues to maintain a solid core customer base through exceptional customer service. Maintenance revenue was consistent with the prior year at $6.5 million. The growth area for AIRCARE is project revenue

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

which increased 16% from the prior year to $9.7 million. Project revenue is comprised of large HVAC, fire alarm and fire suppression installation projects. Fire related services continue to be a key area of growth.

In 2018 AIRCARE installed Bermuda's first nitrogen-generating plant, providing it with a reliable, cost-effective source of nitrogen to service its customers and help grow its business through sales to third parties.

IFM's principal facilities management and operations contract with a major client was extended in 2016 for 6 years. Concurrent with that extension, IFM entered into an energy performance contract (EPC) whereby IFM is responsible for the design, implementation, measurement and verification of energy efficiency improvements to facilities owned by the client in Bermuda. The construction phase of this contract was completed in 2017. IFM continued to maintain a strong relationship with this customer through facilities management, the EPC contract and significant project work.

IEPC provides engineering and project management support to internal and external customers. Projects such as the Replacement Generation, the Campus Master Plan, and Works & Engineering Structural Engineering Support continue to be the main activities. IEPC's net income was $192,000 which represents a $474,000 improvement over 2017.

Ascendant Properties recognised net earnings of $60,000 in 2018 as compared to $850,000 in 2017. The decrease is primarily due to profit realised on the sale of three properties totaling $759,000 in 2017. There were no properties sold in 2018.

ABIL

Ascendant Bermuda Insurance Limited ("ABIL") is a Class 1 insurance company licensed under the Insurance Act 1978 and provides coverage for any deductible related plant and property losses of BELCO, subject to a maximum aggregate recovery of $600,000. ABIL recognised income of $660,000 in the current year as no material losses were incurred.

UNALLOCATED GROUP EXPENDITURES

Net corporate expenditures increased $621,000, or 8%, in 2018 to $8.2 million from $7.6 million in 2017, largely due to higher incentive compensation costs driven by the increase in the Company's share price.

POST-RETIREMENT BENEFIT PLANS

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
$000's	**2018**	2017	**2018**	2017	**2018**	2017
Accrued benefit obligation	**159,335**	$185,747	**28,314**	$31,660	**4,822**	$5,310
Plan assets at fair value	**153,430**	170,627	**-**	-	**-**	-
Net accrued liability	**$(5,905)**	$(15,120)	**$(28,314)**	$(31,660)	**$(4,822)**	$(5,310)
Total net benefit expense	**$555**	$977	**$1,323**	$1,710	**$228**	$222

The Company maintains a pension plan together with post-retirement medical and life benefit plans, as more fully described in Note 17 to the Consolidated Financial Statements. Over the last several years, management has restructured these plans with the goal of providing employees with a competitive benefit package within a manageable cost and risk profile. The Company transitioned from a defined benefit to a defined contribution pension plan in 2012.

The Company has made efforts to increase the funding of the pension liability and at the end of 2018 the plan was 96% funded.

The Company's approach in managing its residual defined benefit pension obligations is to choose an asset mix that balances risk and return with the goal of ensuring adequate funding for its residual obligations. Pension assets are managed by an external investment manager

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

per the pension plan's investment policy statement. The asset allocation is a well-diversified portfolio of global equity and bond investments. The Company reviews its investment manager performance and fees on a regular basis.

During the year there was an increase in the discount rate which caused a decrease in the liability, resulting in an actuarial gain. This was offset by stock market declines at the end of 2018 which generated a temporary loss on investments.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of liquidity and capital resources are net funds generated from operations and $192.5 million bank credit facilities (2017: $52.5 million). The bank facilities were increased in 2018 through two term loans with HSBC totaling $107.5 million to fund the Replacement Generation project and a $50.0 million facility with CIBC First Caribbean used to fund further capital projects until more permanent sources of debt are secured. This new facility from CIBC First Caribbean, which is the first of its kind in Bermuda, provides flexible funding for both liquidity and capital needs at a lower cost than comparable funding options.

Management continues to evaluate and expand its capital market access and plans to continue to further optimise and enhance the cost and flexibility of its debt portfolio as it pursues the Capital Plan.

Cash balances at 31 December 2018 included approximately $9 million set aside for decommissioning of BELCO's generation assets and for insurance reserves in ABIL which are held in high quality money market investments. The remainder of the funds are held in the various subsidiaries to meet short term liquidity needs. The Company is in the process of evaluating a more efficient method to manage its cash balances.

The following table outlines the summary of cash flow for 2018 compared to 2017:

CASH FLOWS

$000's	2018	2017	CHANGE	CHANGE
Cash and cash equivalents – beginning of year	$26,565	$24,492	$2,073	8%
Cash provided by / (used in):				
Operating activities	33,224	36,230	(3,006)	(8%)
Investing activities	(74,607)	(24,432)	(50,175)	NM
Financing activities	34,286	(9,725)	44,011	NM
Cash and cash equivalents – end of year	$19,468	$26,565	$(7,097)	(27%)

Cash Flow from Operating Activities – Cash flow provided by operations, after working capital adjustments, was $33.2 million for 2018, a decrease of $3.0 million from $36.2 million in 2017. In addition to a $1.1 million decrease in core earnings, cash flows are lower in 2018 due to the $12.8 million restructuring charge and an increase in accounts receivable due to the timing of meter read dates at year end.

Cash Flows from Investing Activities – Cash used in investing activities totaled $74.6 million in 2018, a $50.2 million increase compared to $24.4 million in 2017, most of which related to BELCO's Capital Plan.

BELCO's capital expenditure represents approximately 97.5% or $70.0 million of the Company's total capital expenditure in 2018. A total of $53.5 million was spent addressing power generation requirements, with $39.0 million spent on the Replacement Generation and $4.2 million was spent on the Battery Storage project, both undertaken to ensure efficient and reliable electricity generation. A total of $5.1 million was spent refurbishing,

MANAGEMENT'S DISCUSSION & ANALYSIS OF RESULTS AND FINANCIAL CONDITION

upgrading and modernising the transmission and distribution system. Of this total, approximately $418,000 was incurred as part of the advanced metering programme which will replace all meters in Bermuda over three years.

BELCO invested a further $5.1 million in its fleet of electric bucket trucks and other vehicles, to replace its aged fleet. The investment in electric vehicles is expected to significantly reduce operating (maintenance and fuel) costs over the life of these vehicles as compared to the gas and diesel powered vehicles they replaced.

BELCO also spent approximately $11.3 million to address network upgrades, cyber security, website development and various aspects of the campus infrastructure.

Cash Flows from Financing Activities – Total cash generated from financing activities of $34.3 million (2017 - $9.7 million used in financing activities) comprised $4.7 million in dividends paid (2017 - $4.1 million), $49.3 million in net bank borrowings (2017 - $5.4 million net repayment of debt), $10.7 million in share repurchases (2017 - $0.4 million), offset by $0.4 million in proceeds from issuance of capital stock (2017: $0.2 million).

The Company continued its share repurchase programme through the open market in 2018 and repurchased a total of 650,745 shares which were held in treasury, as discussed earlier. The Company also continues to maintain its quarterly dividend at an annual rate of $0.45 per share.

Cash Flow Requirements – The Company expects that operating expenses and interest costs will generally be paid from the Company's operating cash flows, with residual cash flows available for capital expenditures, debt repayment, share repurchases and dividend payments. Capital expenditures required to complete BELCO's Capital Plan are expected to be financed from a combination of operating cash flow together with new and existing sources of long-term debt and equity.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

TO THE SHAREHOLDERS OF ASCENDANT GROUP LIMITED

The accompanying audited consolidated financial statements of Ascendant Group Limited and all the information in this Annual Report are the responsibility of management and are approved by the Board of Directors.

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

The significant accounting policies used are described in Note 3 to the consolidated financial statements. Certain amounts in the financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the consolidated financial statements.

The Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting. The CEO and the CFO have supervised an evaluation of the effectiveness of the Company's internal control over the financial reporting, as at 31 December 2018. Based on this evaluation, the CEO and CFO have concluded that the Company's internal control over financial reporting as at 31 December 2018, was effective to provide reasonable assurance regarding the reliability of the Company's financial reporting and the presentation of its consolidated financial statements for external purposes in accordance with applicable accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board of Directors carries out this responsibility principally through its Audit & Risk Committee.

The Audit & Risk Committee is appointed by the Board of Directors, and all of its members are independent directors. The Audit & Risk Committee meets periodically with management, as well as with the internal and independent auditors, to discuss disclosure controls and procedures, internal control over financial reporting, management information systems, accounting policies, audit and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the consolidated financial statements, the Management's Discussion and Analysis and the independent auditor's report. The Audit & Risk Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit & Risk Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditor, and reviews and approves the terms of its engagement as well as the fee, scope and timing of its services.

The consolidated financial statements have been audited on behalf of the shareholders by PricewaterhouseCoopers Ltd., independent auditor, in accordance with International Standards on Auditing. The independent auditor has full and free access to the Audit & Risk Committee and may meet with or without the presence of management.

Sean M. Durfy
President
& Chief Executive Officer

Robert Schaefer
Senior Vice President
& Chief Financial Officer

Independent auditor's report

To the Shareholders and Board of Directors of Ascendant Group Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Ascendant Group Limited (the Company) and its subsidiaries (together 'the Group') as at December 31, 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Ascendant Group Limited's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

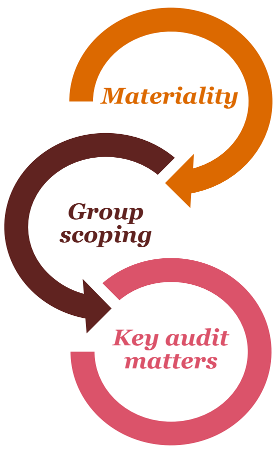
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the consolidated financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

PricewaterhouseCoopers Ltd., Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F:+1 (441) 295 1242, www.pwc.com/bermuda

pwc

Our audit approach

Overview



- Overall group materiality: $2,200,000, which represents 1% of total revenues

- We performed full scope audits on the three key operating subsidiaries, being Bermuda Electric Light Company Limited ("BELCO"), Air Care Ltd. and iFM Limited
- The audit engagement team was the auditor for both the parent and the subsidiaries
- Audit coverage: 100% of consolidated revenues

- Valuation of post retirement benefit obligations

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall group audit strategy and plan, we determined the type of work that needed to be performed at the components by the engagement team. This consisted of full scope audits on the three key operating subsidiaries, being BELCO, Air Care Ltd. and iFM Limited, as these components are individually financially significant to the Group. Based on our scoping, we also performed additional audit procedures on select account balances and transactions within the Group.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Reference: Independent auditor's report on the Consolidated Financial Statements of Ascendant Group Limited and its subsidiaries as at December 31, 2018 and for the year then ended
Page 2 of 7

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall group materiality	$2,200,000
How we determined it	1% of total revenues
Rationale for the materiality benchmark applied	We chose total revenues as the benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements and because, in our view, it is a stable benchmark in comparison to net income in recent years. On this basis we believe that revenue is an important metric for the financial performance of the Group. We chose 1% which is within a range of acceptable benchmark thresholds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above $110,000, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of post retirement benefit obligations *See notes 3(h) and 17 to the consolidated financial statements for disclosure of detail of post retirement benefit plans, accounting policies and significant assumptions used in the valuation of these obligations.*	
The Group has significant post retirement benefit obligations to its current and former employees, consisting of defined benefit pension, medical benefit and retiree life insurance schemes. As at December 31, 2018 the gross post retirement benefit obligations totalled $192.5m. The valuation of these obligations requires significant levels of judgement and technical expertise in selecting appropriate assumptions. Changes to the key assumptions, including salary increases, inflation, discount rates, and mortality, can have a material impact on the calculation of the liability. Management engage an independent, third party actuary to assist in the determination of post retirement benefit liabilities.	We have tested the significant judgements made by management and the Group's third party actuary as set out below. We agreed the discount and inflation rates used in the valuation of the post retirement benefit obligations to relevant external benchmarks. We compared the assumptions around mortality to Canadian national and industry averages as also used by the Group's third party actuary, which are considered to represent an appropriate and generally accepted proxy for Bermuda. We compared assumptions for salary increases to historic trends, as restricted by certain amendments and curtailments set out in documents filed with the Bermuda Pension Commission. We tested employee data used by the Group's third party actuary to current and historic payroll information retained by the Group's Human Resources department. Our procedures, as set out above, included engaging our actuarial experts to assist in the assessment of the work performed by the Group's third party actuary and the determination of an independent discount rate. We did not identify any material exceptions or contradictory information in these procedures that would require adjustment to management's assumptions in respect of the post retirement benefit obligations.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion & Analysis of Results and Financial Condition and Management's Responsibility for Financial Reporting (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

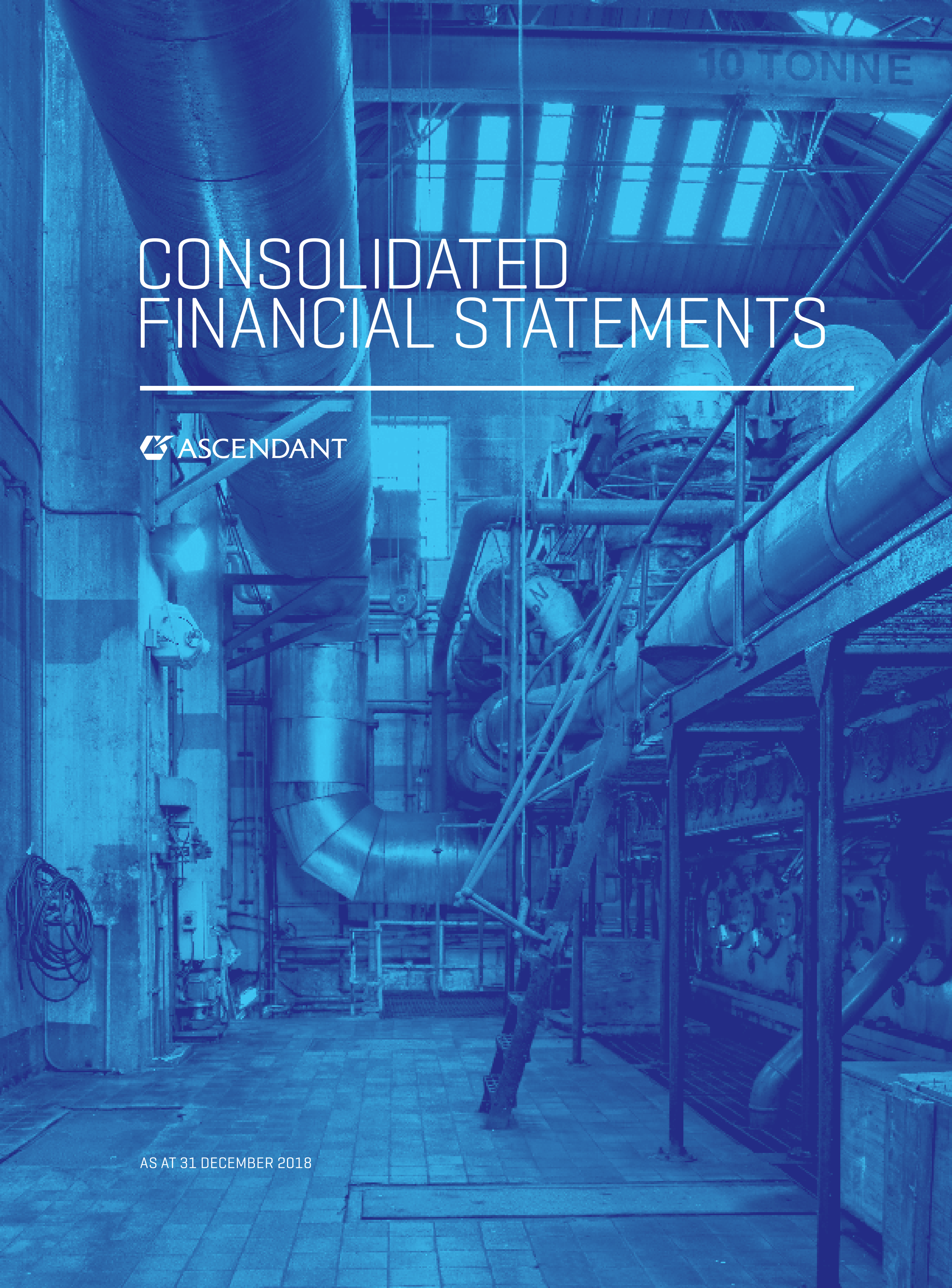
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Paul Byrne.

PricewaterhouseCoopers Ltd.

PricewaterhouseCoopers Ltd., Chartered Professional Accountants
Hamilton
Bermuda

March 8, 2019



CONSOLIDATED FINANCIAL STATEMENTS

ASCENDANT

AS AT 31 DECEMBER 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

In thousands of Bermuda Dollars	2018	2017
ASSETS		
Current assets		
Cash and cash equivalents	$19,468	$26,565
Investments (Note 8)	10	246
Accounts receivable (Note 16)	22,012	18,290
Long-term receivables, current portion	266	266
Investment in leases (Note 26)	374	265
Inventory (Note 9)	41,094	43,181
Prepaid expenses and other assets	1,811	1,482
	85,035	90,295
Non-current assets		
Property, plant and equipment (Note 5)	314,157	265,053
Investment property (Note 7)	1,987	2,083
Intangible assets and goodwill (Note 6)	12,419	13,018
Long-term receivables	1,049	1,375
Investment in leases (Note 26)	3,768	4,132
Investment in associates (Note 12)	2,302	1,702
	335,682	287,363
TOTAL ASSETS	$420,717	$377,658

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

AS AT 31 DECEMBER 2018

In thousands of Bermuda Dollars	2018	2017
LIABILITIES AND EQUITY		
Current liabilities		
Customer deposits (Note 16)	$252	$246
Trade and other payables (Notes 4, 16)	30,280	29,098
Deferred revenues (Note 27)	1,046	692
Bank borrowing (Notes 14, 16)	2,973	2,479
	34,551	32,515
Non-current liabilities		
Bank borrowing (Notes 14, 16)	51,701	2,921
Asset retirement obligation (Note 21)	15,871	15,141
Environmental clean-up obligation (Note 21)	2,943	2,855
Defined benefit obligation (Note 17)	5,905	15,120
Other post-retirement benefits (Note 17)	33,136	36,970
Derivative financial instruments (Notes 13, 16)	3,015	-
	112,571	73,007
TOTAL LIABILITIES	147,122	105,522
Equity		
Share capital (Note 10)	10,526	10,205
Share premium (Note 10)	34,246	27,298
Treasury shares (Note 10)	(13,466)	(2,775)
Contributed surplus	22,550	22,550
Accumulated other comprehensive income (Notes 13, 17)	(27,197)	(32,333)
Retained earnings	246,451	245,733
Total equity	273,110	270,678
Regulatory deferral account credit balances (Note 4)	485	1,458
TOTAL LIABILITIES, EQUITY AND REGULATORY DEFERRAL ACCOUNT CREDIT BALANCES	$420,717	$377,658

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of Bermuda Dollars except per share information	2018	2017
CONTINUING OPERATIONS		
Revenues		
Operating revenues	$230,649	$223,460
Other income	2,091	1,681
(Notes 20, 27)	232,740	225,141
Expenses		
Operating, administrative, regulatory, and energy expenses (Notes 4, 9, 18, 29)	202,708	187,654
Depreciation, amortisation, accretion and impairment	25,239	25,022
	227,947	212,676
OPERATING INCOME	4,793	12,465
Net finance expense (Note 29)	1,002	159
Share of earnings of associates (Note 12)	601	1,528
Earnings before net movement in regulatory account balances	4,392	13,834
Net movement in tariff stabilisation fund (Note 4)	-	6,579
Net movement in regulatory account deferral balances related to profit and loss (Note 4)	1,044	148
Earnings after net movement in regulatory account balances	5,436	20,561
(Loss) on sale of discontinued operations (Note 23)	-	(361)
NET EARNINGS FOR THE YEAR	$ 5,436	$20,200
BASIC EARNINGS PER SHARE FROM		
Continued operations (Note 11)	$0.56	$2.08
Discontinued operations (Note 11)	-	(0.04)
Net earnings for the year (Note 11)	$0.56	$2.04
Fully diluted earnings per share (Note 11)	$0.54	$1.96

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of Bermuda Dollars	2018	2017
Net earnings for the year	$5,436	$20,200
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Actuarial gains / (losses) on post retirement plans:		
1) Medical Benefit Plan (Note 17)	2,973	3,997
2) Defined Benefit Pension Plan (Note 17)	4,526	(3,669)
3) Life Insurance Plan (Note 17)	652	(522)
Items that may be reclassified to profit and loss:		
Loss on cash flow hedges (Note 13)	(3,015)	-
	5,136	(194)
Total comprehensive income for the year	$10,572	$20,006

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

Attributed to equity owners of the Company

In thousands of Bermuda Dollars	SHARE CAPITAL	SHARE PREMIUM	TREASURY STOCK
BALANCE AT 1 JANUARY 2017	$10,166	$27,035	$(2,342)
Total comprehensive income for the year:			
Net earnings for the year	-	-	-
Total other comprehensive income for the year	-	-	-
Transactions with owners of the Company recognised directly in equity:			
Dividends (Note 10)	-	-	-
Movement in treasury stock (Note 10)	-	-	(433)
Movement in ordinary shares (Note 10)	39	263	-
Balance at 31 December 2017	$10,205	$27,298	$(2,775)
BALANCE AT 1 JANUARY 2018	$10,205	$27,298	$(2,775)
Total comprehensive income for the year:			
Net earnings for the year	-	-	-
Total other comprehensive income for the year	-	-	-
Transactions with owners of the Company recognised directly in equity:			
Dividends (Note 10)	-	-	-
Equity settled transactions	-	3,735	-
Movement in treasury stock (Note 10)	-	-	(10,691)
Movement in ordinary shares (Note 10)	321	3,213	-
Balance at 31 December 2018	$10,526	$34,246	$(13,466)

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(Continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributed to equity owners of the Company			
In thousands of Bermuda Dollars	**CONTRIBUTED SURPLUS**	**ACCUMULATED OCI**	**RETAINED EARNINGS**	**TOTAL EQUITY**
BALANCE AT 1 JANUARY 2017	$22,550	$(32,139)	$229,620	$254,890
Total comprehensive income for the year:				
Net earnings for the year	-	-	20,200	20,200
Total other comprehensive income for the year	-	(194)	-	(194)
Transactions with owners of the Company recognised directly in equity:				
Dividends (Note 10)	-	-	(4,087)	(4,087)
Movement in treasury stock (Note 10)	-	-	-	(433)
Movement in ordinary shares (Note 10)	-	-	-	302
Balance at 31 December 2017	$22,550	$(32,333)	$245,733	$270,678
BALANCE AT 1 JANUARY 2018	$22,550	$(32,333)	$245,733	**$270,678**
Total comprehensive income for the year:				
Net earnings for the year	-	-	5,436	**5,436**
Total other comprehensive income for the year	-	5,136	-	**5,136**
Transactions with owners of the Company recognised directly in equity:				
Dividends (Note 10)	-	-	(4,718)	**(4,718)**
Equity settled transactions	-	-	-	**3,735**
Movement in treasury stock (Note 10)	-	-	-	**(10,691)**
Movement in ordinary shares (Note 10)	-	-	-	**3,534**
Balance at 31 December 2018	$22,550	$(27,197)	$246,451	**$273,110**

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of Bermuda Dollars	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings for the year	$5,436	$20,200
Adjustments to reconcile net earnings to net cash generated from operating activities:		
Loss on sale of discontinued operations (Note 23)	-	361
Gain on sale of investment properties	-	(759)
Loss on disposal of assets (Notes 5, 6)	1,371	-
Depreciation, amortisation and impairment	24,421	23,039
Asset retirement and environmental clean-up obligation accretion	818	1,983
Share of earnings of associates	(601)	(1,528)
Change in fair value of investments	-	(23)
Inventory provision and impairment (Note 9)	1,068	5,988
Defined benefit obligation and other post-retirement benefits	(4,898)	(6,857)
Non-cash employee benefits expense: share based payments (Note 10)	6,341	146
Changes in non-cash working capital balances (Note 30)	(732)	(6,320)
Net cash generated from operating activities	33,224	36,230
CASH FLOWS FROM INVESTING ACTIVITIES		
Settlement from sale of discontinued operations (Note 23)	-	(361)
Proceeds from sale of investment properties (note 7)	-	840
Proceeds on sale of investments (Note 8)	236	-
Acquisition of property, plant, equipment & intangible assets	(74,843)	(26,087)
Acquisition of subsidiary, net of cash acquired	-	1,176
Net cash used in investing activities	(74,607)	(24,432)

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

In thousands of Bermuda Dollars	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	421	156
Purchase of capital stock (treasury)	(10,691)	(433)
Dividends paid	(4,718)	(4,087)
Cash proceeds from bank borrowing	56,100	52
Repayment of bank borrowing	(6,826)	(5,413)
Net cash generated from (used in) financing activities	34,286	(9,725)
(Decrease) increase in cash and cash equivalents	(7,097)	2,073
Cash and cash equivalents - beginning of year	26,565	24,492
Cash and cash equivalents - end of year	$19,468	$26,565

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 Consolidated Financial Statements comprise the Company and its subsidiaries (together referred to as the "Company"). The Company is mainly involved in Energy (electric power generation, transmission and distribution) and Infrastructure (sale and service of heating, ventilation and air condition systems, air quality monitoring, building automation and energy management, commercial plumbing, fire protection, commercial refrigeration, property and facilities management, engineering consulting service) businesses.

Principal Operating Subsidiaries	Principal Activity
Bermuda Electric Light Company Limited ("BELCO")	Electric utility (generation, transmission & distribution)
Ascendant Bermuda Insurance Limited ("ABIL")	Captive property insurance
AG Holdings Limited ("AG Holdings")	Parent company of the following non-utility business operations:
▪ AIRCARE Limited ("AIRCARE")	Sale and service of heating, ventilation and air conditioning ("HVAC") 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
▪ 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 2017, which were prepared in accordance with International Financial Reporting Standards ("IFRS"), are available upon request from the Company's registered office above or at ascendant.bm.

2. BASIS OF PREPARATION

a. Statement of compliance
These Consolidated Financial Statements, as at, and for the year ended 31 December 2018, have been prepared in accordance with International Financial Reporting Standards.

These Consolidated Financial Statements were authorised for issue by the Board of Directors on 4 March 2019.

b. Basis of measurement
The Consolidated 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 (measured at present value of future obligations net of plan assets measured at fair value);
- Other post-retirement benefits (measured at present value of future benefits); and
- Derivative financial instruments (measured at fair value).

c. Functional and presentation currency
These Consolidated Financial Statements are presented in Bermuda Dollars, which is the Company's functional currency. Bermuda Dollars are on par with the US Dollar.

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

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

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 recognised in the Consolidated Financial Statements are described in the following notes:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

- Note 3(l) (I) – impairment of financial assets;
- Note 3(l) (II) – impairment of non-financial assets;
- Note 3(m) – provisions including asset retirement and environmental clean-up obligations;
- Note 3(c) – useful lives of property, plant and equipment;
- Note 3(i) – useful lives of intangible assets;
- Note 3(j) – useful lives of investment property;
- Note 3(h) – defined benefit pension plan and other post-retirement benefits;
- Note 16 – allowance for impairment of receivables.
- Note 3(k) (VI); 13 – derivative financial instruments and hedging.

3 SIGNIFICANT ACCOUNTING POLICIES

The Company has consistently applied the following accounting policies to all periods presented in these Consolidated Financial Statements unless otherwise indicated.

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 Consolidated Financial Statements include the financial statements of the Company and its controlled subsidiaries, BELCO, ABIL and AG Holdings. 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 and associates, the Company applies the equity method of accounting and investments are initially recognised at cost. Under the equity method, the Company's share of net earnings and other comprehensive income of the joint venture or associate is included from the date that control or joint control commences until the date control ceases.

b. Revenue recognition

The Company earns revenue through its principal activities outlined in Note 1 and recognises revenue through the following steps:

1. Identification of the contract with the customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognise revenue when, or as, performance obligations are satisfied.

ELECTRICITY SALES

Revenue from electricity sales is recognised over time based on consumption recorded by meter readings taken monthly. The transaction price is based on the kilowatt hours consumed during the billing period multiplied by the regulated rate. The Company reduces revenue to the extent that early payment discounts are expected to be earned by the general customers based on historical information. The Company accrues for unread consumption at the end of each financial period.

MAINTENANCE AND FACILITIES MANAGEMENT CONTRACTS

Revenue from property and facilities management, HVAC and other maintenance agreement sales is earned over time, evenly on a monthly basis over the term of the individual contracts. The performance obligation is met when the maintenance service is rendered. The transaction price is determined by the amount agreed per the maintenance contract. In instances where a major HVAC or other component is replaced under the terms of the relevant contract, such that it is considered to represent a separate performance obligation, the associated revenue is recognised at a point in time based on the relative stand-alone selling price.

PROJECT CONTRACTS

Project revenue is earned from delivery and installation of HVAC or other equipment and is recognised as the equipment has been delivered and installed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The transaction price is based on the contractually agreed-upon price and is recognised over time, using the input cost method to measure progress against total budgeted cost, to determine the proportion of revenue to be recognised in each accounting period. Where contract modifications occur, if the change is to a past performance obligation, revenue is adjusted to reflect a cumulative catch-up adjustment based on the revised contract price. If the change is to a future performance obligation, the modification is accounted for as a prospective adjustment and recognised in future periods as the performance obligation is satisfied.

OVER-THE-COUNTER AND RETAIL SALES
Revenue for over-the-counter and retail sales is recognised at the time the item is purchased by the customer. The transaction price is the agreed upon point-of-sale price and is recognised at a point in time at the time of the sale. Trade discounts are recognised at the point of sale.

ENERGY PERFORMANCE CONTRACT
The Company, through its subsidiary IFM, enters into certain energy saving arrangements with customers whereby the customer can purchase energy saving equipment together with a long-term servicing agreement. Where such multiple-element arrangements exist, the amount of revenue allocated to each element is based upon the relative fair values of the separate performance obligations. The fair values of each element are determined based on the current market price of each of the elements when sold separately. The revenue relating to the equipment is recognised at a point in time when delivery, installation and certification has occurred. Revenue relating to the service element is recognised over time as the services are rendered. Where contract modifications occur, if the change is to a past performance obligation revenue is adjusted to reflect a cumulative catch-up adjustment based on the revised contract price. If the change is to a future performance obligation, the modification is accounted for as a prospective adjustment and recognised in future periods as the performance obligation is satisfied.

RENTAL INCOME
Rental income from investment properties is recognised on a straight-line basis over time based on the terms of the lease. The transaction price is determined based on current market rates. Lease incentives granted are recognised as an integral part of the total rental income over the term of the lease.

Contract balances
CONTRACT ASSETS
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. A contract asset is recorded when the Company performs by transferring goods or services to a customer before the customer pays consideration or before the Company has invoiced the customer. The Company recognises unconditional rights to consideration separately as a receivable.

TRADE RECEIVABLES
A receivable represents amounts that have been billed to the customer and only the passage of time is required before payment of the consideration is due. Refer to the accounting policies of financial instruments in Note 3(k) for the Company's policy on trade receivables.

CONTRACT LIABILITIES
A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. A contract liability is recorded by the Company if a customer pays consideration before the Company transfers goods or services to the customer. Contract liabilities are recognised as revenue when the Company performs under the contract.

CONTRACT OBTAINMENT AND FULFILLMENT COSTS
The Company pays commissions to employees for obtaining certain project and maintenance contracts. The Company has elected to apply the optional practical expedient for costs to obtain the contract which allows for the Company to immediately expense sales commissions because the amortisation period of the asset that the Company otherwise would have used is one year or less. For commissions related to project and maintenance contracts delivered over a period greater than one year, the Company recognises an asset for these costs and subsequently amortises the asset over the period of the associated contract.

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 long-term assets is capitalised. Capitalised interest is recorded as part of the asset to which it relates, and is depreciated over the estimated useful life of the asset. The Company allocates

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

the amount initially recognised in property, plant and equipment to its significant components and depreciates each component separately. Residual values, method of depreciation and useful lives of assets, and significant components of 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 less residual value of each group of assets from the actual date that they are brought into service. Depreciation is included in net earnings. Land is not depreciated.

Major overhaul costs are capitalised and depreciated on a straight-line basis over the period to the next major overhaul, which varies from two 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 net earnings during the period in which they are incurred.

The estimated useful lives of property, plant and equipment for 2018 and 2017 are as follows:

Generation plant	24 years
Transmission equipment	40 to 50 years
Distribution equipment	24 to 50 years
General plant	3 to 24 years
Other physical assets	3 to 24 years

Gains and losses on disposal are determined by comparing proceeds with carrying amount, and included in net earnings.

STRATEGIC SPARE PARTS

The Company records major spare parts and stand-by equipment, measured at cost less accumulated depreciation. Strategic spare parts are included in property, plant and equipment.

Spare parts are depreciated using the straight-line method over their estimated useful economic lives (from 16 to 31 years).

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 recognised in net earnings to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain or loss recognised in other comprehensive income and presented in the revaluation reserve. Any loss is recognised in net earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 31 December 2018 and 2017.

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 realisable 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 Company's year-end. Transactions in foreign currencies during the year have been recorded at actual rates of exchange when incurred. Gains or losses arising on foreign currency translations are included in earnings for the year.

g. Earnings per share
Basic earnings per share is calculated by dividing net earnings attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the year adjusted for treasury shares held. Diluted earnings per share is determined by adjusting the weighted average number of shares for the effects of all dilutive potential shares stemming from the Company's employee incentive plans as outlined in detail in Note 22.

h. Employee short-term and long-term benefits

I. SHORT-TERM EMPLOYEE BENEFITS
Short-term employee benefits are expensed as the related service is provided. A liability is recognised 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 ("DC 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 recognised as an employee benefit expense in net earnings in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

III. DEFINED BENEFIT PENSION PLAN
A defined benefit pension plan ("DB Pension Plan") is a post-employment benefit plan under which the Company promises to pay a specific pension based on the employee's salary and service life. The Company's net obligation in respect of the DB Pension 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. The fair value of any plan assets are deducted while plan amendments, if any, are added or 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 calculation of DB Pension Plan 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 recognised 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. In accordance with IFRIC 14, an additional liability is recorded whenever the present value of non-refundable future minimum required contributions relating to past service, less the present value of plan assets, exceeds the accounting liability as determined under IAS 19.

The Company recognises all actuarial gains and losses from the DB Pension Plan in other comprehensive income ("OCI") and expenses related to the DB Pension Plan in operating and administrative expenses in net earnings.

Remeasurements of the DB Pension Plan 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 recognised immediately in OCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 Pension Plan are recognised in net earnings.

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 recognised immediately in net earnings when the curtailment occurs. The Company recognises gains and losses on the settlement of a DB Pension Plan when the settlement occurs.

IV. OTHER LONG-TERM EMPLOYEE BENEFITS

The Company 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 recognised immediately in the OCI in the statement of comprehensive income in the period in which they arise.

The Company accounts for post-retirement life insurance consistent with accounting for the DB Pension Plan. BELCO's group life insurance plan is detailed in Note 17.

V. EMPLOYMENT INCENTIVE PLANS

Effective January 1, 2013, the Company implemented a Long-Term Incentive Plan ("LTIP") and a Retention Share Programme designed to attract, retain and motivate senior management and tie a meaningful portion of compensation to the achievement of strategic objectives

Long-Term Incentive Plan

The LTIP is comprised of an initial grant of a target number of 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 Board has the right to determine whether or not settlements should be made by way of shares or cash, or a combination thereof.

The Company's outstanding LTIP awards are accounted for as a liability, determined by reference to management's best estimate of the ultimate awards expected to vest, multiplied by the Company's weighted average share price for December 2018. From 2018, LTIP awards are no longer determined by reference to the Company's share price and are accounted for as a liability, determined by reference to management's best estimate of the amounts to be settled based on the officer's salary and expected fulfillment of certain performance objectives.

Retention share programme

In addition to the LTIP programme, the Company granted restricted shares to certain officers for retention purposes. The shares are time restricted and vest over time in accordance with the individual officer's contractual agreement. The shares can only vest early due to termination or a change in control of the Company, in which case shares will vest on an accelerated basis.

Effective 1 April 2018 the Company modified the terms of its retention share programme such that awards can only be settled by way of shares. As a result of this modification, the retention share awards ceased to be accounted for as a liability and the fair value of the awards on April 1, 2018 was transferred to, and accounted for within, share premium as a component of the Company's equity.

Recognition

The grant-date fair value of equity-settled share-based payment awards granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised 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 recognised is based

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 recognised 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 recognised as personnel expense in net earnings.

i. Intangibles

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. As at 31 December 2018 and 2017 there was no impairment of the Company's goodwill. Computer software is measured at cost less accumulated amortisation and impairment losses and is amortised on a straight-line basis over periods ranging from five to ten years.

Software in progress is not subject to amortisation until brought into service. Amortisation is based on cost of an asset less its residual value. The method of amortisation, 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 amortised 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 recognised in net earnings.

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, customer deposits, trade and other payables approximate fair value because of their short-term maturities. The carrying values of bank borrowings approximate fair value given floating interest rates.

I. FINANCIAL ASSETS AND FINANCIAL LIABILITIES – RECOGNITION AND DERECOGNITION

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

The Company derecognises 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 derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises 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 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 realise the asset and settle the liability simultaneously.

II. FINANCIAL ASSETS – MEASUREMENT

FINANCIAL ASSETS AT FAIR VALUE THROUGH NET EARNINGS

A financial asset is recorded at fair value with revaluation changes recognised through net earnings if it is classified as held for trading or is designated

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

as such on initial recognition. Directly attributable transaction costs are recognised in net earnings as incurred. Financial assets at fair value through net earnings are measured at fair value and changes therein, including any interest or dividend income, are recognised in net earnings.

LOANS AND RECEIVABLES

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, less impairment losses, using the effective interest method.

III. FINANCIAL LIABILITIES – MEASUREMENT

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

IV. FAIR VALUE HIERARCHY

In estimating fair value, the Company utilises quoted market prices when available. Financial assets 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 the assets or liability, 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 recognised as a deduction from equity. When common shares are repurchased the amount of consideration paid is recognised as a deduction from equity. Repurchased shares are either canceled or classified as treasury shares.

VI. IFRS 9 FINANCIAL INSTRUMENTS – IMPACT OF ADOPTION

IFRS 9 Financial Instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, de-recognition of financial instruments, impairment of financial assets and hedge accounting.

PROVISION FOR BAD DEBTS

The adoption of IFRS 9 from 1 January 2018 resulted in the Company revising its impairment methodology in respect of its trade and other receivables to apply the "expected credit loss model". This replaced the "incurred loss model" and means that a loss event will no longer need to occur before an impairment loss is recognised. The Company uses the simplified approach to measuring expected credit losses which uses a lifetime expected allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

Trade and other receivables are written off when there is no reasonable expectation of recovery.

Application of the expected credit loss model did not have a significant or material impact on the provision for trade and other receivables at 1 January 2018.

The Company has considered the impact of IFRS 9 on its other financial assets and liabilities, with no impact noted at 1 January 2018.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

On 21 June 2018, the Company entered into interest rate swap contracts as part of its risk management strategy to limit exposure to increasing interest rates on debt financing. These derivatives qualify for hedge accounting and are recorded at fair value in the Consolidated Statement of Financial Position. Derivatives qualify for hedge accounting if they can be proven to effectively hedge the identified cash flow risk both at the inception and over the term of the derivative. Specifically for cash flow hedges, the effective portion of the change in the fair value of derivatives is deferred to accumulated other comprehensive income ("OCI") and recognised in income in the same period the related hedged item is realised. Any ineffective portion of the change in the fair value from cash flow hedges is recognised in net income in the reporting period. When the documentation of hedge effectiveness requirements are not met, the derivatives are recognised at fair

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

value with any changes in fair value recognised in net income in the reporting period, unless deferred as a result of regulatory accounting.

l. Impairment

I. FINANCIAL ASSETS

Financial assets not classified at fair value through net earnings 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 measurable decrease in the expected future cash flows from a Company's financial assets.

FINANCIAL ASSETS MEASURED AT AMORTISED 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 information.

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 asset's original effective interest rate. Losses are recognised in net earnings and reflected in an allowance account reducing the associated asset. 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 recognised, then the previously recognised impairment loss is reversed through net earnings.

II. NON-FINANCIAL ASSETS

At each reporting date, the Company reviews the carrying amounts of its non-financial assets 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 recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in net earnings. 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 the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m. Provisions

The Company recognises provisions when there is a present legal or constructive obligation as a result of a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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. 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 recognised in the interest expense.

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

A contingent asset is not recognised in the Consolidated Financial Statements. 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. Cash flows for AROs 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 recognised 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 recognised when land is contaminated. The environmental clean-up obligation is both a legal and constructive obligation associated with the remediation of oily water waste and waste oil soil contamination at the Company's central power station. This obligation is based on management's best estimate of the expenditure required to settle the obligation, discounted to present value. The carrying value of the obligation is accreted over the estimated time period until the planned environmental clean-up is carried out, with the accretion charge recognised as an expense in the income statement.

WARRANTIES
A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated possibilities.

RESTRUCTURING
A provision for restructuring is recognised when the Company has approved a detailed formal restructuring plan and the restructuring has either commenced or has been announced publicly. Future operating losses are not provided for.

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 for 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 Consolidated 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Officer, Chief Financial Officer, President, BELCO, President, AG Holdings, 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 net earnings adjusted for regulatory items as shown in Note 20, Segmented Information.

r. Leases
At inception, a lease is classified as either a finance lease or an operating lease. Finance leases transfer substantially all the risks and rewards of ownership. All other leases are classified as operating leases.

In respect of finance leases, at the commencement of the lease term the Company recognises revenue from the sale of goods and the rights to receive future lease payments as a financial asset in line with the lessee's entitlement to use the associated assets. Minimum lease payments are apportioned between finance income and the reduction of the outstanding lease receivable. Finance income is allocated so as to produce a constant rate of interest on the remaining balance of the lease receivable.

s. Change in accounting policies and disclosures
IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model, outlined in Note 3(b), to account for revenue arising from contracts with customers and requires revenue be recognised at an amount the reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with customers. The standard also specifies the accounting for incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018 using the modified retrospective method. The Company elected the practical expedient to apply the new guidance only to contracts that were not substantially complete at the adoption date. There were no changes to the Company's Consolidated Financial Statements as previously reported at 31 December 2017 and for the year then ended as a result of the adoption of IFRS 15.

IFRS 9 FINANCIAL INSTRUMENTS
IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Company's application of IFRS 9 is outlined in Note 3(k).

The Company adopted IFRS 9 Financial Instruments on 1 January 2018 prospectively. The impact of adoption is outlined in Note 3(k)(vi). There were no changes to the Company's Consolidated Financial Statements as previously reported at 31 December 2017 and for the year then ended as a result of the adoption of IFRS 9.

t. Standards issued, but not yet adopted
The new accounting standard effective for annual periods beginning after 1 January 2019 is IFRS 16 Leases. The Company has not applied this standard in preparing these Consolidated Financial Statements.

IFRS 16 LEASES
IFRS 16 establishes a new framework for lessee accounting which requires that all leased assets be recognised on the balance sheet if the lease definition is met. It replaces existing lease accounting guidance contained in IAS 17 Leases.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 Revenue from contracts with customers is also early adopted. The Company has elected not to early adopt IFRS 16.

During 2018, management commenced its review of existing operating leases where the Company is the lessee to determine the effect of implementing IFRS 16 on the Company's financial position, performance, and cash flow. Management's assessment to date has identified that existing leases, where the Company is the lessee, are not material and therefore will have limited impact on the Company's reported financial position, performance and cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

4. RATE REGULATION

Bermuda Electric Light Company Limited ("BELCO") is an electric utility subject to rate regulation pursuant to the Electricity Act 2016 (the "Act") which became operative on 28 October 2016 (the "Operative Date"). It holds a transmission, distribution and retail ("TD&R") licence and a bulk generation licence granted under the Act. Prior to the Operative Date, BELCO was subject to rate regulation by the now defunct Energy Commission pursuant to the Energy Act 2009, and under the Act it is now regulated by the Regulatory Authority of Bermuda (the "Authority").

NATURE AND ECONOMIC EFFECTS OF RATE REGULATION IN BERMUDA

BELCO's current base rate tariffs were approved on 31 March 2016 pursuant to a directive issued by the Energy Commission (the "Directive") and implemented on 1 June 2016. In the Directive, the Energy Commission approved tariff levels that would enable a 7% return on the test year (2013) rate base in 2016 and an 8% return on the year-end 2016 rate base in 2017 (excluding those assets funded by debt which would be entitled to a recovery of their interest costs).

As mandated in its TD&R licence, BELCO continues to follow the tariff and allowed return methodology established in the Directive, pending implementation of the retail tariff methodology provided for in the general determination published by the Regulatory Authority (the "Authority") effective 19 October 2018 (the "Methodology"). BELCO anticipates filing a rate application under the Methodology, covering an initial two-year control period for the 2019 and 2020 calendar years, in the first half of 2019.

As the Directive had not changed the mechanism for fuel cost recovery, BELCO's fuel costs in excess of $30.00 per barrel continue to be recovered separately through the fuel adjustment rate (the "FAR"). Given the relative volatility of fuel prices, FAR submissions to the Authority are currently made on a monthly basis in accordance with the defined minimum reporting requirements set by the Energy Commission. The relatively frequent adjustment process allows for the pass-through of actual fuel costs in a timely manner.

Recent Events

BELCO is on track to decommission eight diesel generating units (D3, D8, D10, D14, and E1 to E4) and a gas turbine (GT4) totaling 80 MW by March 2020 due to safety and reliability concerns associated with their ageing relative to their useful life expectancy. Following publication of the Authority's approval order dated 6 March 2018, clarified by the further order of 23 May 2018, (the "Order") BELCO is constructing 56 MW of duel-fuel generating units and a 10MW utility-scale battery storage system to replace the decommissioned assets. The Order included recovery of related costs under the Methodology.

Pursuant to the Authority's request made in accordance with the Act, BELCO has prepared and submitted to the Authority an integrated resource plan ("IRP"). The IRP was submitted to the Authority on 15 February 2018, inclusive of analyses of Bermuda's load forecast, existing resources and reliability, demand side management and supply options, environmental considerations, lifecycle costs and various risk analyses. To date, the IRP has been the subject of a statutory consultation and approval process that remains ongoing. BELCO may be required to incorporate comments of the Authority in the final version of the IRP that will ultimately be approved by the Authority.

On 19 October 2018 the Regulatory Authority (Feed in Tariff Methodology) General Determination 2018 became effective and set the methodology by which the Authority will determine the feed-in-tariff that BELCO will pay to distributed generators that have entered into Standard Contracts with BELCO as required under the Act. Until such time as the Authority approves a new feed-in-tariff, BELCO continues to abide by the feed-in-tariff set by the Regulatory Authority (Renewable Energy Metering Scheme) General Determination 2018 that became operative on 2 March 2018

Financial statement effects of rate regulation

FUEL ADJUSTMENT RATE (FAR) REVENUES

As at 31 December 2018, the Company over-recovered $0.5 million (31 December 2017: $1.5 million) in FAR Revenues approved by the Authority. In accordance with IFRS 14, Regulatory Deferral Accounts, the Company has accounted for these balances as regulatory deferral account credit balances and net movement in regulatory account deferral balances related to profit and loss in accordance with this standard. The equalisation effect of rate regulation on the Company's Consolidated Statement of Income as at 31 December 2018 was $1.0 million (31 December 2017: $148,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

TARIFF STABILISATION FUND

The EC directive established a tariff stabilization fund ("TSF") account to be used to defer tariff increases or to make up revenue requirement shortfalls similar to the FAR balancing account concept. As at 31 December 2018, the TSF account was $Nil (2017 – $Nil). During 2017, the TSF account was reduced by $6.6 million to make up for a shortfall in BELCO's permitted return in that year.

REGULATORY AUTHORITY FEES

The Company is required to pay the following regulatory fees payable quarterly in arrears:

1. As a Transmission, Distribution and Retail Service provider - $0.00475 per kilowatt hour sold; and
2. As a Utility Scale Electricity Generation provider - $1,000 per megawatt per annum of installed electricity generation capacity.

As a result, the Company recognised total regulatory expenses in 2018 of $3.1 million (2017: $1.7 million). Fees in 2017, which came into effect 1 April 2017, were reduced by $600,000 as 2016 accrued regulatory fees accrued were reversed following regulatory fee clarification. As at 31 December 2018, the Company accrued regulatory fee expenses of $0.7 million (31 December 2017: $0.7 million).

Only TD&R service regulatory fees may be passed onto the consumer. These regulatory fees are passed onto the consumer based on monthly metered kilowatt-hour consumption. The introduction of regulatory fees in monthly electric consumer bills commenced 1 April, 2017. Total regulatory fee revenues recognised for the year totaled $2.7 million (2017: 2.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

A reconciliation of the carrying amounts of the regulatory account balances is presented below:

FAR Revenues (Over) / Under Recovered Balance ($000's)	**2018**	2017
BALANCE AT 1 JANUARY	$(1,458)	$(1,609)
Fuel costs to be approved / recovered recognised in accounts receivables	(71)	-
Amounts recognised in the Consolidated Statement of Income as net movements in regulatory account deferral balances related to profit and loss	1,044	148
Amounts recognised in the Consolidated Statement of Income as:		
Interest expense recovery	-	3
Balance at 31 December	$(485)	$(1,458)

Tariff Stabilisation Fund Balance ($000's)	**2018**	2017
BALANCE AT 1 JANUARY	$-	$(6,579)
Increase to adjust earnings to targeted return	-	6,579
Balance at 31 December	$-	$-

Regulatory Authority Fees Provision Balance ($000's)	**2018**	2017
BALANCE AT 1 JANUARY	$(711)	$(600)
Fees paid during the year	3,067	1,579
Net fees accrued during the year	(3,056)	(1,690)
Balance at 31 December	$(700)	$(711)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

5. PROPERTY, PLANT AND EQUIPMENT

$000's	LAND	GENERATION PLANT	TRANSMISSION EQUIPMENT	DISTRIBUTION EQUIPMENT
COST				
Balance at 1 January 2017	$6,014	$343,305	$88,978	$207,327
Additions	-	9,233	1,924	8,302
Impairment	-	(710)	(615)	(47)
Disposals	-	-	-	-
Balance at 31 December 2017	$6,014	$351,828	$90,287	$215,582
Balance at 1 January 2018	$6,014	$351,828	$90,287	$215,582
Additions	-	6,750	311	6,247
Disposals	-	(28,213)	(841)	(6,246)
Balance at 31 December 2018	$6,014	$330,365	$89,757	$215,583
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 January 2017	$-	$258,942	$50,493	$113,744
Depreciation	-	13,014	1,731	2,796
Impairment	-	(538)	(483)	(16)
Disposals	-	-	-	-
Balance at 31 December 2017	$-	$271,418	$51,741	$116,524
Balance at 1 January 2018	$-	$271,418	$51,741	$116,524
Depreciation	-	12,951	1,717	2,943
Disposals	-	(28,213)	(841)	(6,209)
Balance at 31 December 2018	$-	$256,156	$52,617	$113,258
CARRYING AMOUNTS				
At 31 December 2017	$6,014	$80,410	$38,546	$99,058
At 31 December 2018	$6,014	$74,209	$37,140	$102,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

$000's	ASSET RETIREMENT OBLIGATION	GENERAL PLANT	OTHER PHYSICAL ASSETS	TOTAL
COST				
Balance at 1 January 2017	$3,535	$65,629	$35,477	$750,265
Additions	-	5,009	-	24,468
Impairment	-	(569)	-	(1,941)
Disposals	-	(613)	(3,204)	(3,817)
Balance at 31 December 2017	$3,535	$69,456	$32,273	$768,975
Balance at 1 January 2018	$3,535	$69,456	$32,273	$768,975
Additions	-	9,350	49,639	72,297
Disposals	-	(13,158)	(680)	(49,138)
Balance at 31 December 2018	$3,535	$65,648	$81,232	$792,134
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES				
Balance at 1 January 2017	$1,099	$53,372	$8,530	$486,180
Depreciation	245	2,769	734	21,289
Impairment	-	(362)	-	(1,399)
Disposals	-	(577)	(1,571)	(2,148)
Balance at 31 December 2017	$1,344	$55,202	$7,693	$503,922
Balance at 1 January 2018	$1,344	$55,202	$7,693	$503,922
Depreciation	245	3,475	663	21,994
Disposals	-	(12,579)	(97)	(47,939)
Balance at 31 December 2018	$1,589	$46,098	$8,259	$477,977
CARRYING AMOUNTS				
At 31 December 2017	$2,191	$14,254	$24,580	$265,053
At 31 December 2018	$1,946	$19,550	$72,973	$314,157

Total capital work in progress ("CWIP") of $63.2 million (2017: $14.4 million) is recorded in property, plant and equipment noted above. CWIP is not subject to depreciation until brought into service.

Asset retirement obligations included in property, plant and equipment as at 31 December 2018 amounted to $1.9 million (2017: $2.2 million).

Included in total CWIP is $47.1 million associated with BELCO's replacement generation and battery storage projects (collectively, the "Replacement Generation"), consisting of four 14 megawatt ("MW") diesel engines and a 10 MW battery, replacing retiring engines that currently account for approximately 50% of the Company's current generation capacity. The Company received regulatory approval on 6 March 2018 to proceed with the Replacement Generation projects. Planned costs are being incurred over approximately two years. These projects are being financed with cash and new term loan facilities totaling US$107.5 million, described in Note 14. The balance of CWIP is comprised of $9.6 million related to transmission and distribution upgrades, $2.4 million in major engine component replacements and $4.1 million in other capital expenditures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. INTANGIBLE ASSETS AND GOODWILL

$000's	GOODWILL	SOFTWARE IN PROGRESS	SOFTWARE	TOTAL
COST				
Balance at 1 January 2017	$6,915	$441	$12,713	$20,069
Acquisitions	-	406	4,100	4,506
Transfers	-	(386)	386	-
Disposals	-	(55)	-	(55)
Balance at 31 December 2017	$6,915	$406	$17,199	$24,520
Balance at 1 January 2018	$6,915	$406	$17,199	$24,520
Acquisitions	-	1,039	89	1,128
Transfers	-	(206)	206	-
Disposals	-	-	(935)	(935)
Balance at 31 December 2018	$6,915	$1,239	$16,559	$24,713
ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES				
Balance at 1 January 2017	$-	$55	$10,216	$10,271
Amortisation	-	-	1,286	1,286
Disposals	-	(55)	-	(55)
Balance at 31 December 2017	$-	$-	$11,502	$11,502
Balance at 1 January 2018	$-	$-	$11,502	$11,502
Amortisation	-	-	1,555	1,555
Disposals	-	-	(763)	(763)
Balance at 31 December 2018	$-	-	$12,294	$12,294
CARRYING AMOUNTS				
At 31 December 2017	$6,915	$406	$5,697	$13,018
At 31 December 2018	$6,915	$1,239	$4,265	$12,419

There was no impairment of intangible assets and goodwill for the years ended 31, December 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

7. INVESTMENT PROPERTY

$000's	2018	2017
Balance at 1 January	$2,083	$2,251
Less: Net book value of property sold	-	68
Less: Depreciation	96	100
Balance at 31 December	$1,987	$2,083

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 lease. No contingent rents are charged.

8. INVESTMENTS

During the year, the Company sold substantially all of its portfolio of publicly listed, Bermuda domiciled company shares through the Bermuda Stock Exchange. Profits recognised on the sale of these investments are included in other income on the Consolidated Statement of Income.

9. INVENTORY

During the year, the Company utilised inventory totaling $104.3 million (2017: $95.9 million) as part of normal operations. Inventory is comprised as follows:

$000's	2018	2017
Materials and supplies	$18,515	$21,011
Fuel and lubricants	22,579	22,170
Balance at 31 December	$41,094	$43,181

Inventory written off to expense during the year totaled $1.1 million (2017: $5.9 million). The provision for inventory obsolescence as at 31 December 2018 was $7.2 million (31 December 2017: $6.3 million).

In 2017, the Company notified the Authority of its intent to decommission eight diesel and one gas turbine generating units accounting for approximately 50% of its total generating capacity which are beyond end of service, present operational risk, and are costly to maintain. The write down of inventory supporting engines to be decommissioned recognises that there is an increased likelihood that parts held in stock to maintain these generating units may not be used prior to their decommission. BELCO will review this specific inventory provision at the end of each year through to planned decommission. Inventory held to support maintenance of generation engines scheduled for decommission before or during 2020 was written down by $0.8 million (2017: $5.1 million) during the year.

The Company recognised inventory obsolescence expense of $266,000 (2017: $933,000) during the current year for parts that can no longer be used in operation. The Company conducts an intensive review of all inventory during the year involving operations personnel working closely with procurement staff in determining its year-end inventory obsolescence provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

10. SHARE CAPITAL

The movement in share capital, share premium, and treasury shares for the years ended 31 December 2018 and 2017 was as follows:

$000's	ISSUED AND FULLY PAID SHARES (a)	SHARE CAPITAL ($1 PAR VALUE)	SHARE PREMIUM	TREASURY SHARES
1 January 2017	10,166	$10,166	$27,035	$(2,342)
Employee share purchase plan	21	21	141	-
Directors fee compensation	18	18	122	-
Shares repurchased and held as treasury shares	-	-	-	(433)
31 December 2017	10,205	$10,205	$27,298	$(2,775)
1 January 2018	10,205	$10,205	$27,298	$(2,775)
Employee share purchase plan	41	41	427	-
Directors' fee compensation (Note 18)	40	40	420	-
Shares issued under management retention plan (Note 18)	240	240	2,366	-
Equity settled transactions	-	-	3,735	-
Shares repurchased and held as treasury shares	-	-	-	(10,691)
31 December 2018	10,526	$10,526	$34,246	$(13,466)

a) Total Authorised share capital as at 31 December 2018: $20 million (31 December 2017: $20 million).

Treasury shares
In 2018, a total of 650,745 Company shares were repurchased through an open market programme at an average cost of $16.43 per share (2017: 47,128 Company shares were repurchased at an average cost of $9.18 per share).

The shares repurchased in the current year were added to treasury stock.

As at 31 December 2018, a total of 966,890 shares were held as treasury stock (31 December 2017: 316,145 shares).

Dividends
The following dividends were declared and paid by the Company:

$000's	2018	2017
$0.45 per qualified, issued and fully paid share (2017: $0.41)	$4,718	$4,087

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

11. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed by dividing net earnings attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the reported period (adjusted by treasury stock held). Earnings per share are diluted by potential shares. Potential shares are issuable under the Company's Employee Incentive Plans as described in detail in Note 22.

A dilutive effect arose in 2018 and 2017 as a result of time-vested and performance-based retention shares to be issued in the future under the Employee Incentive Plans. The dilutive impact of these shares in the current year is to reduce earnings per share by $0.02 (2017 dilutive impact: $0.08).

The following table sets forth the computation for basic and fully diluted earnings per share:

$000's	2018	2017
NUMERATOR		
Continued operations	$5,436	$20,561
Discontinued operations	-	(361)
Net earnings	$5,436	$20,200
DENOMINATOR		
Weighted average number of shares outstanding – Basic	9,788	9,908
Add: Diluted potential shares from the LTIP (Note 22)	327	419
Weighted average number of shares outstanding	10,115	10,327

BASIC AND FULLY DILUTED EARNINGS / (LOSS) PER SHARE:

Basic EPS:	2018	2017
Continued operations	$0.56	$2.08
Discontinued operations	-	(0.04)
Net earnings	$0.56	$2.04
Fully diluted EPS:		
Continuing operations	$0.54	$1.99
Discontinued operations	-	(0.03)
Net earnings	$0.54	$1.96

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

12. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

On 17 March 2017, the Company purchased the 40% stake in IFM previously owned by Black & McDonald Limited for cash consideration of US$607,000, resulting in IFM becoming a 100% owned subsidiary. The acquisition resulted in no goodwill or intangible asset being recognised as the carrying value of assets and liabilities acquired were considered to approximate their fair value at the date of acquisition. The Company has accounted for IFM effective from this date as a subsidiary. Prior to this date, IFM had been accounted for in the Company's Consolidated Financial Statements using the equity method in accordance with IFRS11 Joint Arrangements.

The following table summarizes the consideration paid for the remaining 40% stake in IFM and the amount of assets acquired and liabilities assumed recognised at the acquisition date:

$000's	2017
Financial assets	$3,029
Property, plant and equipment	26
Inventory/work in progress	2,236
Financial liabilities	(3,773)
Total identifiable net assets	$1,518
40% of net identifiable assets	$607
Goodwill	-
Purchase price paid for 40% stake	$607

AIRCARE has a 34% ownership interest in the common shares of Otis Air-Conditioning Ltd. ("Otis"), a company with operations in the Cayman Islands. AIRCARE, together with the existing shareholders of Otis, have a 34% ownership interest in O Property Holdings Ltd. ("OPHL"), a Cayman Islands company. OPHL holds land connected with the operating activities of Otis.

The summarised financial information of Otis as at, and for the year ended 31 December 2018, expressed in Bermuda Dollars is as follows:

$000's	2018	2017
Current assets	$4,300	$3,793
Non-current assets	1,835	1,187
Current liabilities	1,109	1,176
Net assets	5,026	3,804
Revenue	8,750	7,738
Profit from continuing operations	1,702	1,618
Investment in associate, at 34% holding, included in the Consolidated Statement of Financial Position	$1,709	$1,294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The summarised financial information of OPHL has not been presented as the investment in this entity is not considered to be material to the consolidated financial statements.

During the year a dividend of BD$350,000 (2017: $204,000) was declared and paid to the Company by Otis.

13. DERIVATIVE FINANCIAL INSTRUMENTS

On 21 June 2018, the Company entered into two cash flow interest rate swap contracts designated as cash flow hedges to mitigate the risk that LIBOR-based interest rates will increase over the life of its new term loan facilities described in Note 14. Under the terms of the interest rate swap contracts, the Company has fixed its LIBOR interest rate expense to 3.28% on its US$91.4 million term loan facility and 3.02% on its US$16.1 million term loan facility. The interest rate swap contracts effectively hedge exposure to increases in US dollar interest rates as both notional amounts and the term of the contracts closely match new term loan facilities being hedged.

The fair value of derivative instruments is the estimated amount that the Company would receive or have to pay in order to terminate the outstanding contracts as at the consolidated statement of financial position date. As at 31 December 2018, the fair value of the two cash flow interest rate swap contracts was a loss of $3.0 million which has been recognised as a derivative liability on the Consolidated Statement of Financial Position. The $3.0 million change in fair value of the cash flow interest rate swap agreements has been recognised in OCI.

The derivative financial instruments are considered to be Level 2 financial instruments in the fair value hierarchy. The Company notes the impending replacement of LIBOR, however, at December 31, 2018, LIBOR is considered to remain a hedgeable risk component.

14. BANK BORROWING

Bank borrowing is comprised as follows:

$000's	AUTHORISED	2018 DRAWDOWN	2017 DRAWDOWN
The Bank of N.T. Butterfield & Son Limited - Overdraft Facilities			
BELCO	$30,000	$-	$-
Ascendant	5,000	-	-
The Bank of N.T. Butterfield & Son Limited - Revolving Loan Facilities			
AIRCARE	-	-	3,643
IFM	-	-	1,757
CIBC First Caribbean International Bank (Cayman) Limited –			
Revolving Credit Facility	50,000	17,420	-
HSBC – EKF Term Loan Facility	91,400	22,543	-
HSBC – Commercial Term Loan Facility	16,100	14,711	-
TOTAL BANK BORROWING	$192,500	$54,674	$5,400
LESS: CURRENT PORTION	35,000	2,973	2,479
LONG-TERM PORTION	$157,500	$51,701	$2,921

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Overdraft facilities
BELCO's Bank of N.T. Butterfield & Son Limited overdraft facility, which was scheduled to expire on 31 October 2018, allowed for maximum drawings of up to $30 million, bearing interest at 1% per annum above the bank's Bermuda Dollar Base Rate on borrowings. The $30 million facility was renewed and extended to 31 July 2019. There was no drawdown on this facility as at 31 December 2018 (2017: Nil).

Ascendant has a $5 million overdraft facility with the Bank of N.T. Butterfield & Son Limited bearing interest at 1% per annum above the bank's Bermuda Dollar Base Rate on borrowings. This facility expires on 31 July 2019. As at 31 December 2018, there was no draw down on this facility (2017: $Nil).

BELCO entered into an unsecured revolving credit facility with CIBC First Caribbean International Bank (Cayman) Limited on 18 December 2018. The facility allows for maximum drawings of up to $50 million bearing interest at three month $US LIBOR plus 2.70% per annum. Interest is payable quarterly in arrears and is calculated on an actual/360 day basis. Principal repayments are due on maturity. The facility expires on 17 December 2020. As at 31 December 2018 the Company had drawn down $17.4 million on this facility.

Term loan facilities
The Company maintained through one of its affiliate companies a $15.5 million term loan facility with the Bank of N.T. Butterfield & Son Limited initiated in May 2012 to finance the acquisition of AIRCARE. The loan facility was for a period of eight years and interest was payable at 1.5% per annum above the bank's Bermuda Dollar Base Rate. The loan facility was secured by a debenture over assets of AIRCARE and undertakings as well as a guarantee from the Company. The remaining balance on the facility was repaid in December 2018 (total bank borrowing under the facility as at 31 December 2017: $3.7 million with $2.2 million current and $1.5 million non-current).

On 1 June 2016, the Company's affiliate IFM entered into a credit facility agreement with the Bank of N.T. Butterfield & Son Limited to assist in financing the acquisition, installation and maintenance of equipment. The facility, which had a term of 6 years, had a maximum principal amount of $2 million, bearing interest at the bank's Bermuda Dollar Base Rate. The remaining balance on the facility was repaid in December 2018 (2017: balance of $0.3 million current and $1.5 million non-current).

On 21 June 2018, the Company entered into a US$91.4 million, 13.5 year unsecured term loan facility at a floating interest rate of six month US$ LIBOR plus margin and fees totaling 1.976% together with a US$16.1 million, 5 year unsecured term loan facility at a floating interest rate of three month US$ LIBOR plus a margin of 2.75%. At the time of closing of these loan facilities, the Company entered into two interest rate swaps, outlined in Note 13, to fix the interest rates of these loans for their respective terms.

These loans are being used to fund the construction of BELCO's Replacement Generation and will be drawn down during the construction period. The 13.5 year term loan facility will be repaid in equal installments semi-annually commencing June 2020 while the 5 year term loan facility is being repaid in equal quarterly installments which commenced September 2018. As at 31 December 2018, the Company had drawn down $37.3 million (2017 – $Nil) under these facilities.

15. FINANCIAL RISK MANAGEMENT

Overview
The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these Consolidated Financial Statements.

Risk management framework
The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the Audit & Risk Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee reports regularly to the Board of Directors on its activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit & Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risk faced by the Company.

Credit risk
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade and other receivables
The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk within specific segments of Bermuda's economy as well as Bermuda as a whole as these factors may have an influence on credit risk, particularly in the current economic circumstances. Sales are well diversified among a broad group of customers, predominantly within the Bermuda market.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered.

Effective 1 January 2018, the Company now utilised the expected credit loss model which replaces the incurred loss model previously used. Under the expected credit loss model, the Company uses the simplified approach to measure expected credit losses using a lifetime expected allowance for all trade and other receivables. To measure expected credit losses, trade and other receivables are grouped based on shared credit risk characteristics and the days past due.

Investments
During the current year, the Company sold its investments in the shares of several large, well-established local businesses listed on the BSX and NYSE. Prior to the sale of these investments, the Company had not made any investment in local or overseas company stocks in more than 11 years. These investments were previously marked to market monthly and reflected current fair market values as reported in the BSX and NYSE.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Market risk
Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk
The Company is exposed to currency risk on sales and purchases that are denominated in currencies other than the Company's functional currency the Bermuda Dollar. The Company, in its normal course of business, is required to acquire both goods and services from overseas vendors requiring payment in US Dollars (USD), Pounds Sterling (GBP) and the Euro (EUR).

The Company currently mitigates its foreign currency exposure by structuring most contracts with foreign vendors providing goods or services to be paid in US dollars, which is traded on par with the Bermuda dollar and through use of foreign currency hedges as considered appropriate when addressing significant capital projects involving large foreign currency payables.

Operational risk
Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Company's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with the overall cost of such avoidance, including the cost arising from excessive administration and control.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the assessment of plans to manage those risks, including the overall policy framework, adequacy of controls and procedures, training and professional development, and contingency planning; and
- Requirements for the reporting of operational losses and proposed remedial action.

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 and administrative infrastructure. The Company's short-term capital management strategy is to generate and utilise 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 utilised. The Company currently utilises bank overdraft facilities to address fuel financing, and other working capital requirements.

The Company's long-term strategic capital management plan considers all financing options available to address the capital required to replace retiring generation and aging transmission and distribution infrastructure. There were no changes in the Company's approach to capital management during the year. The Company or any of its subsidiaries, other than ABIL, are not subject to any externally imposed minimum capital requirements.

Employee benefit obligation risks
Through its (1) DB Pension Plan, (2) Medical Benefit Plan and (3) Group Life Insurance Plan, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility
The plans obligations are calculated using a discount rate set with reference to corporate bond yields. If the DB Pension Plan assets do not grow by at least this rate, the net pension deficit may increase. The DB Pension Plan assets as at the end of 2018 were composed of equity securities (making up 49.1% of total plan assets), and debt securities and cash (making up the balance). The DB Pension Plan asset mix is selected to target sufficient asset returns to ensure the adequate funding of the pension liability within a reasonable risk profile. The Company, in conjunction with its investment advisors regularly assesses the composition of the asset portfolio to address volatility risk.

Changes in bond yields
A decrease in corporate bond yields would increase plan liabilities. For the DB Pension Plan, this will be partially offset by an increase in the value of the DB Pension Plan's bond holdings.

Inflation risks
The Company's DB Pension Plan is partially impacted by salary inflation, and higher inflation would lead to higher plan obligations. The majority of the DB Pension Plan assets are either unaffected by, or partially correlated with, inflation meaning that an increase in inflation may also increase the pension plan deficit. The Company has mitigated certain inflation risks through plan amendments made in recent years.

Life expectancy
An increases in life expectancy would lead to:

- An increase in the DB Pension Plan and medical benefit plan obligations; and
- A decrease in the group life insurance plan obligations.

The impact of changes in discount rates, salary scale and mortality rates are illustrated in the sensitivity analysis in Note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

16. FINANCIAL ASSETS AND LIABILITIES

The Company manages its exposure to credit, liquidity, market (including interest rate) and other risks in accordance with established risk management policies and procedures (see Note 15). The Company's financial instruments and their designations are (i) held for trading: cash and cash equivalents and investments; (ii) loans and receivables: accounts receivable; and (iii) other liabilities: bank borrowing, customer deposits, trade and other payables, asset retirement and environmental clean-up obligations.

Interest rate risk
The Company's interest-bearing assets and liabilities include cash and cash equivalents, current and non-current bank borrowing. The interest rate risk faced by the Company is largely a result of its cash and cash equivalents and bank borrowing at variable rates. Cash flow hedges (Note 13) are also being used to mitigate the risk of increases in interest rates on a large portion of the Company's existing debt.

Credit risk
There is a concentration of credit risk as all Company cash is held with four Bermuda banks. There is further credit risk as the Company may not be able to collect all of its customer accounts receivable that arise in the normal course of business, but this does not represent a significant concentration of credit risk as amounts are owed by a large number of customers on normal credit terms. The requirement for security deposits for certain customers, which are advanced cash collections from customers to guarantee payment of electricity billings, further reduces the exposure to credit risk. The maximum exposure to credit risk is the net carrying value of these financial instruments. The Company manages credit risk primarily by executing its credit and collection policy, including the requirement for security deposits, through the resources of its Customer Experience Department.

The aging of trade receivables is as follows:

$000's	2018			2017		
	GROSS CARRYING AMOUNT	EXPECTED LOSS RATE	LOSS ALLOWANCE	GROSS CARRYING AMOUNT	EXPECTED LOSS RATE	LOSS ALLOWANCE
Not past due	$18,394	0.6%	$118	$16,062	0.8%	$123
Past due 31-60 days	2,228	3.8%	84	2,047	7.9%	161
Past due 61-90 days	816	11.6%	95	730	26.2%	191
Past due over 90 days	5,358	82.2%	4,403	4,958	88.8%	4,405
	26,796		4,700	23,797		4,880
Less: allowance for doubtful accounts	(4,700)			(4,880)		
Less: allowance for discounts	(422)			(374)		
	21,674			18,543		
Other (net) receivables	338			(253)		
	$22,012			$18,290		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

$000's	2018	2017
ALLOWANCE FOR IMPAIRMENT		
Opening balance	$4,880	$4,189
Adjustment for IFM opening balance	-	30
Increase (decrease) in allowance	78	(238)
Amounts written (off) back	(258)	899
Closing balance	$4,700	$4,880
ALLOWANCE FOR DISCOUNTS		
Opening balance	$374	$352
Increase in discounts	48	22
Closing balance	$422	$374

Liquidity risk
The Company's financial position could be adversely affected if it failed to arrange sufficient and cost-effective financing to fund, amongst other things, capital and operating expenditures, repayment of bank borrowing, and pension funding obligations. The ability to arrange such financing is subject to numerous factors, including the results of operations and financial position of the Company, regulatory environment, conditions in the capital and bank credit markets, and general economic conditions. The Company manages short-term liquidity risk primarily by maintaining overdraft and revolving credit facilities with a limit of $85 million (2017: $30 million) with the Bank of N. T. Butterfield & Son Limited and CIBC First Caribbean International Bank (Cayman) Limited, as explained in Note 14.

The following table categorizes the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are contractual undiscounted cash flows. Balances due within 12 months approximate carrying values, as the impact of discounting is not significant. In respect of bank borrowing, amounts due after 1 year are considered to approximate fair value given the floating interest rate. The asset retirement, environmental clean-up, and long term employee benefit plan obligations are all subject to discounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

$000's	CARRYING AMOUNT	LESS THAN 1 YEAR	GREATER THAN 1 YEAR
AS AT 31 DECEMBER 2018			
Bank borrowing	$54,674	$2,973	$51,701
Derivative financial instrument	3,015	-	3,015
Trade and other payables	30,280	30,280	-
Customer deposits	252	252	-
Total financial liabilities	$88,221	$33,505	$54,716

$000's	CARRYING AMOUNT	LESS THAN 1 YEAR	GREATER THAN 1 YEAR
AS AT 31 DECEMBER 2017			
Bank borrowing	$5,400	$2,479	$2,921
Trade and other payables	29,098	29,098	-
Customer deposits	246	246	-
Total financial liabilities	$34,744	$31,823	$2,921

Market risk
Exposure to foreign exchange rate fluctuations is immaterial as all receivables and payables are generally settled within a month. The Company is also exposed to limited commodity price risk. Market-driven changes in interest rates can cause fluctuations in interest costs associated with the Company's bank credit facilities. The Company periodically refinances its credit facilities in the normal course of business.

The Company's DB Pension Plan is impacted by economic conditions. There is no assurance that the DB Pension Plan assets will earn the expected long-term rate of return in the future. Market-driven changes impacting the performance of the DB Pension Plan assets may result in material variations in actual return on DB Pension Plan assets from the expected long-term return on the assets. This may cause material changes in future pension liabilities and pension expense. Market-driven changes impacting the discount rate may also result in material variations in future pension liabilities and pension expense.

Carrying values
Cash is carried at fair value. Short-term investments are designated as held for trading and are carried at fair value. The carrying value of receivables and current liabilities is amortised cost.

Fair values
The fair value of short-term investments is determined through reference to the last trade price of third-party stocks held and listed on the Bermuda Stock Exchange and New York Stock Exchange. The Company sold its listed short-term financial instruments in 2018. The Company has retained its investment in the Bermuda Credit Association which is accounted for at cost.

Other risks
As at 31 December 2018, the fair value of the Company's DB Pension Plan assets was $153 million compared to fair value of plan assets of $171 million, as at 31 December 2017 (refer to Note 17). The decrease in the fair value of pension plan assets during 2018 was due mainly to unfavorable market conditions in 2018, as

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

compared to 2017. The Company does not expect any difficulty in its ability to meet future pension funding requirements, as it expects the amounts will be financed from a combination of cash generated from operations and amounts available for borrowing under BELCO's existing bank credit facilities.

SENSITIVITY ANALYSIS

The analysis below illustrates the extent to which the Company's results are impacted by financial instruments and the underlying market risks (interest rate risk and commodity price risk). Sensitivity to interest rate risk on pension and other long term benefit obligations is disclosed in Note 17.

This analysis reflects the sensitivity of reasonably possible changes in Bermuda interest rates. Sensitivities are reflected in changes to net earnings. Changes in the world market price of fuel used to generate electricity do not directly impact profitability as fuel costs in excess of $30.00 per barrel are separately recovered through the FAR (refer to Note 4).

A 50 basis points increase or decrease in interest rate of both bank overdraft and revolving loan facilities would increase or decrease net earnings by approximately $114,000 (2017: $45,000).

17. POST-RETIREMENT BENEFIT PLANS

Defined Contribution Pension Plan

Total employer contributions paid to the defined contribution pension plan (the "DC Pension Plan") during the year are as follows:

$000's	2018	2017
Ascendant Group	$442	$437
BELCO	1,834	1,529
AG Holdings	358	329
	$2,634	$2,295

The 2018 DC Pension Plan expense includes $0.8 million in "top up expenses" (2017: $0.6 million) associated with both the DB Pension Plan hard freeze finalised in 2016 and the 2017 settlement between BELCO and the Electric Supply Trade Union (ESTU) concerning changes in post-retirement medical benefits for future retirees. Both of these changes are described more fully below.

Defined Benefit Pension Plan

Prior to 1 January 2012, the Company made contributions to a non-contributory defined benefit plan (the "DB Pension Plan") covering all full-time employees hired before 1 January 2006. The DB Pension Plan provides a pension benefit to members equal to a percentage of the member's average salary prior to retirement. The percentage benefit is based upon the member's years of service up to a maximum benefit of 65%, while the average salary is calculated as the average highest earnings over a consecutive three-year period in the 10 years immediately prior to retirement.

The chronology of major changes to the DB Pension Plan:

- 31 December 2011: A "soft" freeze of the DB Pension Plan was imposed. Under the terms of the "soft" freeze, the percentage benefit was frozen, but the pensionable earnings benefit to which the fixed percentage will be applied would continue to be based on final earnings as noted above.
- 1 January 2012: All full-time employees covered under the DB Pension Plan were transitioned to the DC Pension Plan for pension amounts accruing after that date.
- 20 October 2015: A Deed of Amendment was filed with the Bermuda Pension Commission (the "Pension Commission") to hard freeze benefits effective 31

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

December 2015 for members who were employed and remunerated on a salaried basis at 31 December 2015. The Pension Commission approved this amendment.

- 1 January 2016: An additional Deed of Amendment was filed clarifying the intent of the benefits hard freeze for members who were employed and remunerated on a salaried basis on 31 December 2015 but would not satisfy eligibility requirements to retire with an unrestricted pension by 31 December 2025. This revised amendment was approved by the Pension Commission and enables the following:
    - Members retiring between 1 January 2016 and 31 December 2025 will have their DB Pension Plan soft frozen and be eligible for early retirement offerings. These members will have their DB Pension benefit hard frozen effective 1 January 2026; and
    - Members due to retire after 1 January 2026 will have their DB Pension Plan hard frozen as at 31 December 2015. These employees will receive a monthly top-up to their DC Pension Plan until their former earliest unrestricted retirement date. The top-up is intended to help offset the effect of the hard-freeze on the DB Pension Plan retirement benefit.

Medical Benefit Plan

The Group changed its post-retirement benefits effective 1 September 2015 by cancelling the post-retirement portion of the life insurance plan for existing and future retirees, changing the insurance provider for existing retirees and transitioning out of the post-retirement portion of the health insurance plan for future retirees, in an effort to achieve a market competitive post-retirement benefit package. The changes to the health insurance plan were the subject of legal proceedings with BELCO retirees and a dispute with BELCO employees.

The legal proceedings with retirees ended in February 2017 with the Supreme Court ruling against BELCO in respect of its proposal to transition to another insurance provider for BELCO retirees. This ruling had no financial impact as the medical benefit obligation of BELCO was determined in the current and prior years on the assumption that BELCO would be unsuccessful in this matter.

The dispute in respect of the current BELCO employees was settled on 23 January 2018 by way of an agreement between BELCO and the ESTU. Under the settlement agreement, in lieu of post-retirement medical insurance, BELCO employees who were employed prior to 7 June 2017, and had successfully completed probation on such date, could opt to make an additional contribution to the DC Pension Plan and see that contribution matched by BELCO (up to a maximum of $1,940 per annum) (the "Option"). The period during which the employees could exercise the Option ran from 1 August 2017 to 31 January 2018. The Option was also exercisable by all other employees within the Group, with their employers having to make the additional contributions for those employees who wished to take part.

Group Life Insurance Plan

Group employees who retired prior to 1 September 2015 are entitled to a death benefit based on a prescribed multiple of final salary at time of retirement. This portion of the plan represents a non-standard benefit accounted for in accordance with IAS19 in line with DB Pension Plan accounting requirements.

Active Group employees are entitled to a death benefit while employed based on a prescribed multiple of final salary. This portion of the plan is a standard, short term employment benefit with net premiums expensed as incurred.

Under the settlement agreement dated 23 January 2018 between BELCO and the ESTU, all BELCO employees hired prior to 7 June 2017 who had successfully completed their probationary period by such date are entitled to a post-employment death benefit equal to $15,000 upon retirement. Such post-employment death benefit is also available to the employees of the other entities within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
$000's	**2018**	2017	**2018**	2017	**2018**	2017
ACCRUED BENEFIT OBLIGATION						
Balance - Beginning of year	**$185,747**	$171,742	**$31,660**	$35,603	**$5,310**	$4,622
Service cost - employer	**-**	-	**181**	243	**34**	30
Interest cost	**6,645**	6,535	**1,141**	1,467	**194**	192
Net actuarial (gain) / loss due to:						
Changes in experience	**(931)**	4,665	**(641)**	(5,176)	**(87)**	127
Changes in demographic assumptions	**-**	791	**-**	-	**-**	-
Changes in economic assumptions	**(23,364)**	15,304	**(2,332)**	1,179	**(565)**	395
Plan amendments				-		-
Benefits paid	**(8,762)**	(13,290)	**(1,695)**	(1,656)	**(64)**	(56)
Balance - End of year	**$159,335**	$185,747	**$28,314**	$31,660	**$4,822**	$5,310
PLAN ASSETS						
Fair value - Beginning of year	**$170,627**	$160,038	**-**	-	**-**	-
Interest credit	**6,503**	6,047	**-**	-	**-**	-
Employer contributions	**5,245**	8,054	**-**	-	**-**	-
Non-investment expenses	**(216)**	(216)	**-**	-	**-**	-
Benefits paid	**(8,762)**	(13,290)	**-**	-	**-**	-
Actuarial gain / (loss)	**(19,967)**	9,994	**-**	-	**-**	-
Fair value - End of year	**$153,430**	$170,627	**-**	-	**-**	-
Funded deficit	**$(5,905)**	$(15,120)	**$(28,314)**	$(31,660)	**$(4,822)**	$(5,310)
Impact of minimum funding requirements	**-**	-	**-**	-	**-**	-
Accrued benefit liability	**$(5,905)**	$(15,120)	**$(28,314)**	$(31,660)	**$(4,822)**	$(5,310)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The Company's net benefit expense recognised in consolidated statement of income is:

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
$000's	2018	2017	2018	2017	2018	2017
Current service costs	$-	$-	$181	$243	$34	$30
Administration costs	216	216	-	-	-	-
Net interest expense	339	761	1,141	1,467	194	192
Total net benefit expense	$555	$977	$1,322	$1,710	$228	$222

DB Pension Plan Asset Breakdown
The following table shows the breakdown of the fair value of the Company's DB pension plan assets by major category:

$000's	2018		2017	
Equity securities	$75,388	49.1%	$52,554	30.8%
Debt securities	74,910	48.8%	116,758	68.4%
Cash	3,182	2.1%	1,315	0.8%
Total	$153,430	100.0%	$170,627	100.0%

The Company's actuarial (gains) and losses are recognised in other comprehensive income at 31 December are as follows:

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
$000's	2018	2017	2018	2017	2018	2017
Cumulative amount at 1 January	$25,552	$21,883	$5,374	$9,371	$1,407	$885
Recognised during the year	(4,526)	3,669	(2,973)	(3,997)	(652)	522
Cumulative amount at 31 December	$21,026	$25,552	$2,401	$5,374	$755	$1,407

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The primary actuarial assumptions in measuring the Company's accrued benefit obligations at 31 December are as follows:

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
	2018	2017	**2018**	2017	**2018**	2017
ECONOMIC ASSUMPTIONS						
Discount rate (weighted-average):	4.50%	3.40%	4.40%	3.70%	4.40%	3.70%
Active member obligations	4.50%	3.90%	4.40%	3.70%	4.40%	3.70%
Inactive member obligations	4.50%	3.11%	4.40%	3.70%	4.40%	3.70%
Inflation rate	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%
Increase in pensionable earnings	3.00%	3.00%	N/A	N/A	N/A	N/A

The discount rate used by the Company's actuary in determining the accrued pension and medical benefit obligations is, in the opinion of management, consistent with market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of the expected benefit payments.

For measurement purposes, the annual rate of increase in the per capita cost of covered healthcare was assumed to be 4.00% per annum for legacy retirees (retirees as at 31 December 2015) and 0.00% for future retirees as the Company's contributions are capped.

Assumptions regarding future mortality are based on published statistical and mortality tables. The current longevities underlying the values of the liabilities in the defined post-retirement benefit plans are as follows:

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
Longevity at age 65 for current pensioners	**2018**	2017	**2018**	2017	**2018**	2017
Males	22.5	22.4	22.5	22.4	22.5	22.4
Females	24.7	24.7	24.7	24.7	24.7	24.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

	DB PENSION PLAN		MEDICAL BENEFIT PLAN		LIFE INSURANCE PLAN	
Longevity at age 65 for current members aged 45	**2018**	2017	**2018**	2017	**2018**	2017
Males	23.5	23.5	23.5	23.5	23.5	23.5
Females	25.7	25.6	25.7	25.6	25.7	25.6

Sensitivity Analysis: Post Retirement Benefits
The calculation of the various post-retirement benefit plan obligations is sensitive to the assumptions set out above. The following tables show the impact on the various post-retirement benefit plans of changes to the assumptions while holding other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the DB Pension Plan obligation to significant actuarial assumptions, the same method (present value of the DB Pension Plan obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the DB Pension Plan liability recognised within the consolidated statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to previous periods.

DB PENSION PLAN ($000's)	**2018**		2017	
Effect of 1% increase in discount rate	$(18,502)	-11.6%	$(21,857)	-11.8%
Effect of 1% decrease in discount rate	22,858	14.3%	30,202	16.3%
Effect of 1% increase in salary scale	3,670	2.3%	4,844	2.6%
Effect of 1% decrease in salary scale	(3,274)	-2.1%	(4,319)	-2.3%
Effect of 10% increase in mortality rates	(3,030)	-1.9%	(3,738)	-2.0%
Effect of 10% decrease in mortality rates	3,340	2.1%	4,123	2.2%

MEDICAL BENEFIT PLAN ($000's)	**2018**		2017	
Effect of 1% decrease in discount rate	$3,308	11.7%	$4,022	12.7%
Effect of 1% increase in discount rate	(2,781)	-9.8%	(3,346)	-10.6%

LIFE INSURANCE PLAN ($000's)	**2018**		2017	
Effect of 1% decrease in discount rate	$836	17.3%	$1,000	18.8%
Effect of 1% increase in discount rate	(664)	-13.8%	(783)	-14.7%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The following table shows the projected post-retirement cash flows (expected benefit payments) for the years following 31 December 2018:

$000's	LESS THAN 1 YEAR	BETWEEN 1-2 YEARS	BETWEEN 2–5 YEARS	BETWEEN 6-10 YEARS	TOTAL
DB Pension Plan	$8,023	$8,280	$25,973	$46,724	$89,000
Medical Benefit Plan	1,613	1,681	5,390	9,579	18,263
Life Insurance Plan	168	176	569	1,118	2,031
Total	$9,804	$10,137	$31,932	$57,421	$109,294

In accordance with the applicable pension legislation, in 2018 the Group contributed funding of $5.2 million (2017: $8.1 million) which would target elimination of the going concern pension plan deficit over a period of 15 years. However, the actual outcome of the objective will be affected by investment returns and demographic experience. The weighted average duration of the defined benefit obligation is 12.2 years

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

18. EMPLOYMENT BENEFIT EXPENSE

$000's	2018	2017
SHORT-TERM EMPLOYEE BENEFITS		
Wages and salaries	$49,798	$45,106
Bonuses and LTIP (Note 22)	8,703	4,692
Contributions to Government Pension, DC Pension and Medical Benefit Plans	6,377	5,636
All other	2,835	2,017
	67,713	57,451
POST-EMPLOYMENT BENEFITS		
DB Pension Plan (Note 17)	555	977
Medical Benefit Plan (Note 17)	1,323	1,710
Life Insurance Plan (Note 17)	228	222
	2,106	2,909
TERMINATION BENEFITS		
Redundancies and separation benefit payments	4,390	2,326
EQUITY TRANSACTIONS		
Directors fees (share value at issue date)	460	140
Shares issued under management retention plan (share value at issue date)	2,606	-
Discount on share purchases – active employees	47	16
	3,113	156
Total employee benefit expense	$77,322	$62,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

19. 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 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. 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 year ended 31 December 2018, 40,650 shares were issued to employees under the employee share purchase plan (2017: 21,367 shares issued).

20. SEGMENTED INFORMATION

Reportable segments correspond to the Company's internal management 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 net earnings. The accounting policies of the reportable segments are the same as those described in Note 3.

- Bermuda Electric Light Company Limited (BELCO) – Provides electric utility services and is a rate regulated company.
- AG Holdings Limited (AG Holdings) – A subsidiary of AGL and parent company of AIRCARE, IFM, iEPC and Ascendant Properties that provide the following services:
  1) Property and facility management services;;
  2) Property management;
  3) Engineering procurement, contracting and consulting; and
  4) HVAC, air quality monitoring, building and energy management.

CONTINUING OPERATIONS ($000's)	**BELCO**	**AG HOLDINGS**	**ALL OTHER (a)**	**TOTAL**
As at 31 December 2018				
Segment revenues	$230,859	$31,891	$11,886	**$274,636**
Less: Revenues from internal customers	76	1,574	11,902	**13,552**
Revenues from external customers	230,783	30,317	(16)	**261,084**
Interest expense	317	240	71	**628**
Depreciation, amortisation and accretion	24,721	560	-	**25,281**
Segment net earnings	15,168	4,183	(13,958)	**5,393**
Segment assets	381,954	33,678	24,214	**439,846**
Capital expenditure	73,058	1,785	-	**74,843**
Segment liabilities and regulatory deferral credit balances	142,448	20,217	5,442	**168,107**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CONTINUING OPERATIONS ($000's)	**BELCO**	**AG HOLDINGS**	**ALL OTHER (a)**	**TOTAL**
As at 31 December 2017				
Segment revenues	$224,049	$32,661	$13,051	**$269,761**
Less: Revenues from internal customers	30	1,296	12,996	**14,322**
Revenues from external customers	224,019	31,365	55	**255,439**
Interest expense	177	305	87	**569**
Depreciation, amortisation and accretion	24,561	503	-	**25,064**
Segment net earnings	23,305	5,034	(5,205)	**23,134**
Segment assets	332,872	32,831	28,927	**394,630**
Capital expenditure	26,065	22	-	**26,087**
Segment liabilities and regulatory deferral credit balances	93,551	24,461	6,421	**124,433**

(a) All other, representing segments below the quantitative thresholds, are attributable to Ascendant Group Limited, the ultimate parent company, and ABIL, a captive property insurance company.

Reconciliation of segment revenues to total Group revenues is noted below:

$000's	**2018**	2017
Revenues from external customers	**$261,084**	$255,439
Cost of goods sold and discounts	**(28,344)**	(30,298)
Consolidated revenues	**$232,740**	$225,141

$000's	**2018**	2017
Timing of revenue recognition:		
At a point in time	**$5,268**	$6,492
Over time	**255,816**	248,947
Revenue from external customers	**$261,084**	$255,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Reconciliation of segment depreciation, amortisation and accretion to total Group depreciation, amortisation and accretion is noted below:

$000's	2018	2017
Total segmented depreciation, amortisation and accretion	$25,281	$25,064
Elimination of intercompany capital transaction	(42)	(42)
Consolidated depreciation, amortisation and accretion	$25,239	$25,022

Reconciliation of segment net earnings to total Company net earnings is noted below:

$000's	2018	2017
NET EARNINGS		
Total net earnings for reported segments	$5,393	$23,134
Elimination of inter-segment margins	43	(2,573)
(Loss) / gain on sale of discontinued operations	-	(361)
Consolidated net earnings	$5,436	$20,200

Reconciliation of segment assets to total Company assets is noted below:

$000's	2018	2017
ASSETS		
Assets for reportable segments	$439,846	$394,630
Investments in equity accounted investees	2,302	1,702
Elimination of intercompany investments and receivables	(21,431)	(18,674)
Consolidated assets	$420,717	$377,658

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

Reconciliation of segment liabilities to total Company liabilities is noted below:

$000's	2018	2017
LIABILITIES AND REGULATORY CREDIT BALANCES		
Liabilities for reportable segments	$168,107	$124,433
Elimination of intercompany liabilities	(20,500)	(17,453)
Consolidated liabilities and regulatory credit balances	$147,607	$106,980

21. PROVISIONS

$000's	ASSET RETIREMENT OBLIGATION	ENVIRONMENTAL CLEAN-UP OBLIGATION	TOTAL
Balance at 1 January 2017	$14,641	$1,372	$16,013
(Decrease) increase due to changes in estimates	(234)	1,413	1,179
Accretion expense	734	70	804
Balance at 31 December 2017	$15,141	$2,855	$17,996
Balance at 1 January 2018	$15,141	$2,855	$17,996
Decrease increase due to work done related to capital projects	(27)	(54)	(81)
Accretion expense	757	142	899
Balance at 31 December 2018	$15,871	$2,943	$18,814

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 AROs is approximately $17.3 million (2017: $17.3 million), which will be incurred between 2021 and 2036. The discount rate used to calculate the fair value of the ARO was 5% (2017: 5%). Changes to planned dates and revisions in planned costs for decommission of a number of the Company's generating units resulted in a $234,000 decrease in the Company's 2017 year-end ARO provision and accretion expense. Work relating to buildings included in the ARO has been capitalized, resulting in a $27,000 decrease in the provision in 2018.

Environmental clean-up obligation
The Company has recognized a provision for its environmental clean-up obligation with respect to the decommissioning and remediation of its Old Power Station at the Central Power Station. In 2017, management made the decision to change its remediation approach for oily water waste and waste oil from onsite collection and treatment over 30 years from 2021 to 2052 to excavation, treatment and reuse, with most work and expenditures now planned for 2023. This effort would closely follow the decommission

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

of a significant number of its generation units and associated buildings in 2020 providing the Company with approximately 4 acres of available commercial property for future development. The present value impact of this change in remediation approach resulted in the Company increasing its environmental provision and expense in 2017 by $1.4 million. The present value of the costs to be incurred for site restoration has been estimated at approximately $2.9 million at 31 December 2018 (2017: $2.9 million). The discount rate used to calculate the fair value of the environmental clean-up obligation was 5% (2017: 5%). Work relating to areas on the BELCO site included in the environmental clean-up provision has been capitalized, resulting in a $54,000 decrease in the provision in 2018.

22. RELATED PARTIES

Key management personnel compensation
Key management personnel include both Directors and Executives of the Group.

Compensation paid and payable to key management personnel for employee services for the year ended 31 December is as follows:

$000's	2018	2017
Salaries, fees and other short-term employee benefits	$15,384	$9,072

Effective January 1, 2013, the Company implemented a Long-Term Incentive Plan ("LTIP") and a Retention Share Programme designed to attract, retain and motivate senior management and tie a meaningful portion of compensation to the achievement of strategic objectives.

LONG-TERM INCENTIVE PLAN
The LTIP is comprised of an initial grant of a target number of 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 Board has the right to determine whether or not settlements should be made by way of shares or cash, or a combination thereof. The Company has outstanding awards under the LTIP for 2016 and 2017.

The Company's outstanding LTIP awards for 2016 and 2017 are accounted for as a liability, determined by reference to management's best estimate of the ultimate awards expected to vest, multiplied by the Company's weighted average share price for December 2018. From 2018, LTIP awards are no longer determined by reference to the Company's share price and are accounted for as a liability, determined by reference to management's best estimate of the amounts to be settled based on the officer's salary and expected fulfillment of certain performance objectives.

At December 31, 2018 the Company has accrued a liability of $0.8 million (2017: $1.0 million) and incurred an expense of $1.6 million (2017: $0.5 million) in the year then ended.

RETENTION SHARE PROGRAMME
In addition to the LTIP programme, the Company granted a total of 658,914 (2017: 583,914) restricted shares to certain officers for retention purposes. These retention shares are time restricted and vest over time in accordance with the individual officer's contractual agreement. The time restricted shares can only vest early due to termination or a change in control of the Company.

Effective 1 April 2018 the Company modified the terms of its retention share programme such that awards can only be settled by way of shares. As a result of this modification, the retention share awards ceased to be accounted for as a liability and the fair value of the awards on April 1, 2018 of $1.6 million was transferred to, and accounted for within, share premium as a component of the Company's equity.

A total of 240,580 retention shares were issued during the year (2017: Nil), resulting in recognition of $2.6 million recorded to equity. These issued shares included 120,290 shares granted and issued in the year based on performance. A further 100,000 retention shares were settled in cash.

The modification of the retention share programme, together with additional awards granted during the year

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

and vesting in 2019 and 2020, resulted in recognition of $3.7 million recorded to equity.

Prior to the modification of the retention share programme, the Company had recorded an expense of $0.3 million (2017: $1.7 million). The liability in respect of the retention share programme at December 31, 2017 was $2.5 million. A summary of the LTIP and retention share programme and the current dilutive impact as of December 31, 2018 is as follows:

CONSOLIDATED SHARE ALLOTMENT - OUTSTANDING

					CURRENT PERIOD	
TRANCHES (in shares)	**INITIAL AWARD**	**FORFEITED / EXPIRED**	**NEW AWARDS**	**PAID / ISSUED**	**OUTSTANDING**	**DILUTIVE**
LTIP Programme						
2015 Award	180,853	(129,017)	-	(51,836)	-	-
2016 Award	186,699	(141,019)	-	(27,330)	18,350	-
2017 Award	63,481	(3,031)	-	(29,610)	30,840	-
Retention Programme						
2018 Vest	230,290	(10,000)	120,290	(340,580)	-	-
2019 Vest	43,333	(10,000)	87,500	-	120,833	36,186
2020 Vest	340,291	(10,000)	174,457	-	504,748	290,761
Totals	1,044,947	(303,067)	382,247	(449,356)	674,771	326,947

23. SALE OF BERMUDA GAS & UTILITY COMPANY LIMITED (BERMUDA GAS)

In 2016, the Company sold its subsidiary, Bermuda Gas for $17.7 million plus final adjustments to reflect the working capital in the business.

In 2017, the Company recognised expenses $361,000 associated with this sale representing a final settlement adjustment.

24. COMMITMENTS

The Company has an arrangement with fuel suppliers to ensure adequate fuel will be available when needed for its electrical generation requirements. There were no commitments to acquire heavy fuel in 2019 as at 31 December 2018. Commitments under these contracts to acquire heavy fuel in 2018, as at 31 December 2017, totaled US$9.3 million (BD$9.5 million). On 26 March 2018, the Board approved the award of the heavy fuel contract for a duration of two years following a tendering process commenced in December 2017.

The Company entered into a five-year engine parts and service contract effective 1 January 2019, with MAN Diesel & Turbo at an annual price of €1.1 million plus US$417,000. The Company is also committed to a four-year engine parts and service contract for the North Power Station effective 1 January 2020 at an annual price of €595,000 and US$169,000.

The Company has a BD$6.9 million irrevocable standby letter of credit ("LOC") with the Bank on N.T. Butterfield & Son Limited in favor of The Collector of Customs in respect of customs duties on fuel imports stored at a third party facility. The LOC was renewed and extended to 31 March 2019.

The Company entered into an 18 month contract effective June 2018 with Burmeister and Wain for US$93.2 million for the construction of the North Power Plant.

The Company entered into a 10 month contract effective June 2018 with SAFT America for US$6.9 million related to the supply, installation and commission of the 10MW utility-scale battery energy storage system (BESS).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

In September 2017, the Company executed a Deed of Guarantee in the amount of BD$816,000 (CI$680,000) with Cayman National Bank Ltd. ("CNB"). This was in respect of financing that OPHL is obtaining from CNB to finance the construction of a new building for Otis.

25. SHARE REPURCHASE PROGRAMME

The purpose of the Company's share repurchase programme is to facilitate and improve shareholder liquidity.

During the current year, under the previous share repurchase programme which expired on 22 May, 2018, the Company repurchased 2,900 shares at an average cost of $9.58 per share (2017: 47,128 shares at an average cost of $9.18 per share). These shares have been added to the treasury stock balance.

In May 2018, the Company's Board of Directors authorised the repurchase of up to 1,000,000 Company shares through the share repurchase programme. This total represents approximately 10% of the Company's listed shares. The duration of this programme is one year commencing 23 May 2018. Under the current share repurchase programme up to 31 December 2018, the Company repurchased 647,845 shares at an average cost of $16.46. These shares were also added to treasury stock bringing the total repurchases for the year ended 31 December, 2018 to 650,745 shares.

During 2017, under the share repurchase programme which expired on 22 May 2017, the Company repurchased nil shares.

The balance in treasury stock as of 31 December, 2018 is 966,890 shares (as of 31 December 2017: 316,145 shares).

26. INVESTMENT IN LEASES

BELCO entered into an agreement with the Government of Bermuda, Ministry of Public Works on 3 September 2015 to supply, install and commission 4,440 LED streetlights together with the associated control and monitoring systems. In accordance with IAS 17 Leases, this arrangement is considered to represent a finance lease. BELCO has recognised the present value of future lease payments, less repayments to date, in line with the commissioning of the streetlights and the lessee's entitlement to use these assets. The current and non-current portions of BELCO lease receivable as at 31 December 2018 amounted to $205,000 and $2.1 million (2017: $127,000 and $2.3 million).

On 16 June 2016 AIRCARE entered into an agreement with the West End Development Corporation (WEDCO) to replace streetlights damaged by hurricanes Fay and Gonzalo with new high-efficiency lights in Dockyard. In accordance with IAS 17 Leases, this arrangement is considered to represent a finance lease. AIRCARE has recognised the present value of future lease payments, less repayments to date, in line with the commissioning of the streetlights and the lessee's entitlement to use these assets.

On 1 June 2015 AIRCARE entered into an energy savings contract with the Bermuda Institute of Ocean Sciences (BIOS) where BIOS acquires equipment and services to reduce energy costs and related expenses within their facility. In accordance with IAS 17 Leases, this arrangement is considered to represent a finance lease. AIRCARE has recognised the present value of future lease payments, less repayments to date, in line with the installation of agreed facility improvement measures and the lessee's entitlement to use these assets.

$000's	2018	2017
Not later than one year	$374	$265
Later than one year, but not later than five years	1,936	1,778
Later than five years	1,832	2,354
	3,768	4,132
Total	$4,142	$4,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

The current and non-current portions of AIRCARE's lease receivable as at 31 December 2018 amounted to $170,000 and $1.7 million (2017: $138,000 and $1.8 million).

The breakdown of the investment in leases balance as at 31 December is as follows: The Company has entered into a number of operating lease arrangements largely for the purpose of renting warehouse space and land to house infrastructure for the Company's core operations. These leases have varying terms, clauses and renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

$000's	2018	2017
Within one year	$231	$239
Later than one year but less than five years	188	254
Later than five years	297	329
Total	$716	$822

27. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's revenues are primarily derived from the sale of electricity, HVAC and other maintenance agreements, rental income and energy savings arrangements.

ASSETS AND LIABILITIES RELATED TO CONTRACTS WITH CUSTOMERS
The Company recognises contract assets and liabilities, as described in Note 3, in the Consolidated Statement of Financial Position.

Contract assets represent unbilled amounts typically resulting from performance contracts and other arrangements with a service period that spans over two fiscal years or projects lasting more than one year. In these contracts the revenue recognised exceeds the amount billed to the customer. Contract assets are recorded in accounts receivable in the Consolidated Statement of Financial Position.

Contract liabilities consist of advance payments and billings in excess of revenue recognised. Contract liabilities are recorded in deferred revenues in the Consolidated Statement of Financial Position prior to the commencement of the services.

Contract assets and liabilities related to contracts with customers consisted of the following:

$000's	2018	2017
Contract assets – current	$491	$173
Contract assets – non-current	246	-
Contract liabilities	(1,041)	(671)
Net contract liabilities	$(304)	$(498)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

SIGNIFICANT CHANGES IN CONTRACT ASSETS AND CONTRACT LIABILITIES
Contract assets have increased as the Company has provided more services ahead of the agreed payment schedules for our fixed-price contracts.

Contract liabilities have increased due to the timing of customer prepayments and contract billings.

REVENUE RECOGNISED IN RELATION TO CONTRACT LIABILITIES
The following table shows how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

$000's	2018	2017
Revenue recognised that was included in the contract liability balance at the beginning of the year		
Project contracts	$577	$814
Maintenance contracts	57	270
	$634	$1,084
Revenue recognised from performance obligations satisfied in previous years	$74	$-

REMAINING LONG-TERM CONSULTING PROJECTS
The Company does not have any long-term projects or maintenance contracts. The majority of contracts entered into are for one year or less and are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed. The remaining revenue to be recognised for contracts over one year would be immaterial. Revenue to be earned from contracts entered into in 2018, expected to be completed in 2019 have been included in the contract assets and liabilities balances noted above.

ASSETS RECOGNISED FROM COSTS TO FULFILL A CONTRACT
The Company has not created any assets in order to fulfill its contracts.

28. SUBSEQUENT EVENTS

The Company has evaluated subsequent events up to 4 March 2019.

On 28 January 2019, the Company's Board of Directors announced it had begun a process of evaluating strategic alternatives, including the potential sale of Ascendant Group Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

29. SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENT OF INCOME

$000's	2018	2017
OPERATING, ADMINISTRATIVE, REGULATORY AND ENERGY EXPENSES		
Operating and administrative expenses	$101,048	$91,191
Inventory write-down	1,068	5,988
Regulatory Authority fees	3,057	1,690
Purchased power/energy	3,885	3,725
Fuel	93,650	85,060
	$202,708	$187,654

$000's	2018	2017
NET FINANCE EXPENSE		
Foreign exchange loss	$420	$372
Change in fair value of investments	-	(23)
Gain on sale of investments	(46)	-
Gain on sale of investment properties	-	(759)
Interest expense	628	569
	$1,002	$159

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

30. SUPPLEMENTAL INFORMATION TO CONSOLIDATED STATEMENT OF CASH FLOWS

CHANGES IN NON-CASH WORKING CAPITAL BALANCES ($000's)	**2018**	2017
Deferred revenues	$354	$(1,376)
Accounts receivable, long-term receivable & investment in leases	(3,141)	962
Inventory	1,019	3,605
Prepaid expenses and other assets	(329)	(46)
Regulatory deferral account debit/credit balances	(973)	(151)
Tariff stabilization fund	-	(6,579)
Customer deposits	6	(5)
Trade and other payables	2,332	(2,730)
	$(732)	$(6,320)

NET DEBT RECONCILIATION ($000's)	**OVERDRAFT FACILITIES**	**TERM LOAN FACILITIES DUE WITHIN 1 YEAR**	**TERM LOAN FACILITIES DUE AFTER 1 YEAR**	**TOTAL**
Net debt as at 1 January 2017	$3,124	$2,096	$3,593	**$8,813**
Cash flows	(3,124)	132	(2,370)	**(5,362)**
Aquisitions	-	251	1,698	**1,949**
Net debt as at 31 December 2017	$-	$2,479	$2,921	**$5,400**
Net debt as at 1 January 2018	$-	$2,479	$2,921	**$5,400**
Cash flows	-	(3,905)	(2,921)	**(6,826)**
Aquisitions	17,420	4,399	34,281	**56,100**
Net debt as at 31 December 2018	$17,420	$2,973	$34,281	**$54,674**

31. CHANGES TO PRIOR PERIOD PRESENTATION

Certain prior year figures on the Consolidated Statements of Income and Cash Flows have been reclassified to conform to current year presentation.

FIVE YEAR SUMMARY

2014-2018

	IFRS BASIS				GAAP BASIS
	2018	2017	2016	2015	2014
Net earnings (BD $000's)	**$5,436**	$20,200	$24,911	$17,370	$17,561
Basic earnings per share of common stock (BD$)	**$0.56**	$2.04	$2.38	$1.63	$1.63
Fully diluted earnings per share of common stock (BD$)	**$0.54**	$1.96	$2.29	$1.62	$1.63
Dividends paid per share (BD$)	**$0.45**	$0.41	$0.30	$0.30	$0.44
Book value per common stock (BD$)	**$28.57**	$27.37	$25.75	$23.33	$22.44
Price / earnings ratio	**30.18**	4.79	2.84	2.95	3.32
Dividends payout ratio	**0.80**	0.20	0.13	0.18	0.27
Total assets (BD $000's)	**$420,717**	$377,658	$376,162	$363,692	$387,540
Return on assets (%)	**1.29%**	5.35%	6.62%	4.78%	4.53%
Shareholder equity (BD $000's)	**$273,110**	$270,678	$254,890	$239,608	$238,781
Return on equity (%)	**1.99%**	7.46%	9.77%	7.25%	7.35%
Debt / total capitalisation ratio (%)	**20.02%**	1.96%	3.34%	8.62%	17.17%
Market capitalisation (BD $000's)	**$177,890**	$99,906	$68,619	$51,410	$57,681
Share closing price (BD$)	**$16.90**	$9.79	$6.75	$4.80	$5.40
Number of shareholders	**3,031**	3,090	3,149	3,138	3,170
Total employees	**389**	385	398	412	454

BOARD OF DIRECTORS

PETER C. DURHAGER, J.P.
Chairman of the Board
Director since 2003
Retired Executive Vice President & Chief Administrative Officer, Renaissance Re Holdings Ltd.

L. ANTHONY JOAQUIN, J.P., F.C.A.
Deputy Chairman
Director since 2005
Retired, Managing Partner, Ernst & Young Bermuda

GAVIN R. ARTON
Director since 2000
Fellow of the Institute of Directors
Retired Senior Vice President of XL Capital Ltd.

LEAH DEAN
Director since 2016
Senior Vice President of Group Human Resources, Renaissance Re

SEAN DURFY
President & Chief Executive Officer, Ascendant Group Limited

A. SHAUN MORRIS
Director since 2013
General Counsel & Group Chief Legal Officer
The Bank of N.T. Butterfield & Son Limited

DONNA L. PEARMAN, J.P.
Director since 2008
President, People's Pharmacy Ltd.

MICHAEL SCHRUM
Director since 2013
Chief Financial Officer
The Bank of N.T. Butterfield & Son Limited

ALASDAIR YOUNIE
Director since 2013
Director, ICM Limited

ANNE M. CLEARY
Director since 2018
Retired Executive Vice President
NRG Energy, Inc.

RUDOLPH WYNTER
Director since 2018
President & COO
Wholesale Networks &
US Capital Delivery, National Grid

COMMITTEES

□ Chairman of Committee

■ Committee Member

	EXECUTIVE	AUDIT & RISK	GOVERNANCE	HUMAN RESOURCES & COMPENSATION
Peter C. Durhager	□		■	
L. Anthony Joaquin	■	□	■	
Gavin R. Arton	■			□
Leah Dean		■		■
Sean Durfy	■			
A. Shaun Morris	■		□	■
Donna L. Pearman		■		
Michael L. Schrum			■	
Alasdair Younie		■		■
Anne M. Cleary			■	■
Rudolph Wynter		■		

EXECUTIVES

SEAN DURFY
President & Chief Executive Officer,
Ascendant Group Limited

LORIANNE GILBERT
Senior Vice President,
General Counsel & Secretary,
Ascendant Group Limited

RICHARD LAU
Senior Vice President,
Information Technology
Ascendant Group Limited

ROBERT SCHAEFER
Senior Vice President & Chief Financial Officer,
Ascendant Group Limited

DENNIS PIMENTEL
Senior Vice President, Ascendant Group Limited
President, BELCO

JUDITH UDDIN
Senior Vice President, Ascendant Group Limited
President & Chief Operating Officer,
AG Holdings Limited

CORPORATE INFO

ASCENDANT GROUP LIMITED
Publicly traded investment holding company for energy and energy services

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

Mailing Address
P.O. Box HM 3392
Hamilton HM PX, Bermuda

TEL: 441.298.6100
FAX: 441.292.8975
EMAIL: info@ascendant.bm
WEBSITE: www.ascendant.bm

Sean Durfy
President & Chief Executive Officer

BERMUDA ELECTRIC LIGHT COMPANY LIMITED
Electric utility services

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

Mailing Address
P.O. Box HM 1026
Hamilton HM DX, Bermuda

TEL: 441.295.5111
FAX: 441.292.8975
EMAIL: info@belco.bm
WEBSITE: www.belco.bm

Dennis Pimentel
President

ASCENDANT BERMUDA INSURANCE LIMITED
Captive property insurance company

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

Mailing Address
Power House
7 Par-la-Ville Road
Hamilton HM 11, Bermuda

AG HOLDINGS LIMITED
Non-utility energy services investment holding company

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

Mailing Address
P.O. Box HM 3392
Hamilton HM PX, Bermuda

TEL: 441.298.6100
FAX: 441.292.8975
EMAIL: info@ascendant.bm
WEBSITE: www.ascendant.bm

Judith Uddin
President & Chief Operating Officer

IFM LIMITED
Property and facilities management services

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

TEL: 441.299.4789
FAX: 441.295.2577
WEBSITE: www.ifm.bm

AIRCARE LTD.
HVAC, building automation systems and energy management, fire protection, commercial refrigeration, commercial LED lighting and commercial plumbing services

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

Mailing Address
P.O. Box HM 1750
Hamilton HM GX, Bermuda

TEL: 441.292.7342
FAX: 441.295.1656
EMAIL: info@aircare.bm
WEBSITE: www.aircare.bm

Brendan Stones
General Manager

IEPC LIMITED
Engineering procurement, contracting and consulting

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda

TEL: 441.298.6155
FAX: 441.295.2577
WEBSITE: www.ascendant.bm

ASCENDANT PROPERTIES
Property management company

Registered Office
27 Serpentine Road
Pembroke HM07, Bermuda
WEBSITE: www.ascendant.bm

SHAREHOLDER INFORMATION

INVESTOR SERVICES

Tel: 441.298.6100, Ext. 1213
E-mail: info@ascendant.bm

Ordinary Shares

RANGE	RECORD COUNT	BALANCE
Balances at 31 December 2018		
Up to 100	987	42,051
101 to 500	957	231,110
501 to 1,000	373	277,982
1,001 to 5,000	490	1,133,642
5,001 to 10,000	83	600,391
10,001 to 100,000	127	3,261,194
100,001 to 1,000,000	13	3,496,781
Over 1,000,000	1	1,482,889
	3,031	10,526,040

At 31 December 2018, the Directors of the Company held 126,988 shares; the Officers of the Company held 249,463 shares.

Companies that held greater than 5% of the shares are Harcourt Account 1380430 with 1,482,889 and Wilson & Co Account 011-200276-631 with 908,200.

No rights to subscribe for shares in the Company have been granted to, or executed by, any Director or Officer.

There are no contracts of significance subsisting during or at the end of the financial year in which a Director was materially interested either directly or indirectly.

EXCHANGE LISTING

The Company's shares (AGL.BH) are listed on the Bermuda Stock Exchange (BSX)

Bermuda Stock Exchange
P.O. Box HM 1369
Hamilton HM FX
Bermuda
TEL: 441.292.7212
WEBSITE: www.bsx.com

Save Time, Money & Trees
We encourage the Company's shareholders to help us increase efficiency, while reducing expenditure and paper usage by electing direct deposit of dividends.

To sign up for electronic receipt of direct deposit of dividend notifications, send a message to info@ascendant.bm or download the electronic form at www.ascendant.bm and send completed to info@ascendant.bm, fax to 441.295.9427 or by mail to:
P.O. Box HM 3392
Hamilton, HMPX
Bermuda

BANKERS

The Bank of N.T. Butterfield & Son Limited
Hamilton, Bermuda

HSBC Bank Bermuda Limited
Hamilton, Bermuda

AUDITORS

PricewaterhouseCoopers Ltd.
Hamilton, Bermuda

LEGAL COUNSEL

Lorianne Gilbert
General Counsel & Secretary
Ascendant Group Limited

ASCENDANT

27 SERPENTINE RD
PEMBROKE HM 07
BERMUDA

P.O. BOX HM 3392
HAMILTON HM PX
BERMUDA

WWW.ASCENDANT.BM