How Do You Measure

ANNUAL REPORT 2013

THE VALUE OF ELECTRICITY

LUCELEC

ST. LUCIA ELECTRICITY SERVICES LIMITED

The Power of Caring

CORPORATE INFORMATION

REGISTERED OFFICE
LUCELEC Building
Sans Souci
John Compton Highway
Castries
Saint Lucia
Telephone: 758-457-4400
Fax: 758-457-4409
Email: lucelec@candw.lc
Website: www.lucelec.com

ATTORNEYS-AT-LAW
McNamara & Company
20 Micoud Street
Castries
Saint Lucia

AUDITORS
PKF Professional Services
Meridian Place
Choc Estate
P.O. Box Choc 8245
Castries, Saint Lucia

BANKERS
First Caribbean International Bank
Bridge Street
P.O. Box 335/336
Castries
Saint Lucia

Bank of Saint Lucia Ltd.
Bridge Street
P. O. Box 1862
Castries
Saint Lucia

MISSION

We deliver efficient energy services that are safe, reliable, and environmentally responsible. We meet the expectations of our customers, shareholders and employees and we are a catalyst for social and economic development in St. Lucia.

VISION

To be the energy that powers our nation's success.

CORE VALUES

Accountability, Excellence, Caring, Ethics.


Safety
Goal
Laughter
Accessibility
Communication
Convenience
Comfort
Fulfillment
Productivity
Ambition
SECURITY
Confidence
PROGRESS
HAPPINESS
Safety
Goal
Laughter
Accessibility

CONTENTS

THEME STATEMENT

The Value of Electricity

Electricity is a service that most of us can't do without. It powers our homes, our businesses, our lives. Essential services – medical and emergency services, police, communications, business, industry and government – could not function as they do without electricity.

And thanks to LUCELEC's excellent reliability rating, it is a service many take for granted as most people don't think about the value of electricity until the power goes out.

But while our customers don't have to think about it often, we do - 24 hours a day, 7 days a week. LUCELEC understands intimately, electricity's value to you and to the country, and we work hard to ensure it is available when you need it, and at a cost that is among the lowest in the Caribbean.

And because we understand the value of electricity, and our role in ensuring that value, we similarly embrace the responsibility we have to add value to the wider society through our support of education, sports, health care, safety and security, arts and culture, youth development, communities, charities, business and so much more.

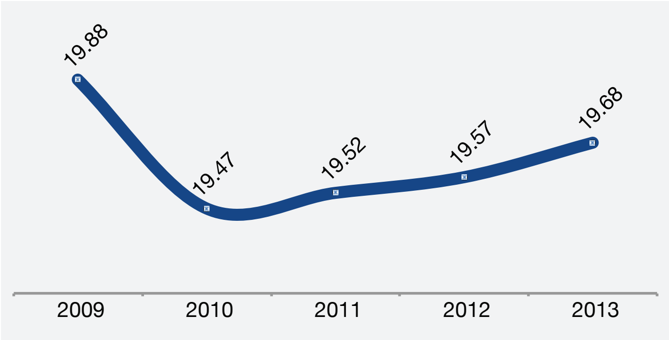
Electricity makes so much possible. LUCELEC too.

2013 CORPORATE PERFORMANCE & 2014 TARGETS

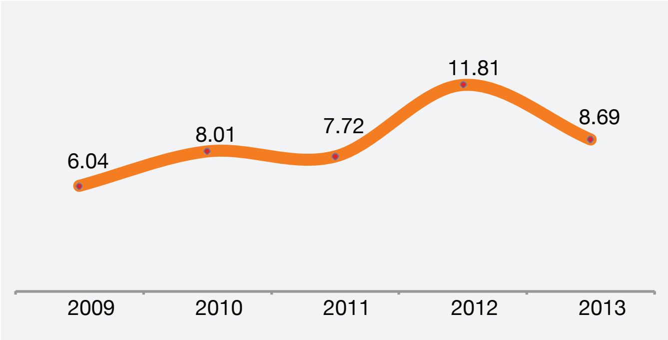
INDICES	MEASURE OF SUCCESS	TARGET	2013 PERFORMANCE	2014 TARGET
Improve Financial Performance	Return on Equity	12.90%	**12.0%**	**N/A**
	Profit After Tax[1]/Net Income	**N/A**	**N/A**	**$26.2M**
	Improved Working Capital	1.5	**1.70**	**1.70**
Increase customer value and stakeholder satisfaction	Fuel Efficiency (kWh/litre)	4.295	**4.33**	**4.31**
	SAIDI - System Average Interruption Duration Index (hours)	10.5	**8.69**	**9.00**
	Stakeholder (Customer) Satisfaction Score	85%	**85.80%**	**85.0%**
Identify & implement new business opportunities	Establishment of new Business venture	Two Business plans approved for execution	**45%**	**N/A**
Improved Cost Effectiveness of Energy Supply	Least cost fuel identified	80% completion	**81%**	**N/A**
	Adding Solar PV to the generation portfolio	75kW PV system commissioned and Supplier selected for utility scale PV	**N/A**	**100%**
	Own use reduction	To install 120 LED lamps by December 2013	**168 (internal)**	**N/A**
		90 LED Street Lights installed at Cul de Sac	**N/A**	**100%**
Reduction in System Losses	System Losses	9.55%	**8.82%**	**8.61%**
Improved HR Credibility	Achievement levels of Strategic project plan	Completion of agreed HR deliverables 2013 Target - 90%	**50.0%**	**90%**
Ready for New Regulation	Successful accomplishment of Action Items identified in project plans	Completion rate of Action Items 2013 Target - 90%	**85%**	**90%**

5-YEAR OPERATIONAL & FINANCIAL PERFORMANCE AT A GLANCE

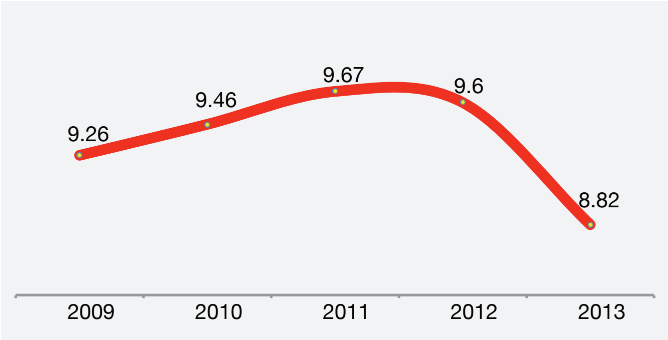
Fuel Efficiency (kWhs/ Imp. Gallon)



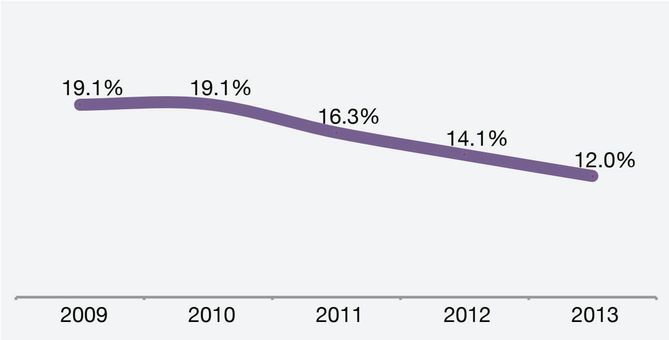
SAIDI (Hrs)



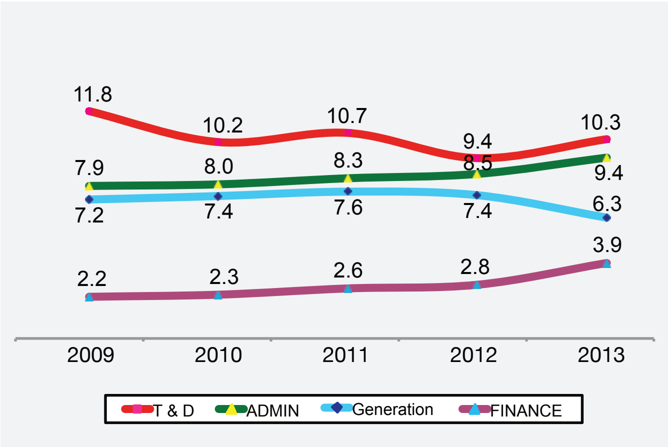
SYSTEM LOSSES (%)



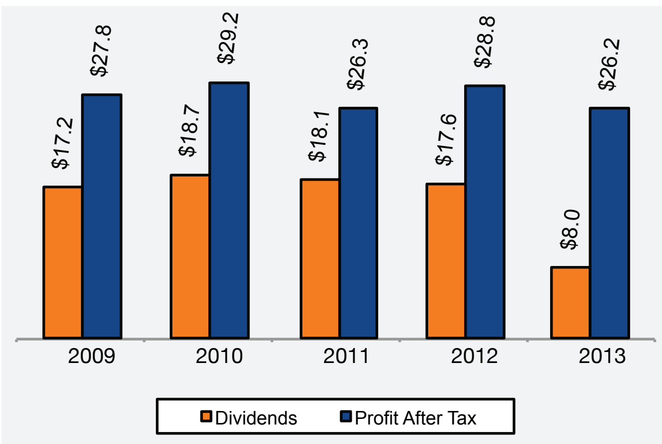
RETURN ON EQUITY (%)



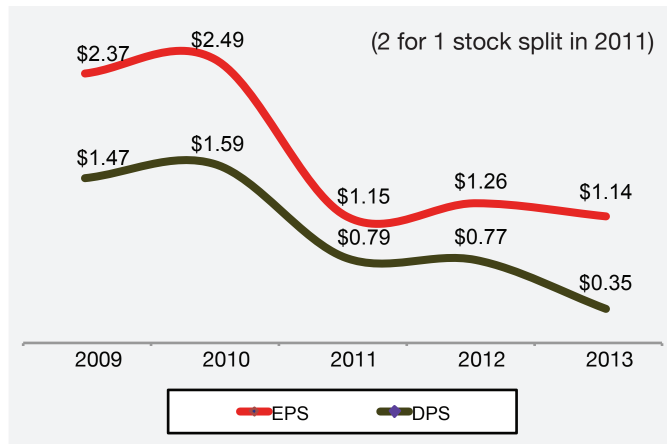
COST PER UNIT (EC Cents)



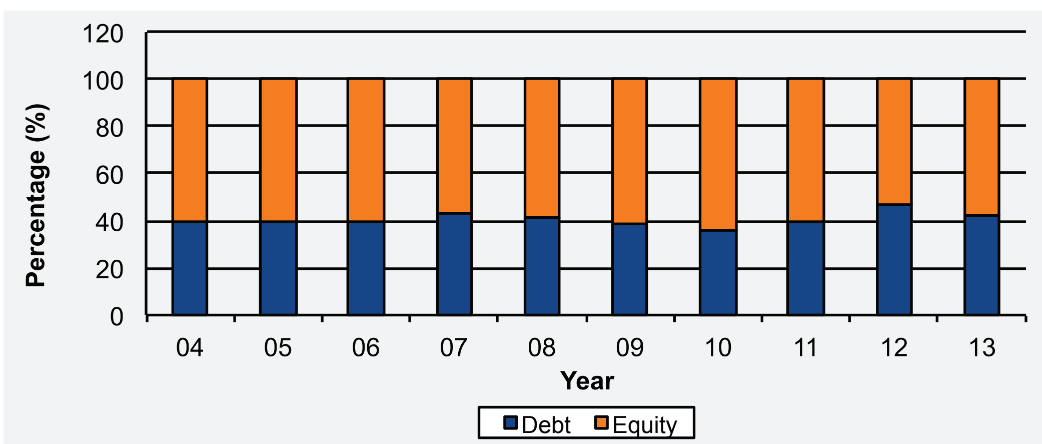
DIVIDENDS/PROFIT AFTER TAX (EC$ Millions)



EARNINGS & DIVIDENDS PER SHARE

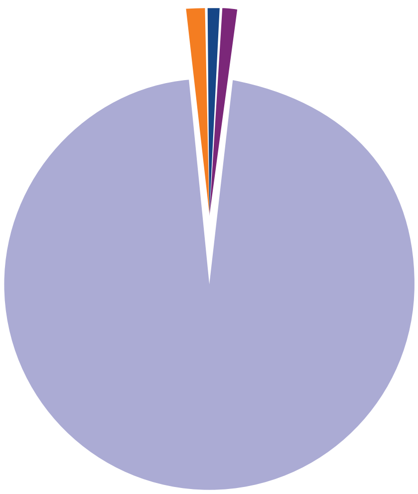


DEBT/EQUITY RATIOS



2013 FINANCIAL HIGHLIGHTS

Where the LUCELEC $ came from



	$'000	cents
Sale of Electricity	325,406	98.5
Proceeds from disposal of assets	15	0.0
Consumer contributions and deposits	2,726	0.8
Investment income	899	0.3
Sundry sales	1,347	0.4
	330,393	100.0

- Sale of Electricity
- Proceeds from disposal of assets
- Consumer contributions and deposits
- Sundry sales
- Investment income

How the LUCELEC $ was spent

	$'000	cents
Payroll costs	28,420	8.4
Fuel and lubricants	199,325	59.1
Purchase of fixed assets	28,210	8.4
Debt servicing	28,851	8.6
Dividends	18,788	5.6
Payments to Government	12,835	3.8
Operations	20,792	6.2
	337,221	100.0

- Payroll costs
- Fuel and lubricants
- Purchase of fixed assets
- Debt servicing
- Dividends
- Payments to Government
- Operations

CHAIRMAN'S REPORT

"diversification of power generation, either in joint ventures with partners or sole owner as appropriate, will define a new structure of the electricity sector"

Dr. Trevor A. Byer Acc. Dir. – Chairman

In St. Lucia, the end of the year 2013 brought back memories of 2010 when Hurricane Tomas demonstrated the "power of nature" with its attendant massive destruction of infrastructure and loss of life. On December 24, 2013, a "low level, high impact" trough system unleashed heavy rains, causing flash flooding and landslides especially in the south of the island, resulting in extensive damage to houses, businesses, roads and other infrastructure. Despite allied damage to LUCELEC's transmission and distribution (T&D) network and flood damage to the Union Sub-Station, along with communication system failures, by December 26, 2013 all of the island's electricity system had been restored. Once more LUCELEC's management, staff and contractors demonstrated, as in 2010, their understanding of the value of electricity to St. Lucia and the power of their commitment to excellence and to serve.

The Global Challenges Facing Electric Power Companies

One of the major issues both large interconnected and small island electric power utilities across the world face at this juncture is whether within a decade or two they would become primarily operators of the T&D networks. Much of this genuine concern revolves around the increasingly rapid penetration of renewable energy primarily driven, for the moment, by photovoltaic (PV) and wind systems. This has been supported by significant research and development in "green energy", ***allied with sizeable subsidies financed by the governments of the developed countries*** and, the parallel emergence of new "green energy" suppliers. Compounding these developments have been the increased focus ***primarily in the developed countries*** on electricity demand-side management strategies, e.g. switching to light emitting diode (LED) bulbs which while being higher in cost than conventional bulbs, last much longer, provide much more light, and, above all, use much less electricity. Additionally, enhanced efficiency of electricity driven equipment, such as air conditioning (AC) systems, refrigerators and other appliances have contributed to reduced electricity demand.

An example of a PV system and display (inset) installed at LUCELEC's Vieux Fort Administrative Office

But the push towards green energy has not been without consequences. A recent study by McKinsey[1] indicated that industrial costs in Germany are already 19% higher and domestic costs 48% higher than the EU average. In both cases, unless the subsidy structure is changed, costs will rise with “deindustrialization” becoming a real risk. Concurrently, an article in The Economist[2] noted that while in 2010 the EU’s Emissions Trading Scheme (ETS) Carbon spot price was about Euro 15/ton (US$20/ton), in 2014 this had declined to Euro 5/ton (US$6.8/ton).

The EU climate policy has two main strands. First, is the carbon market to raise the price of pollution. Second, to accelerate investment, research and development in “green energy” with subsidies for wind and solar power. The surge in “green energy” in Germany has been dramatic, but the subsidy cost has been greater than anyone expected – US$20 billion in 2013, which equates to a massive Carbon price of Euro 150-200/ton. Additionally, the impact on the established major electricity companies has been much worse than expected. For example, the 20 largest European electric utilities have lost about Euro 500 billion in market value since 2008. However, a contributing factor to this sizeable loss in market value has been the effect of the global recession in reducing demand for electricity in the industrial, commercial and domestic sectors. This “knock-on” effect has also been observed among most of the electricity companies in the Caribbean.

Another very important issue in the major continental countries of North, Central & South America as well as Western and Eastern Europe is power interconnection both between neighbouring countries in Central and South America and between States and across national borders in North America and Europe. For example, with the very sizeable penetration of intermittent wind and PV supply in Germany, at various periods of the year it imports hydro electricity from Switzerland, nuclear power from France and residual imports from Italy. This plays an important role in ensuring grid stability.

LUCELEC’s Major Challenges in the Immediate Future

Preparing for the new regulatory environment (the National Utilities Regulatory Commission) is one of the important challenges that the company faces as the scope,

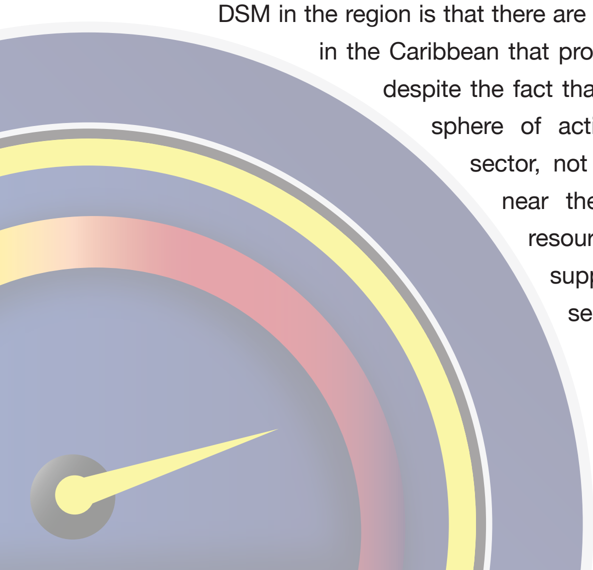
[1]Financial Times, 16 February 2014, “Could France & Germany Create a Common Energy Policy”, by Nick Butler. [2]The Economist, 25 January 2014, “European Climate Policy”,

transparency and independence of the proposed Commission unfold. When established the Commission would have responsibility for determining the tariff structure and levels, as well as the quality of service delivered by LUCELEC and any independent power producers. In this context, the scope, transparency and independence of the Commission would be key yardsticks by which it would be assessed.

With the expected emergence of independent power producers in St. Lucia, diversification of power generation, either in joint ventures with partners or sole owner as appropriate, will define a new structure of the electricity sector and with it, the evolution of new issues for LUCELEC such as a potential role as grid operator. Already, we are witnessing significant extra-regional technical and financial companies showing strong interest in supporting the emergence of wind, photovoltaic, geothermal, biomass and OTEC (Ocean Thermal Energy Conversion) systems in St. Lucia. In this context, geothermal, biomass and OTEC provide ***firm power*** options with accompanying high reliability, in contrast to the ***intermittent power*** generated by wind and PVs. This was very apparent at the Conference on renewable energy in the British Virgin Islands in February 2014, sponsored by Sir Richard Branson's "Carbon War Room", which envisages investments of about US$300 million in renewable energy in about 8 Caribbean islands, of which St. Lucia is one.

The other side of the coin to the supply side reforms is the role of Energy Efficiency (EE) and Demand Side Management (DSM). The irony is that EE and DSM are the lowest cost measures that can be deployed to achieve reduction in the use of electricity, allied with this being achieved with higher efficiency. Yet, in the Caribbean region these strategies have remained very much in the "background" of the energy reform thrust. This has to be elevated to the front burner if we are to achieve significant reform in the region.

One of the primary reasons for this very limited focus on EE and DSM in the region is that there are very few companies in the Caribbean that provide these services, despite the fact that this is a profitable sphere of activity in the energy sector, not requiring anywhere near the level of financial resources needed in the supply-side of the sector.



An important supply-side issue that both LUCELEC and the Regulatory Commission would need to confront is assessing the Power Purchase Agreements (PPA's) of companies that wish to sell renewable electricity to the company. A PPA may propose low initial prices for capacity and energy but transfer most performance risks (for example, target availability) to the purchaser. In this case the purchaser may pay a lot more for power procured under the PPA than under another PPA with higher initial prices but with more risk borne by the seller.

Another of the supply-side issues which needs to be addressed between the islands in the Caribbean is electricity interconnection. In 2010 the World Bank issued a report based on a study by Nexant on "Caribbean Regional Electricity Generation, Interconnection and Fuels Supply Strategy". One of the serious constraints that result in very high prices for electricity, especially in the Eastern Caribbean islands, is the absence of power interconnection between those islands in which the key parameters determining the price of power delivered to the importer are: water depths, distance and cost of the interconnection between the islands in question, and the primary energy source used in producing the electricity – whether hydro, geothermal, biomass, natural gas, diesel or heavy fuel oil. From a cursory overview, the interconnections which appear to offer the best opportunities for St. Lucia from technical and financial perspectives are from: northern Dominica to southern Guadeloupe and to northern Martinique, and, from southern Martinique to northern St. Lucia.

Given the changing environment in which LUCELEC would operate, one of its key strategies is diversification. This will be done through the establishment of a Subsidiary Holding Company (SHC). Preliminary analyses and studies are underway to identify which business cases offer the best prospects of success.

Finally, given the diversification strategy which would be implemented during the next couple of years, it is imperative that the new organizational structure and the other Human Resources initiatives which support the strategies outlined in this report be of high priority.

I take the opportunity to thank the Board, Management and Staff for their efforts and support in the past year. I look forward to the continuation of that support as we seek to improve the value we provide to our customers.

Dr. Trevor A. Byer – Chairman

BOARD OF DIRECTORS

A **Dr. Trevor A. Byer Acc. Dir. – Chairman**

Dr. Byer is an Energy Consultant. He was appointed to the Board of Directors in December 2008, representing minority shareholders. Dr. Byer holds an M.A. and Ph.D. in Nuclear Physics from Cambridge University. He is the Chairman of the Board's Strategic Planning and Investments Committee and a member of the Human Resource Committee.

B **Trevor M. Louisy, Acc. Dir. – Managing Director**

Mr. Louisy was appointed to the Board on January 1, 2004 and is the Managing Director of St. Lucia Electricity Services Limited. He has a B.Sc. in Electrical Engineering and is a member of the Board's Human Resource and Strategic Planning and Investments Committees.

C **Stephen Mc Namara**

Mr. Mc Namara is a Senior Partner with the law firm of Mc Namara & Company, LUCELEC's external legal advisors. He was appointed to the Board on October 27, 2005, representing minority shareholders. Mr. Mc Namara became a Barrister at Law after attending Lincoln's Inn – Inn of Court School of Law. He is the Chairman of the Board's Governance Committee and a member of the Human Resource Committee.

D **Matthew Lincoln Mathurin, Acc. Dir.**

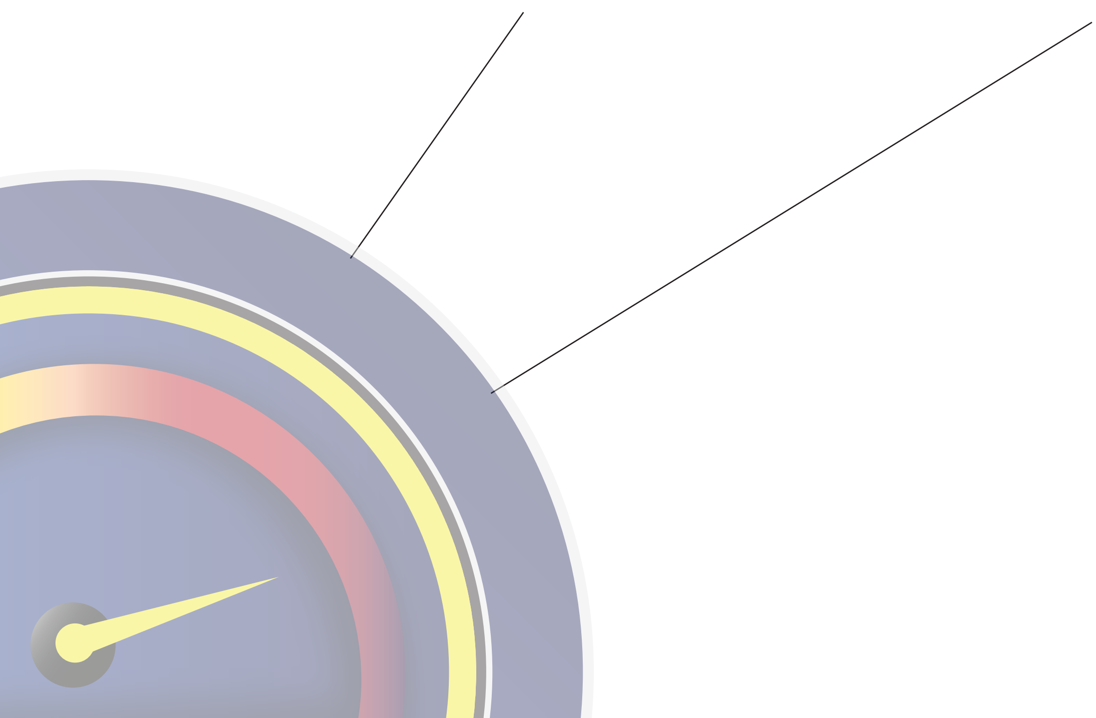
Mr. Mathurin is the Director/Chief Executive Officer of the National Insurance Corporation and was appointed to the Board by that organisation on August 29, 2007. He is a Fellow of the Chartered Association of Certified Accountants and holds an M.B.A. (with Distinction) from the Edinburgh Business School of Herriott Watt University. Mr. Mathurin is a member of the Board's Audit and Strategic Planning and Investments Committees.

E **Mr. Peter Williams**

Mr. Peter Williams was appointed by Emera (St. Lucia) Limited to the Board of St. Lucia Electricity Services Limited on March 2, 2011. Mr. Williams holds a B.Sc. in Mechanical Engineering, an M.Sc. in Electrical Power Systems and an M.B.A. He is the Managing Director of Light & Power Holdings Ltd. He is a member of the Board's Audit and Strategic Planning and Investments Committees.

F **Ms. Sharon Christopher Acc. Dir.**

Ms. Sharon Christopher joined the Board of the St. Lucia Electricity Services Limited on January 1, 2011. Ms. Christopher was appointed by First Citizens Bank where she is the Deputy Chief Executive Officer/Group Corporate Secretary. Ms. Christopher holds an LLB (Hons.), a Legal Education certificate (LEC) and an LLM in Corporate Law. She is the Chairman of the Board's Human Resource Committee and a Member of the Governance Committee.



BOARD OF DIRECTORS

G

Dr. Reginald Darius

Dr. Reginald Darius was appointed by the Government of Saint Lucia to the Board of the St. Lucia Electricity Services Limited on October 2, 2012. He is the Permanent Secretary in the Ministry of Finance, Economic Affairs and Social Security. He graduated from the University of the West Indies with first class honours in Economics, holds an M.A in Economics from the University of Cambridge, and a Ph.D. in Economics from the University of Warwick. He is a member of the Board's Strategic Planning and Investments Committee.

H

Mr. Larry Nath

Mr. Larry Nath joined the Board of St. Lucia Electricity Services Limited on July 27, 2011. He was appointed by First Citizens Bank Limited where he holds the position of Chief Executive Officer. He holds a Bachelor of Business Administration and a Master of Science in Industrial Administration. He is a member of the Board's Audit Committee.

I

Dr. Mkabi Walcott

Dr. Mkabi Walcott was appointed by the Castries City Council to the Board of St. Lucia Electricity Services Limited on April 2, 2012. She is a Doctor of Veterinary Medicine and a Quality Management Systems Specialist. She is a member of the Board's Governance and Audit Committees.

J

Ms. Sarah McDonald

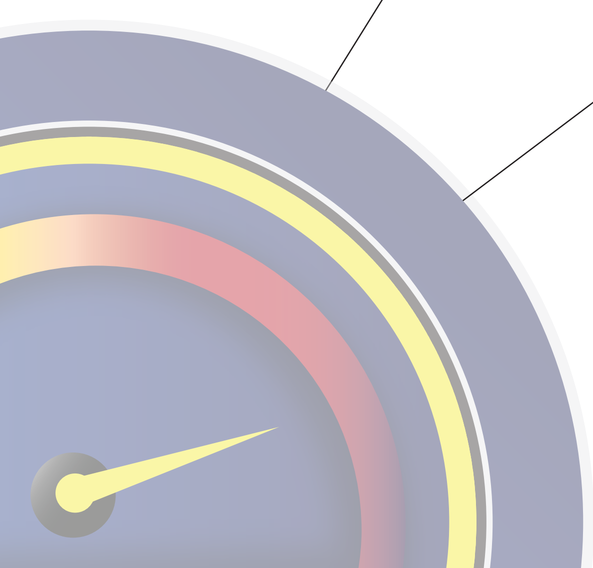
Ms. Sarah McDonald was appointed by Emera (St. Lucia) Limited to the Board of St. Lucia Electricity Services Limited on January 12, 2013. She graduated from Dalhousie Law School, Halifax and received her M.B.A. from St. Mary's University, Halifax. Ms MacDonald currently serves as President and Chief Executive Officer of both the Grand Bahama Power Company and ICD Utilities Limited, positions she has held since June 2011.

Ms. McDonald is a member of the Governance and Human Resource Committees of the Board.

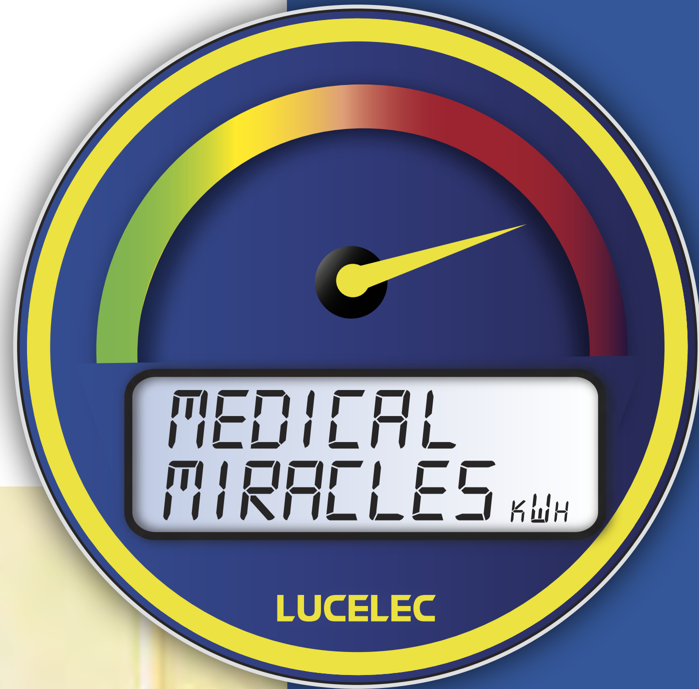
K

Mr. Andre Chastanet O.B.E.

Mr. Andre Chastanet was appointed to the Board of St. Lucia Electricity Services Limited on November 30, 2012. He is a chartered accountant by profession and Fellow of the Association of Certified Chartered Accountants of the United Kingdom. He is a member of the Board's Audit and Strategic Planning and Investments Committees.



How Do You Measure



LUCELEC, enabling life's hopeful moments.

LUCELEC
ST. LUCIA ELECTRICITY SERVICES LIMITED
The Power of Caring

DIRECTORS' REPORT

The Directors present their report for the year ended December 31, 2013.

Principal Activities
The Company's principal activities consist of the generation, transmission and distribution of electricity. There were no significant changes to the nature of the Company's activities during the year.

Directors
The Directors of the Company since the 48th Annual Shareholders Meeting were:

Non-Executive Directors:

- Dr. Trevor Byer
- Mr. Stephen McNamara
- Mr. Peter Williams
- Dr. Mkabi Walcott
- Mr. Andre Chastanet
- Mr. Matthew Lincoln Mathurin
- Ms. Sharon Christopher
- Mr. Larry Nath
- Dr. Reginald Darius
- Ms. Sarah McDonald

Executive Director: Mr. Trevor Louisy

Financial Results
The Company sold 334.5 million kWhs of electricity, an increase of 1.2 million kWhs over the previous year attributable to negligible increases in Domestic, Commercial and Street Lights Sectors but partially offset by declines in the Hotel and Industrial sectors. Total revenues were EC$333.1 million, a decrease of 3.4% over the previous year, mainly attributable to lower fuel costs which are recovered from customers (at no mark-up) through the Fuel Surcharge mechanism.

Net profit for the year was EC$26.2, which was a decline of 9.0% compared to the previous year.

The Company achieved Earnings per Share of EC$1.14 which was 9.5% lower than in 2012[2].

Assets acquired during the year amounted to EC$28.2, comprising mainly improvements to the Transmission & Distribution network, the Automated Metering Infrastructure, Generator Overhauls and improvements to the new Customer Information System.

Dividends
The Board at its 164th Board Meeting held on November 30, 2012 resolved to amend the dividend policy from a policy position of paying 70% of the Company's adjusted after tax net profits as dividends, whereby payment of an annual dividend pay-out shall be determined annually by the Board taking into consideration the performance of the Company at the time and the future obligations of the Company.

The Company paid an interim dividend in December 2013 of $0.35 per ordinary share.

In 2014, the Board of Directors will make a recommendation to the shareholders on the total dividend for the 2013 financial year.

Change in Auditors
In accordance with the Company policy to change the External Auditor on a periodic basis by open tender the shareholders at the Annual Meeting of Shareholders in May 2013 appointed PKF Professional Services as the statutory auditors for the period 2013 - 2015. The Directors wish to thank KPMG Eastern Caribbean for their services over the past several years.

State of Affairs
In the opinion of the Directors there were no significant changes in the state of affairs of the Company during the financial year.

Activities and Other Information
In March 2013, Directors attended a Strategic Planning Session to discuss the strategic positioning of the Company to meet future financial, technical and regulatory challenges.

In August 2013, the Board conducted its Annual Board Evaluation exercise. The primary focus of this session was to review the progress made from the 2012 evaluation.

Also conducted in August 2013, was the internal Board Training Session, which focussed on the understanding and management of an electric utility business. Individual Directors also attended specialized training in Corporate Governance.

Events Subsequent to Balance Sheet Date
Apart from matters discussed elsewhere in the Annual Report, the Directors are not aware of any circumstances which have arisen since December 31, 2013 that may significantly affect the operations of the entity or the results of those operations in subsequent financial years, or the state of affairs of the entity in future.

By order of the Board of Directors

Gillian S. French
Company Secretary

[2]Restated 2012 results to reflect adjustments made in 2013 which relate to prior years.

MANAGEMENT

Jonothan Edwards
FCCA, CGA
Financial Controller

Goodwin d'Auvergne
B.Sc. (Electrical Engineering)
Chief Engineer

Trevor Louisy
B.Sc. (Electrical Engineering),
Acc. Dir.
Managing Director

Victor Emmanuel
B. Eng. (Electrical Engineering),
M.Sc. (Information Systems Engineering)
Business Development Manager

Francis Daniel
B.Sc. (Electrical Engineering),
MPM (Project Management)
Planning Manager (seconded to work with the MD
on the Company's Strategic Business Plan)

Jennifa Flood-George
B.Sc. (Management Studies/Psychology)
Customer Service Manager

Gary Eugene
M. Eng. (Electronics Engineering),
Registered Professional Engineer
System Control Engineer

Nicole Duboulay
B.A. (Psychology),
M.B.A. (Human Resource Management),
M.Sc. (Training and Performance Management),
CHRP (Certified Human Resource Professional)
Human Resource Manager

Wynn Alexander
B.Sc. (Computer Science), M. Eng.
Internetworking, DipFM
Information Systems Manager

Gilroy Pultie
B.Sc. (Electrical & Computer Engineering),
Certified Diploma Accounts & Finance (ACCA)
Transmission & Distribution Manager

Jevon Nathaniel
B.Sc. (Electrical Engineering),
M.Sc. (Computer Science)
Generation Engineer

Roger Joseph
M.A. (International Communication & Development),
Diploma Mass Communication
Corporate Communications Manager

Ziva Phillips
FCCA, B. Sc. (Economics and Accounting)
Finance and Accounts Manager

TEAM

Gillian French
LLB (Hons) L.E.C. MRP (Telecommunications),
Acc. Dir., ACIS
General Counsel/Company Secretary

Callixta Branford
CGA
Internal Audit Manager

OPERATIONS REVIEW

Corporate Performance

In 2013 St. Lucia Electricity Services Limited (LUCELEC) continued its strategic thrust in five key areas:
System Enhancement, Preparation for Regulatory Reform, Customer Care, Strategic Human Resource Development, and Corporate Diversification. The overall objectives were to improve operational excellence and establish the framework for diversifying revenue streams for improved shareholder value.

The Company exceeded seven (7) of the eleven (11) targets[3] set at the beginning of the year registering improvements in fuel efficiency, system losses, all reliability indices, reduction in LUCELEC's own use of electricity, customer satisfaction, and stakeholder and employee engagement. It is particularly heartening that the areas showing greatest improvements are those which have the greatest and most direct impact on the customer.

Targets for the establishment of new business ventures, and the levels of completion on the action plans for human resource development and regulatory reform were not achieved although a significant amount of work was completed. The results in those areas are more reflective of the ambitious targets that had been set rather than the level of effort. The Company also fell short of the target for Return on Equity due to changes in the application of the accounting standards. The Board of Directors decided that the target for Employee Engagement and Satisfaction, previously set as a Corporate Target, was better suited as a department level target.

Sales growth remained flat reflecting the prevailing economic conditions in the country and more efficient use of electricity.

For 2014, the strategic themes remain relevant and given the projection for minimal growth in unit sales, operational excellence, efficiency and cost management will be critical to success.

Operational Performance

Achieving and maintaining operational excellence and efficiencies was not solely a desirable goal, but an imperative, given the prevailing local social and economic conditions. It required the commitment of the entire company to coaxing the most out of an aging electricity system infrastructure and to improve work processes and the company culture.

As challenging a task as that was, perhaps the greatest test for the company came at the end of the year when the unusually heavy rains and severe lightning associated with a trough system affected the island on Christmas Eve causing extensive flooding and damage to infrastructure across the island. Approximately 15% of the customer base was left without power as a result of flooding at the Union Substation, broken or leaning poles, blown fuses, and failure of the communication systems in some areas. Despite power restoration efforts, particularly in the south of the island, being hampered by lack of access to vehicular traffic through certain areas, the company lived up to its

[3]See table of 2013 Corporate Performance and 2014 Targets on page 4.

well-deserved reputation for emergency response excellence. Within 48 hours power had been restored to all customers affected.

These increasingly frequent natural disasters take a toll on the electricity infrastructure, challenge the resilience of the company and its staff, and place additional strain on the Company's resources. Further, the company's excellent record in dealing with these catastrophes has created the expectation that whenever they occur, the company will be continually efficient at restoring power to the country. It will be necessary, therefore, to ensure that the company maintains the capacity to satisfy these expectations given the value of electricity to the country's socio-economic framework and opportunities for growth.

Technical Operations

During 2013, the Technical Division sought to reverse some of the setbacks that occurred over the past two (2) years when a number of major challenges were encountered including the failure of 66/11kV Inter bus Transformers at Praslin and Soufriere Substations in November 2011 and May 2012 respectively. To this end, the Division focused on improving operational efficiencies and ensuring the best possible service quality to customers island wide. As a result of this approach, the division achieved a high level of success in meeting its targets despite the inter bus transformers remaining out of service. In fact, despite the constraints, system reliability for 2013 was on course to be the second best on record prior to the Christmas Eve trough. Even so, the year-end SAIDI achievement of 8.69 hours (adjusted for a major event day) was significantly better than the target of 10.5 hours.

The new engine (G10) which came online at the end of 2012 and continuation of best practice maintenance strategies helped improved fuel efficiency and generation reliability during 2013. Operations at the temporary Belle Plaine Power Station, which was set up to mitigate the loss of the Soufriere substation, proceeded satisfactorily throughout the year in the continuing effort to provide an improved quality of supply to Soufriere and environs.

An aggressive programme to investigate and replace aging meters paid off significantly in reducing System Losses to a record low of 8.82% at year end, and 6,000 more meters were transitioned to automatic billing.

The strategic deployment of additional auto-reclosers and automated switches on the system prevented an average of 2.1 outages per customer and contributed to improved reliability despite the major system constraints caused by the unavailability of the Praslin and Soufriere substations. The Transmission & Distribution Department also enhanced its

Significant work was completed in updating and verifying the data in the company's Geographic Information System (GIS) and in setting up a new distribution analysis software to facilitate better planning of the distribution network.

capabilities to undertake maintenance in live conditions resulting in fewer planned outages for customers.

For 2014, the System Control Department will replace the existing SCADA system with a smart grid platform with functions that include SCADA, an Energy Management System (EMS), a Generation Management System (GMS), a Distribution Management System (DMS) and an Outage Management System (OMS). Each component will leverage and incorporate information imported from existing supporting systems such as the Geographic Information System (GIS), Customer Information System (CIS), Advanced Metering Infrastructure (AMI), wireless fault finders, and protection devices.

One major overhaul is planned for engine G7 in keeping with the requirements for improving efficiencies on the unit after 20,000 running hours and reducing the risk of breakdowns. There is also a minor overhaul of the recently commissioned G10 engine as part of the requirements of the warranty provision of the unit.

Work will continue on upgrading the Castries Substation indoor 66 kV switchgear which has been in service for 20 years. A section of the 66 kV transmission line along the East Coast will be rebuilt closer to the road and corroded pole top hardware will be replaced in a number of areas in the ongoing effort to refurbish the ageing transmission network. As well, efforts to balance the load on the distribution system and building staff capacity through additional training will continue.

Approximately seven thousand smart meters will be deployed as part of the continuing roll out of the AMI and the transitioning to automatic billing.

In 2014 it is expected that new inter bus transformers will be commissioned at Soufriere and Praslin substations thereby restoring the system to its normal and more optimal configuration. This is expected to have a favourable impact on system reliability.

Update on Strategic Initiatives

The Company's Strategic Business Plan looking towards 2020 identifies eight key strategic themes as the highest priorities for focused action by the Company over the next few years. These are: System Improvement and Enhancements (includes renewable energy), Preparing for Regulatory Reform, Corporate Diversification, Implementation of the Human Resource Strategic Plan, Developing a Culture of Customer Care, Cost Management and Reduction, Development of an Enterprise-wide Risk Management System, and Environmental Stewardship.

For 2013, the emphasis was on five of these themes and the updates on the initiatives associated with those are summarised below.

System Improvements and Enhancements (including renewable energy)

During the year the Company contracted a supplier for the manufacture of two inter bus transformers for the Soufriere and Praslin Substations. These will be delivered to site and installed during the first half of 2014.

A study was commissioned to identify a least cost fuel that will be used in the next phase of generation expansion. This also included renewable energy sources.

The Company also commissioned a Tariff Study that provides valuable information to guide its decision making in the immediate term on possible tariff structures and the implications on the various customer groups.

Efforts continued at reducing the parasitic loading at the Cul De Sac Power Plant by installing LED lamps and reducing the energy consumption of the large ventilation motors. This combined with other initiatives to be pursued in 2014 will help reduce own use resulting in reduced fuel consumption and costs to customers.

The Company worked with the Government of Saint Lucia in developing an RFP for renewable energy projects and in pushing towards meaningful movement on the exploration of the geothermal potential in Soufriere. These efforts are expected to generate results in 2014. The company also installed LED street lights of various types and from various manufacturers at its Cul De Sac power plant to test them under St. Lucia's operating conditions, to inform decisions on transitioning the current stock of street lights to LEDs. Preliminary work for the installation of a 75kW solar system at the Cul De Sac power plant was completed as well.

In 2014 emphasis will be placed on completing the substation transformer replacements at Soufriere and Praslin. An additional circuit breaker will be included at the Praslin Substation as part of this project that will provide greater flexibility in operating the Transmission System.

Projects to develop the photovoltaic capacity on the Generation System, including a utility-scale solar power plant, will be pursued during the course of the year.

Preparing for Regulatory Reform

The Company continued preparations for the new regulatory environment through the efforts of the Regulatory Reform Team (RRT). The uncertainties surrounding this initiative was brought into sharp focus when the GOSL in 2013 announced the imminent development of a local Office of Utility Regulator (OUR) while still remaining committed to ECERA, the Eastern Caribbean Energy Regulatory Authority. The RRT had to amend its original strategy. However the Team remained focused on the fundamentals of training and education, stakeholder engagements, professional staff attachments and wider staff sensitization, and regular meetings with the Minister and GOSL technocrats.

A competitive strategy to mitigate risk associated with a new regulatory environment was completed. The company also partnered with CARILEC to host a regional seminar on "The Challenges and Opportunities of Regulation".

The Company also pursued a wide-ranging programme of engaging stakeholders at various levels to promote its position on regulation and the principles of good regulatory practice. Several members of staff were also exposed to

attachments at other regional utilities and regulators to get a better perspective of their operations and relationship between the various entities.

2014 will see an expansion of stakeholder engagements, the roll out of public relations, customer care and education plans, continuous sensitization of staff, and a focused change management strategy to assist staff in the transitioning process.

Customer Care

The project to implement the new Customer Information System (CIS) was completed in June 2013. The Company is now positioned to provide enhanced customer care and services in many areas of its operations. Customer Care staff have received the requisite training in the new system to enable them to make optimum use of the enhanced functionalities.

Among other specific initiatives were a new and improved bill with a barcode to facilitate faster processing at customer service outlets, an expansion of automatic billing of customers through the advanced metering infrastructure, the introduction of the capability for customers to review their accounts online via the company's website, and a series of face to face engagements with major customers to update them on the company's main initiatives and to get their feedback on the company's services. The Company also increased the frequency and range of service quality surveys to obtain better feedback on customer satisfaction levels, to facilitate improved responsiveness. In addition, the process for updating customers' accounts with payments made via third party agencies saw a dramatic improvement, arising from the automatic upload of payment files directly to the new CIS.

In 2014 the major initiatives will include the development of a Benchmarking and Quality Action Plan, expansion of online services to customers to include direct payments to LUCELEC, training of front line staff and contractors in customer care, additional major customer engagements and the roll out of a customer incentive and appreciation programme.

Corporate Diversification

In pursuit on its Corporate Diversification thrust extensive feasibility studies were carried out for a number of projects and solid business cases completed. The Board of Directors approved the establishment of a subsidiary company to operationalize the Corporate Diversification strategy and pursue the projects already developed.
In 2014, the subsidiary will be formally established and potentially profitable projects already developed will be undertaken by the new subsidiary company.

Human Resources (HR) Strategic Plan

A major pillar of the execution of the company's strategy is human resource development and in 2013 two foundational initiatives were accomplished. The Performance Management System was revised to ensure that corporate, departmental, and personal performance scorecards were aligned to the company's strategy. A culture change programme to similarly align the company culture to the strategy and core values was launched. Both these initiatives included intensive training sessions for employees at all levels of the company.

In 2014, Leadership Training for the Management Team and Middle Management, and a Review of the Organisation Structure are priorities that will be pursued to continue to build upon the process of organizational alignment with the strategy.

Industrial Relations

During the first quarter of 2013, the Company and the Civil Service Association (CSA) were able to finally agree on wage increases for the 2011 - 2013 collective agreement for the Grade One bargaining unit. A few clauses remained outstanding, but both parties agreed to continue meetings and resolve these amicably early in the year, following the wage settlement. Discussions continued until September 2013 when agreement was finally reached on the new grade structure for that group. At the end of the year the agreement had not been signed as the Union withdrew its initial acceptance of the proposed grade structure. The matter remained before the Labour Commissioner and as a result negotiations for the coming period (January 2014 – December 2016) could not commence.

Negotiations with the National Workers Union (NWU) for the supervisors and professional staff in Grades 4 - 6 and Grades 7 - 9 (i.e. middle management) commenced during the year. Despite some differences regarding the number of bargaining units discussions continued amicably and at year end, both parties agreed to continue discussions in early 2014.

Financial Operations

The Company has restated the 2012 results to reflect adjustments made in 2013 which relate to prior years. Details of these adjustments are in the audited financial statements which are appended to this report (See Note 33 in the Audited Financial Statements.).

Sales & Revenues

The Company recorded 0.3% growth in 2013 compared to a decline of 0.1% in 2012. This minimal increase is reflective of local economic conditions, heavily dependent on the tourism industry; an industry vulnerable to external conditions.

Sales in the domestic, commercial and street lights sectors increased while the other sectors declined. The domestic and commercial sectors increased by 0.4% each while the street lights sector grew by 3.7%. The Hotel Sector declined by 0.2% while the Industrial Sector experienced a drop of 0.3% when compared to 2012.

Total revenues were EC$333.1M, a decrease of 3.4% compared to the previous year's achievement of EC$344.0M. This was mainly driven by lower tariffs due to reductions in fuel prices. The overall average tariff was EC$0.99, a reduction of 2.9% compared to that of the previous year (EC$1.02). Tariff movements reflect the effect of fuel price movements as the Company's base tariff has not changed since 2005. Fuel costs are passed through to customers with no mark up.

The average fuel cost per gallon for the year was EC$9.98, a reduction of 4.3% compared to that of 2012 which was EC$10.43 per gallon.

Generation costs (excluding fuel costs) were lower than the previous year by 15.8% primarily due to a reduction in depreciation expense. Following a review of the useful life of the Company's assets, depreciation rates were lowered to reflect the extension of the assets' lives and plant maintenance costs.

Transmission and Distribution costs increased by 10.8% when compared to the prior year. This was primarily as a result of depreciation of new assets put into use in the prior period and increased maintenance cost of the ageing infrastructure.

Administrative expenditures increased by EC$2.9M (10.3%) primarily due to increases in payroll costs of $2.0M. Compared to 2012 there was a reduction in labour costs capitalised as the implementation of the CIS was completed in 2012. This contributed to $0.8M of the payroll variance. Other reasons for the increase include more overtime, annual salary increases, recruitment, and pension costs in 2013.

Finance costs increased by EC$3.8M (40.5%) due to additional loan financing received in 2012.

Profit

Profit before Tax of EC$35.9M was 7.3% lower than the EC$38.8M achieved the previous year due to higher operating, administrative and finance costs for 2013.

Profit after tax was EC$26.2M a decrease of 9.0% compared to the previous year's achievement of EC$28.8M.

Earnings Per Share for the year was EC$1.14 (2012 – EC$1.26) reflecting the lower net profit.

The Company achieved a rate of Return on Equity (ROE) of 12.0% (2012 - 14.1%) reflecting a decline in performance from the previous year, but this performance remains in line with or above peers in the Caribbean.

The net profit for the year translated to 7.3% return on Fixed Assets based on historical costs (2012 - 8.0%) and 5.4% on Total Assets (2012 - 5.7%).

Retained Earnings increased from EC$107.6M to EC$122.8M and the Debt to Equity ratio was 42:58 (2012 – 47:53).

The Company's shares traded at $25 per share, resulting in a price earnings (P/E) ratio of 21.9 times (2012 – 19.8 times).

Capital Expenditure

Expenditure for the year amounted to EC$28.2M (2012 - EC$97.0M) which comprised mainly improvements to the Transmission & Distribution network, the Distributed Automation programme, the Automated Metering Infrastructure, generator overhauls and improvements to the new Customer Information System.

Working Capital Management

Management of Accounts Receivable remained a priority for the Company although becoming increasingly challenging given the local economic climate where some major customers have defaulted on payments. The Days Sales Outstanding (DSO) was at 72 days compared to 69 days in 2012.

With respect to its largest debtor, the company has entered into a financing arrangement and the agreed payment schedule has been consistently maintained since the signing of this agreement. Other accounts continue to be monitored on an on-going basis.

Capital Financing

The Company continued to operate within the limits stipulated under the debt covenants in Security Sharing Agreements (SSA) with its lenders which, among other provisions, set the maximum level of debt that the Company is allowed to undertake.

Self-Insurance

In 2012 the Board of Directors approved the formation of a non-profit company to carry out the business of the self-insurance of the Company's assets. The establishment of the fund was not finalised by December 31, 2013. Therefore, the Company has established a Self-Insurance Reserve which is not available for distribution to the shareholders.

As at December 31, 2013 the fund's balance was EC$21.3 million (2012 - EC$17.7 million). The fund's investments comprised of regional securities rated by regional or international agencies held at local banks on short term basis to provide quick access to cash if required.

Credit Rating

A credit rating exercise was conducted by CariCRIS, the Caribbean credit rating agency at the end of 2013. CariCRIS reaffirmed the Company's credit rating of CariBBB (Adequate), consistent with that of the Government of Saint Lucia.

Risk Management

The Company maintains a Risk Register which, on a continuous basis, captures all identified risks to the Company and progress on mitigation measures. This register is reviewed by the Audit Committee of the Board at its regular meetings during the course of the year.

Fuel Price Hedging

The Company continued its fuel price hedging programme on a twelve month rolling basis for 75% of estimated volumes utilising Fixed Price Swaps.

In 2013, fuel prices that resulted from hedge placements were less volatile than would have obtained without the hedge. The fairly stable hedge prices placed for the year resulted in a similar trend for electricity prices over the period.

Shareholders' Equity

The Company's shares continued to trade at EC$25. The issued ordinary shares of the Company now stands at 22,920,000 shares.

Outlook

Electricity sales were lower than anticipated as a result of the effects of the continuing global economic crises that commenced in 2008. In order to minimise the impact, the Company has plans to reduce its operating costs while maintaining an acceptable efficiency level. It will continue its corporate diversification strategy and it is anticipated that implementation will begin in 2014.

An increase of 0.68%% in sales is projected for 2014. Minimal growth in the hotel sector is anticipated while the level of increase recorded in Street Lighting is not likely to carry over into 2014 as the Government of Saint Lucia (GOSL) actively continues to pursue electricity cost reduction initiatives. Little or no organic growth is expected in the commercial and industrial sectors while the domestic sector is expected to realize small gains from the acceleration of an island-wide meter replacement programme.

These projections may be impacted by an increasingly challenging economic environment.

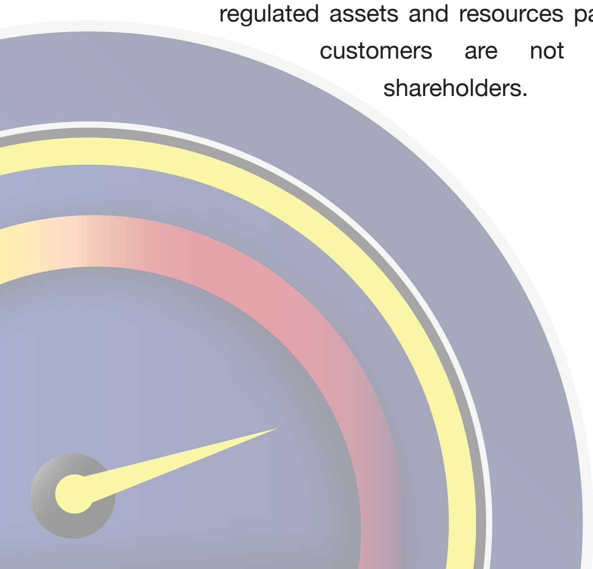
The Company will continue to focus on the strategic initiatives approved by the Board.

These include:

• Network Improvement - replacing the Interbus transformers at Praslin and Soufriere Substations, replacement of the SCADA system, and replacement of faulty meters alongside the deployment of AMI meters.

• Renewable Energy – Commencement of work on the development of a 3MW Solar PV farm.

• Corporate Diversification – use of the Company's existing asset base and skill sets to expand revenue opportunities. It should be noted that any such transactions will be governed by an "Inter-Affiliate Code of Conduct" to ensure that regulated assets and resources paid for by electricity customers are not used to benefit shareholders.



• Preparation for the New Regulatory Environment – becoming experts in regulatory frameworks for small island utility companies.

• Customer Care – the leveraging of the new CIS system to offer a seamless customer experience.

• HR Strategic Plan – reviewing the organisational structure to align with the new Strategic Business Plan, and placing emphasis on leadership development, changing the Company's culture and improved operational efficiencies.

Conclusion

Continuing uncertainties in the regulatory and economic operating environments make long range planning extremely risky. Nonetheless, the Company understands the value of electricity, its role in ensuring that value, and its responsibility for meeting the country's demand for electricity. The Company will continue to balance its pursuit of operational excellence with prudent planning taking into consideration the realities of the prevailing socio-economic conditions.

CORPORATE SOCIAL RESPONSIBILITY

Developing and supporting young minds

Some of LUCELEC's Corporate Social Responsibility would have been covered in the preceding sections of this report as theCompany embraces the concept of Corporate Social Responsibility in its broadest sense and considers sustainable development as a whole. This is reflected in its organizational governance, respect for human rights, labour practices, care for the environment and consumer issues, fair operating practices, and community involvement and development. This section focuses on the Company's corporate philanthropy and details how, through its various interventions, it is energizing the nation's success.

LUCELEC has two main vehicles through which the Company manages its corporate philanthropy. Support for businesses, for-profit events and activities, and organisations that are not registered as non-profit is provided directly through LUCELEC.

Support for registered non-profit organisations and events and activities that are not money-making is provided under the ambit of the LUCELEC Trust Company Inc., a non-profit company funded through a Deed of Covenant between the St. Lucia Electricity Services Limited (LUCELEC) as the Donor and the Trust. It was set up expressly for the purpose of providing financial assistance or purchasing items and/or property to aid any legitimate non-political entity falling within the following categories: religious, charitable, medical, educational institution, sporting body, fund of a public character approved by Cabinet, and the Loan Fund established under the Further Education (Loan Fund) Act.

Information on of some of the sponsorships and donations made during 2013 are provided below.

Tourism

LUCELEC's support for tourism related initiatives stem from the appreciation of the vital role that the sector plays as one of the main drivers of economic activity in the country. LUCELEC supported events at the local level that help develop and nurture the industry such as staff recognition awards at the various tourism enterprises and the Chefs in Schools Programme. The company supported as well events that help bring international recognition and acclaim to St. Lucia and help drive the island's overall tourism promotional and development efforts such as the Health and Wellness Retreat, the Rhythm and Spice Festival, the Atlantic Rally for Cruisers (ARC) and St. Lucia Jazz.

As a major sponsor of St. Lucia Jazz at Pigeon Island Main Stage and several community jazz shows in other parts of the island - Tea Time Jazz (at La Place Carenage), Jazz on the Bay (Marigot Bay), Jazz in the South, Jazz on the Grill, and Fond d'Or Jazz – LUCELEC continues to help ensure that the St. Lucia Jazz achieves its objectives and spur economic activity.

Business

LUCELEC continues to support initiatives that seek to develop and grow the private sector, especially in the push towards international standards of product and service excellence. In 2013, the St. Lucia Manufacturers' Association Quality Awards Programme, the St. Lucia Chamber of

Support for the Rainforest of Reading programme aimed at encouraging primary school children to read more

Commerce Industry & Agriculture's St. Lucia Business Awards, and St. Lucia Industrial & Small Business Association (SLISBA) National Small, Medium & Micro Enterprise Awards, all received funding support from LUCELEC.

Education

LUCELEC believes that education is the foundation on which the nation's success is built, and a significant component of the sponsorships and donations the Company makes are directed towards improving educational infrastructure, supporting educational programmes and campaign that seek to provide diverse experiences to students, and helping to ensure that students can achieve their maximum potential.

And this support for education spans the length and breadth of the country.

At the national level, the Company supported the Ministry of Education's Awards of Excellence Ceremony that recognises outstanding academic achievements across the school system.

In 2013 Early Childhood Education was a main theme for support. Funding assistance was provided to the Roving Care Givers programme designed to provide access to early childhood development interventions for children and parents in disadvantaged communities.

Funding support was provided as well for training in phonics for primary school students, to provide books to schools and promote literacy, for a remedial reading programme for students in the early stages of primary to improve literacy, and for a workshop to help teachers understand the critical issues associated with students with special needs.

At the secondary and tertiary levels, the Company continued to support graduation exercises, language immersion trips and practicums for students and annual sports meets. The Company also made good on a commitment to donate $300,000 to the Sir Arthur Lewis Community College for the refurbishment and upgrading of the electronics laboratory. Work on that project started in 2013.

LUCELEC was also a major sponsor of the Junior Achievement Company Programme at the Choiseul Secondary School and with the Company's help the school placed second in the Company of the Year category. As well, the Company assisted the school in ensuring that the team was able to attend the Junior Achievement Company of the Americas Competition in South America.

Arts & Culture

LUCELEC was also active in Arts and Culture as the Company sought to contribute not only to the propagation of St. Lucia's culture, but also to provide critical support to the development of cultural products to help jump start the country's fledgling cultural industries. So the Choiseul Development Foundation got support for its Annual Choiseul Arts & Craft Festival "Blotje en Choiseul"; the Folk Research Centre (FRC) got support for the Jennes Kwéyòl Pageant which encourages secondary school students to celebrate the island's creole heritage; and the Cultural Development Foundation (CDF) received support for the National Arts Festival involving a series of visual and performing arts across several communities.

Similarly, the St. Lucia Arts Festival Company's WORDALIVE International Literary Festival, several calypso tents, steel bands and Carnival bands, a production of Derek Walcott's "Oh Starry Starry Night" and workshops on dance, music and visual arts for tutors and children with special needs received varying levels of assistance from LUCELEC.

The Company was also a major contributor to the National Festival of Lights which heralds in the start of National Day and Christmas festivities across the island.

Sports

LUCELEC provides a great deal of support to sport as it is a fundamental aspect of school and community life and provides a number of benefits. The company assists clubs and associations with participation in and the hosting of local, regional and international tournaments. It assists individual schools and the education districts with putting on their respective annual meets as well. The overall aim is to contribute meaningfully to the development of sport on the island and to provide avenues for young people to develop their respective talents and to excel. Our support provides path ways from grass roots competitions to National and International representation.

LUCELEC was the main sponsor for the National School Sports programme which included inter-school competitions in football, netball, basketball, cricket, athletics and tennis. The Company provided funding support to national sporting associations to either host or participate in regional tournaments for volleyball, netball, boxing, table tennis, rugby, squash, and swimming. And funding for the Castries Football Council's 8-week Youth Football Fiesta as well as for summer camps for underprivileged children and for the differently abled continued.

Corporate Philanthropy

LUCELEC supports a myriad of charitable institutions through the LUCELEC Trust which manages its donations. Several interventions were made to non-profit organisations in support of fundraising efforts, to provide equipment, to improve facilities, and to feed the underprivileged. Several religious and faith based organisations also received assistance towards meeting the increased demand for the services offered by these institutions.

The Company has also seen an increasing number of its staff stepping up to volunteer their time and initiate activities to provide support to vulnerable groups in their communities. In 2013, the Customer Service Department staff at the Vieux Fort office together with colleagues in the south of the island spearheaded a Community Soup Kitchen to feed the sick and shut-in, elderly living alone and the homeless in the community. And the Generation Department was formerly recognised with a National Award of Excellence for Outstanding Contribution Towards the Education Sector for its work at the Lady Gordon Opportunity Centre (in Ciceron) where a core group of thirteen (13) members of staff, supported by the other members of the department as needed, have volunteered since 2010.

Youth at Risk/Youth Development

Several interventions to assist youth at risk were supported during 2013. Many of these were youth camps during the Easter and summer vacations in an effort to keep these youth at risk occupied with productive activity and to provide opportunities that they may not otherwise have had. The various homes for youth at risk also received assistance from LUCELEC including the Vieux Fort Children's Society, the Holy Family Children's Home, the Dunnottar School and the Upton Gardens Girls Centre.

Health & Wellness

Consistent with LUCELEC's own focus on safety, health and wellness for its employees, the Company extended its support to the wider community in those areas as well. The Company supports the National Community Foundation with an annual donation to support persons seeking assistance with medical interventions. The Company also supported various health and wellness organisations and support groups such as the St. Lucia Diabetes & Hypertensive Association, Faces of Cancer and the Caribbean Organization of Sickle Cell Associations with various activities to create awareness of health issues and provide services and support to vulnerable groups and individuals.

In 2013, the St. Lucia Diabetes & Hypertensive Association publicly recognised the Company for its assistance as a regular donor over the years.

Partnering with other organisations to increase awareness of Cancer

Christmas Party for children of Choiseul in collaboration with St. Lucia National Organization for Women (St. Lucia NOW)

Charitable Contributions

For the last few years the National Council of & for Persons with Disabilities hosts an annual Camp Lajwa where for a few days it takes some of the persons with disabilities, particularly those who are generally house-bound, on various outings to experience the outdoors and other aspects of St. Lucian life. And for the last few years LUCELEC has been a staunch supporter of the initiative, because it is activities such as these that energise the heart and soul of a nation and add value to the relationship that LUCELEC enjoys with the community.

Other agencies with a similar charitable mandate also get assistance from LUCELEC in meeting the needs of their respective clientele. There is the St Lucia Crisis Centre, the St. Lucia Blind Welfare Association, the Salvation Army, the Ex-Service Men and Women's League, the various Rotary Clubs, the Friends of St. Jude Hospital, the St.Lucia Renal Association, the Marian Home and the Adelaide Home. All of them benefited from LUCELEC support during 2013.

The Company also supports various feeding programmes at schools and within the community with regular contributions directly to schools and through agencies like Feed the Poor Ministry Inc. and the St. Benedict's Centre Parish office.

And at Christmas time, LUCELEC supports various agencies, organisations and groups in their Christmas outreach to assist day-care and pre-schools, the unemployed, senior homes, hospitals and underprivileged children with subsidies and food hampers.

Environmental Responsibility

The Company takes active steps within its operations to minimise impact on the environment. In 2013, although two oil spills got outside the containment areas at the Cul De Sac compound, no environmental damage resulted. The company also increased use of shielded conductors in wooded areas to minimise tree trimming.

LUCELEC also actively supports several initiatives that promote environmental sustainability in its various forms including the St. Lucia National Trust Youth Environment Forum (YEF), and the Caribbean Student Environmental Alliance's Rainforest Reef Camp that teaches young people how to clean up and protect watersheds and coral reefs within their respective communities.

Conclusion

LUCELEC's corporate social responsibility seeks to add value to a wide spectrum of St. Lucian society. LUCELEC's interventions made it possible for several projects, events and initiatives to be undertaken. With an estimated impact of over 400,000 primary and secondary beneficiaries these interventions are building the foundation for St. Lucia's success decades into the future.

How Do You Measure

Our contribution to education, through libraries, IT support and after-school programmes are giving more children access to the knowledge that will propel them forward in life.

Empowering immeasurable values

LUCELEC
ST. LUCIA ELECTRICITY SERVICES LIMITED
The Power of Caring

THE YEAR IN PICTURES

Recognizing academic excellence

Training in core values

Acquiring new skills for the tasks ahead

Warming up for health and safety walk

Walking is fun

Gros Piton climb was not fun for all

Getting the vision

Sharing the vision

Support for primary school reading to improve literacy

Cabinet of Ministers tour Cul de Sac facility

Jounen Kweyol treat for customers

Jounen Kweyol treat for staff

THE YEAR IN PICTURES

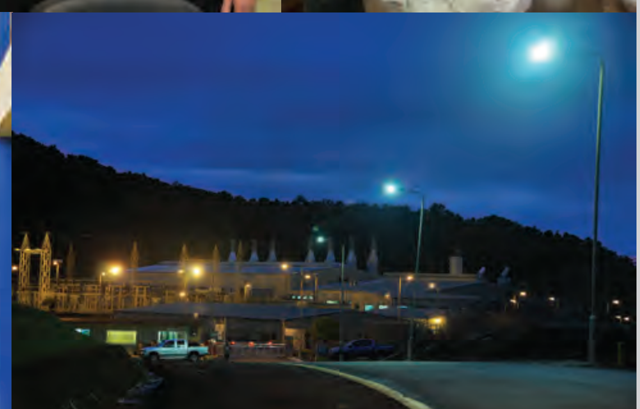
Wearing blue for diabetes awareness

LUCELEC meets Buckeye

Staff-initiated soup kitchen for needy in the south of the island

Support for tourism development - Health and Wellness retreat

Generation staff volunteer at Lady Gordon Opportunity Centre



Testing LED street lights at Cul de Sac facility


Annual Thanksgiving mass for staff


Brunch follows Thanksgiving mass


Board of Directors sign Code of Ethics


Annual staff Christmas party


Staff provide the entertainment at the annual Christmas party


Supporting excellence in business

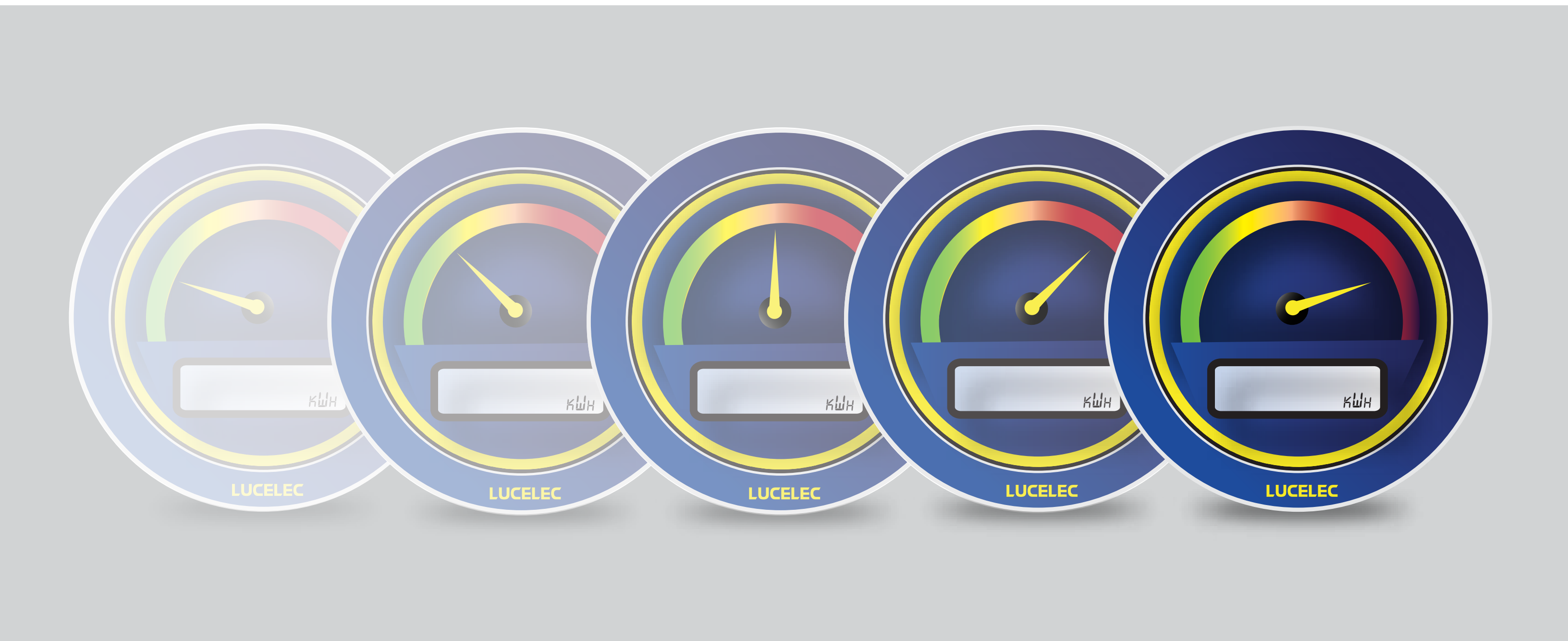

Restoring Union substation after Christmas Eve trough

ST. LUCIA ELECTRICITY SERVICES LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2013

(Expressed in Eastern Caribbean Dollars)



ST. LUCIA ELECTRICITY SERVICES LIMITED

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PKF

Accountants &
business advisers

PKF Professional Services

Tel. (758) 453 - 2340
Tel. (758) 450 - 7777
Fax (758) 451 - 3079
Email: pkf@candw.lc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of St. Lucia Electricity Services Limited

Report on the Financial Statements

We have audited the accompanying financial statements of St. Lucia Electricity Services Limited, which comprise the statement of financial position as at December 31, 2013, and the statement of changes in equity, statement of comprehensive income, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements for the year ended December 31, 2012 were audited by another auditor who expressed an unmodified opinion on those financial statements on March 8, 2013.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Lucia Electricity Services Limited as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PKF

Chartered Accountants
Castries, Saint Lucia
March 7, 2014

P.O. Box Choc 8245, Meridian Place, Choc Estate, Castries, St. Lucia
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ST. LUCIA ELECTRICITY SERVICES LIMITED
Statement of Financial Position
As at December 31, 2013
(Expressed In Eastern Caribbean Dollars)

	Notes		2013	2012 Restated	2011 Restated
Assets					
Non-current					
Property, plant and equipment	6	$	341,886,290	346,867,858	287,764,539
Intangible assets	7		15,588,719	15,053,991	9,821,895
Retirement benefit assets	8		3,430,000	4,632,000	3,117,000
Available-for-sale financial assets	9		169,741	167,969	166,163
Total non-current assets			361,074,750	366,721,818	300,869,597
Current					
Inventories	10		12,015,942	19,168,529	21,253,302
Trade, other receivables and prepayments	11		82,197,373	77,580,781	74,523,909
Cash and cash equivalents	12		29,857,827	36,685,474	28,035,425
Income tax receivable			-	4,720,905	-
Total current assets			124,071,142	138,155,689	123,812,636
Total assets		$	485,145,892	504,877,507	424,682,233
Shareholders' equity and liabilities					
Shareholders' equity					
Share capital	13	$	80,162,792	80,162,792	80,162,792
Retained earnings			122,781,033	107,628,796	100,646,463
Retirement benefit reserve	8		3,430,000	4,632,000	3,117,000
Self insurance reserve	30		21,155,667	17,771,529	14,247,175
Total shareholders' equity			227,529,492	210,195,117	198,173,430
Liabilities					
Non-current					
Borrowings	14		153,072,557	167,797,100	123,395,650
Consumer deposits	15		15,544,985	14,770,880	13,871,047
Deferred tax liabilities	16		37,743,396	37,446,543	30,253,824
Post-employment medical benefit liability	17		1,785,970	1,878,198	1,796,141
Total non-current liabilities			208,146,908	221,892,721	169,316,662
Current					
Borrowings	14		14,878,339	15,263,474	11,964,729
Trade and other payables	18		29,935,043	46,427,895	30,858,763
Dividends payable			331,967	11,098,300	11,440,493
Income tax payable			4,324,143	-	2,928,156
Total current liabilities			49,469,492	72,789,669	57,192,141
Total liabilities			257,616,400	294,682,390	226,508,803
Total shareholders' equity and liabilities		$	485,145,892	504,877,507	424,682,233

Approved on behalf of the Board of Directors:

Director   Director

The notes on pages 46 to 103 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Statement of Comprehensive Income
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

	Notes	2013	2012 Restated
Revenue			
Energy sales		$ 328,734,649	318,264,626
Fuel surcharge		1,172,026	22,083,227
Other revenue		3,206,669	3,677,174
		333,113,344	344,025,027
Operating expenses			
Fuel cost at base price		194,012,649	187,235,821
Fuel cost over base		1,347,962	22,074,156
Transmission and distribution		34,606,502	31,219,285
Generation		22,653,127	26,891,803
	26	252,620,240	267,421,065
Gross income		80,493,104	76,603,962
Administrative expenses	26	(31,425,751)	(28,495,654)
Operating profit		49,067,353	48,108,308
Other gains, net	21	65,857	66,876
Profit before finance costs and taxation		49,133,210	48,175,184
Finance costs, net		(13,189,926)	(9,388,635)
Profit before taxation		35,943,284	38,786,549
Taxation	22	(9,715,403)	(9,971,962)
Net profit for the year		26,227,881	28,814,587
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Re-measurements of defined benefit pension plans, net of tax	22	(871,505)	855,500
Total comprehensive income for the year		$ 25,356,376	29,670,087
Earnings per share	24	$ 1.14	1.26

The notes on pages 46 to 103 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

	Notes	Share Capital	Retained Earnings	Retirement Benefit Reserve	Self Insurance Reserve	Total
Balance at January 1, 2012 as previously stated		$ 80,162,792	84,267,176	9,135,000	-	173,564,968
Prior periods' adjustments-change in accounting policy	33	-	1,416,265	(6,018,000)	-	(4,601,735)
Prior periods' adjustments-application of accounting standards	33	-	14,963,022	-	14,247,175	29,210,197
Balance at January 1, 2012 as restated		$ 80,162,792	100,646,463	3,117,000	14,247,175	198,173,430
Total comprehensive income for the year as previously reported		-	24,935,624	-	-	24,935,624
Prior period's adjustments-change in accounting policy	33	-	963,409	-	-	963,409
Prior period's adjustments-application of accounting standards	33	-	3,771,054	-	-	3,771,054
Total comprehensive income for the year as restated		-	29,670,087	-	-	29,670,087
Transfer to retirement benefit reserve as previously stated		-	(219,000)	219,000	-	-
Prior period's adjustment-change in accounting policy	33	-	(1,296,000)	1,296,000	-	-
Adjusted transfer to retirement benefit reserve		-	(1,515,000)	1,515,000	-	-
Transfer to self insurance reserve	30	-	(3,524,354)	-	3,524,354	-
Ordinary dividends	20	-	(17,648,400)	-	-	(17,648,400)
Balance at December 31, 2012 as restated		$ 80,162,792	107,628,796	4,632,000	17,771,529	210,195,117
Balance at January 1, 2013 as restated		$ 80,162,792	107,628,796	4,632,000	17,771,529	210,195,117
Total comprehensive income for the year		-	25,356,376	-	-	25,356,376
Transfer from retirement benefit reserve		-	1,202,000	(1,202,000)	-	-
Transfer to self insurance reserve	30	-	(3,384,138)	-	3,384,138	-
Ordinary dividends	20	-	(8,022,000)	-	-	(8,022,000)
Balance at December 31, 2013		$ 80,162,792	122,781,033	3,430,000	21,155,667	227,529,492

The notes on pages 46 to 103 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Statement of Cash Flows
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

	Notes		2013	2012 Restated
Cash flows from operating activities				
Profit before taxation		$	35,943,284	38,786,549
Adjustments for:				
Depreciation	6		30,679,938	31,962,555
Amortisation of intangible assets	7		1,975,969	662,741
Finance costs expensed			13,189,926	9,388,635
Movement in allowance for impairment			1,205,035	993,505
Gain on disposal of property, plant and equipment	21		(13,480)	(39,068)
Post-retirement benefits			(135,235)	(210,801)
Operating profit before working capital changes			82,845,437	81,544,116
Decrease in inventories			7,152,587	2,084,773
Increase in trade, other receivables and prepayments			(5,821,627)	(4,050,377)
(Decrease)/increase in trade and other payables			(16,492,852)	15,569,132
Cash generated from operations			67,683,545	95,147,644
Interest received			899,078	763,938
Finance costs paid			(13,921,229)	(10,490,198)
Income tax paid			-	(10,794,946)
Net cash from operating activities			54,661,394	74,626,438
Cash flows from investing activities				
Acquisition of property, plant and equipment	6		(25,760,347)	(90,715,265)
Proceeds from disposal of property, plant and equipment			15,000	48,392
Acquisition of intangible assets	7		(2,450,240)	(6,254,770)
Net cash used in investing activities			(28,195,587)	(96,921,643)
Cash flows from financing activities				
Proceeds from borrowings			-	60,000,000
Repayment of borrowings			(15,052,914)	(11,861,703)
Dividends paid			(18,788,333)	(17,990,593)
Consumer deposits received (net)			547,793	797,550
Net cash (used in)/from financing activities			(33,293,454)	30,945,254
Net (decrease)/increase in cash and cash equivalents			(6,827,647)	8,650,049
Cash and cash equivalents at beginning of year	12		36,685,474	28,035,425
Cash and cash equivalents at end of year	12	$	29,857,827	36,685,474

The notes on pages 46 to 103 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

1. Incorporation and Principal Activity

St. Lucia Electricity Services Limited (the "Company") was incorporated under the laws of Saint Lucia on November 9, 1964 and re-registered as a public company on August 11, 1994. The Company was continued under the Companies Act 1996 of Saint Lucia on October 22, 1997. The Company operates under the Electricity Supply Act, 1994 (as amended), and is granted an exclusive license for the exercise and performance of functions relating to the generation, transmission, distribution and sale of electricity in Saint Lucia. It is listed on the Eastern Caribbean Securities Exchange.

The Company's registered office and principal place of business is situated at Sans Soucis, John Compton Highway, Castries, Saint Lucia.

2. Basis of Preparation

(a) Statement of compliance

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

The financial statements were approved for issue by the Board of Directors on March 7, 2014.

(b) Basis of measurement

The financial statements have been prepared using the historical cost basis except for available-for-sale financial assets that are measured at fair value. The methods used to measure fair value are discussed further in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Eastern Caribbean dollars, which is the Company's functional currency. All financial information has been rounded to the nearest dollar.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

- Note 3(c)(iii): Estimated useful lives of property, plant and equipment
- Note 3(d)(iii): Estimated useful lives of intangible assets
- Note 3(h): Measurement of defined benefit obligations
- Note 3(i): Estimation of unbilled sales and fuel surcharge
- Note 4: Determination of fair values
- Note 28: Valuation of financial instruments

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss are also recognized in other comprehensive income or profit or loss respectively).

(b) Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise available-for-sale financial assets, trade and other receivables, cash and cash equivalents, borrowings, trade and other payables and consumer deposits.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Available-for-sale financial assets

The Company's investment in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(f)), and foreign exchange gains and losses on available-for-sale equity instruments (see Note 3(a)), are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(b) Financial instruments (Cont'd)
(i) *Non-derivative financial instruments (Cont'd)*

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and expense is discussed in Note 3 (j).

Trade and other receivables
Trade and other receivables are carried initially at fair value and subsequently measured at amortized cost less a provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is recognised in profit or loss.

Trade and other receivables, being short term, are not discounted.

Trade and other payables
Liabilities for trade and other payables which are normally settled on 30 – 90 day terms and conditions are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the Company.

Borrowings
Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve (12) months after the date of the statement of financial position.

Consumer deposits
Given the long-term nature of the customer relationship in accordance with the provisions of the Electricity Supply Act, 1994 (as amended), customer deposits are shown in the statement of financial position as non-current liabilities (i.e. not likely to be repaid within twelve months of the date of the statement of financial position).

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(b) *Financial instruments (Cont'd)*
(ii) *Share capital*
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(c) *Property, plant and equipment*
(i) *Recognition and measurement*
Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

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

The gain or loss on the disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item and is recognized net within "other gains" in profit or loss.

(ii) *Subsequent expenditure*
The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(c) Property, plant and equipment (Cont'd)

(iii) *Depreciation*

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land and way leave rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Further to the annual review, the annual rates have been revised as follows:

	2013	2012
■ Building	$2^1/_2$% - $12^1/_2$% per annum	$2^1/_2$% -$12^1/_2$% per annum
■ Plant and machinery	4% - 10% per annum	5% - 14% per annum
■ Generator overhauls	$33^1/_3$% per annum	$33^1/_3$% per annum
■ Motor vehicles	20% - $33^1/_3$% per annum	20% - $33^1/_3$% per annum
■ Furniture and fittings	10% per annum	10% - 25% per annum
■ Computer hardware	20% per annum	$12^1/_2$%- 25% per annum

(d) Intangible assets

(i) *Recognition and measurement*

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) *Subsequent expenditure*

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

(iii) *Amortization*

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than way leave rights, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Further to the annual review, the estimated useful lives for the assets (computer software) that are amortized have been revised to five (5) years and eight (8) years (2012 - four (4) to five (5) years).

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

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(e) Inventories

Inventories are measured at the lower of cost and replacement value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories. Allowance is made for slow-moving and damaged goods. Goods in transit are stated at their invoice cost.

(f) Impairment

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(f) Impairment (Cont'd)

(ii) *Non-financial assets*
The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

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

(g) Derivative financial instruments
The Company holds derivative financial instruments to hedge against the volatility of its fuel costs. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(g) Derivative financial instruments (Cont'd)

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(h) Employee benefits

(i) Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan 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 is deducted. The discount rate is the yield at the reporting date on government securities 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 is performed annually by a qualified actuary using the Projected Unit Credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Company recognises actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in other comprehensive income in the period in which they occur.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(h) Employee benefits (Cont'd)

(ii) Pension benefits assumptions

The present value of the pension obligations depends on a number of factors that are determined by independent qualified actuaries using a number of assumptions. The assumptions used in determining the net cost (income) for pension include the expected long-term rate of return on the relevant plans assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumption is determined on a uniform basis taking into consideration long-term historical returns, asset allocation and future estimates of long-term obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash outflows expected to be required to settle the pension obligations and also to determine the expected return on plan assets. In determining the appropriate discount rate, the Company considers the interest rates of the Government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 8.

(iii) Defined contribution plans

For its defined contribution plan, the Company pays contributions to a privately administered pension insurance plan on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Termination benefits

Termination benefits are recognised as an expense when the entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the entity has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

If benefits are payable more than twelve months after the reporting period, then they are discounted to that present value.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(i) Revenue recognition
Sale of energy
Revenue from energy sales is based on meter readings, which are carried out on a rotational basis throughout each month. A provision for the current month's billings, excluding the fuel surcharge, is made to record unbilled energy sales at the end of each month. This estimate is based upon actual information for the preceding months and is reviewed periodically to assess reasonableness and adjusted where required. The provision for unbilled sales is included in accrued income.

In addition to the basic tariff rates charged for energy sales, a fuel surcharge is calculated which is based on the difference between the cost of fuel used to generate energy sales in the current month and the average fuel price for the 12 months preceding January of the current year. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month. If the cost of fuel in the current month is less than the average fuel price for the previous year, then the basic tariff is reduced. The provision for unbilled fuel surcharge is included in accrued income.

Consumer contributions
In certain specified circumstances, consumers requiring line extensions for electricity supply are required to contribute the capital cost of the extensions. These contributions are recognised in income in the same period in which the services are performed. Contributions in excess of the applicable capital cost of line extensions, where the excess is greater than 5% of the estimated cost of the job, arising mainly as a result of changes to job specifications during the implementation stage, are refundable to the customers upon finalization of the total cost of the job. The capital costs of consumer line extensions are included in property, plant and equipment.

(j) Finance income and expenses
Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale financial assets, and changes in the fair value of financial assets at fair value through profit or loss that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings and consumer deposits, and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(k) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Earnings per share

The Company presents basic Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(m) New standards, amendments to standards and interpretations

(i) New standards, amendments and interpretations effective in the 2013 financial year are as follows:

A number of new standards, amendments to standards and interpretations effective for annual periods beginning on or after January 1, 2013 have been adopted in these financial statements. Note: not all new standards, amendments and interpretations effective for annual periods beginning on or after January 1, 2013 affect the Company's financial statements and these have not been disclosed below.

- *IFRS 7, Financial Instruments: Disclosures* clarify existing applications used relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of offset" and "simultaneous realization and settlement". The amendment requires entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangements. As the amendment only affects presentation, there is no effect on the Company's financial position or performance.

- *IFRS 13, Fair Value Measurement* defines fair value, establishes a framework for measuring fair value and sets disclosure requirements for fair value measurements. It explains how to measure fair value, and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. This new standard did not materially affect any fair value measurements of the Company's assets or liabilities, with changes limited to presentation and disclosure and therefore has no effect on the Company's financial position or performance.

- *IAS 19, Employee Benefits* has been amended to require that all actuarial gains and losses be recognized immediately in other comprehensive income. This change removes the corridor method and eliminates the ability for entities to recognize all changes in the defined benefit obligations and plan assets in profit or loss, and provides for the expected return on plan assets recognized in profit or loss to be calculated based on the rates used to discount the defined benefit obligation. The amendment also includes changes to the definitions and disclosure requirements in the current standard. The effect of these amendments is disclosed in Notes 8 and 17.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(m) New standards, amendments to standards and interpretations (Cont'd)

(i) New standards, amendments and interpretations effective in the 2013 financial year are as follows: (Cont'd)

- *IAS 1, Presentation of Financial Statements* has been amended to require an entity to present separately the items of other comprehensive income (OCI) that would be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregate tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. However, an entity is still allowed to use other titles. The amendment is effective for annual periods beginning on or after July 1, 2012. As the amendment only affects presentation, there is no effect on the Company's financial position or performance.

(ii) Standards, amendments and interpretations that are issued but not effective and have not been early adopted are as follows:

- IFRS 9, *Financial Instruments:* effective for annual periods beginning on or after January 1, 2017, deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirement in IAS 39 in respect of financial assets. IFRS 9 contains two primary measurement categories for financial assets: at amortized cost and fair value. A financial asset will be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets will be measured at fair value. IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(m) New standards, amendments to standards and interpretations (Cont'd)

(ii) Standards, amendments and interpretations that are issued but not effective and have not been early adopted are as follows: (Cont'd)

- IFRS 9, *Financial Instruments: (Cont'd)*

For an investment in an equity instrument that is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss.

However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income will be measured at fair value with changes in fair value being recognized in profit or loss.

IFRS 9 also requires that derivatives embedded in contracts with a host that is a financial asset are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

IFRS 9 is not expected to have an impact on the measurement basis of the financial assets since the majority of the Company's financial assets are measured at fair value through profit or loss. The impact of IFRS 9 on the Company's financial statements is currently being considered. Management has not yet determined the impact of adopting IFRS 9. IFRS 9 is permitted for early adoption but the Company does not intend to do so.

Recent amendments to IFRS 9

These were issued in December 2011 by the International Accounting Standards Board ("IASB"). The amendments require entities to apply IFRS 9 for annual periods beginning on or after 1 January 2017 with early application permissible. In these amendments, the IASB has modified the relief from restating prior periods. IASB has also made amendments to IFRS 7 to require additional disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(m) New standards, amendments to standards and interpretations (Cont'd)

(ii) Standards, amendments and interpretations that are issued but not effective and have not been early adopted are as follows: (Cont'd)

- IFRS 9, *Financial Instruments: (Cont'd)*

  Recent amendments to IFRS 9 (Cont'd)

  For entities which initially apply IFRS 9:

  (a) before January 1, 2012: need not restate prior periods and are not required to provide the disclosures set out in below;
  (b) on or after January 1, 2012 and before January 1, 2013: must elect either to provide the disclosures set out below or to restate prior periods; and
  (c) on or after January 1, 2013: shall provide the disclosures set out below. The entity need not restate prior periods.

  At the date of initial application of IFRS 9, the entity shall disclose the changes in the classification of financial assets and financial liabilities showing separately,

  (i) the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (i.e. not resulting from a change in measurement attribute on transition to IFRS 9).

  (ii) the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9.

  In addition to the above, in the reporting period in which IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9

  (i) the fair value of the financial assets or financial liabilities at the end of the reporting period;

  (ii) the fair value gain or loss that would have been recognized in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

  (iii) the effective interest rate determined on the date of reclassification; and

  (iv) the interest income or expense recognized.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(m) New standards, amendments to standards and interpretations (Cont'd)

(ii) Standards, amendments and interpretations that are issued but not effective and have not been early adopted are as follows: (Cont'd)

- IFRS 9, *Financial Instruments: (Cont'd)*

  Recent amendments to IFRS 9 (Cont'd)

  If an entity treats the fair value of a financial asset or a financial liability as its amortized cost at the date of initial application, then the disclosures in (iii) and (iv) above shall be made for each reporting period following reclassification until de-recognition. Otherwise, all the disclosures need not be made after the reporting period containing the date of initial application.

  If these disclosures are made then, the entity should reconcile between

  (i) the measurement categories in IAS 39 and IFRS 9;

  (ii) the class of financial instruments at the date of initial application; and

  (iii) the line items presented in the statement of financial position.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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4. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Investments in equity and debt securities
The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Trade and other receivables
Trade and other receivables together with accrued income comprise balances owed by customers and employee advances which are due in less than 12 months. Because of the short term nature of these balances, their carrying values approximate their fair value at the reporting date.

Trade and other payables
Due to the short term nature of the related transactions, the fair values of trade and other payables approximate their carrying amounts at the reporting date.

Non-derivative financial liabilities
Non-derivative financial liabilities are measured at fair value at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Financial Risk Management

Overview

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

- Credit risk
- Liquidity risk
- Market risk (including currency risk and interest rate 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 financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
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5. Financial Risk Management (Cont'd)

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 an Audit Committee, which oversees how management monitors compliance with the Company's risk management policies and procedures, and which also reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Committee is assisted in its oversight role by the Internal Audit Department, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

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 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.

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 and investment securities.

Trade and other receivables
The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry in which customers operate, have less of an influence on credit risk.

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

These payment terms are stipulated under the provisions of the Electricity Supply Act, 1994 (as amended) and include providing discretion to the Company to require a deposit not exceeding an estimated two month's supply of electricity from any consumer as security for sums due from time to time, and which is refundable with interest upon permanent termination of services . Customers that fail to meet the Company's benchmark creditworthiness may have their electricity supply withdrawn or terminated in accordance with the provisions of the Act.

More than 85 percent of the Company's customers have been transacting with the Company for over four years, and losses have occurred infrequently. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

5. Financial Risk Management (Cont'd)

Credit risk (Cont'd)

Investments

The Company limits its exposure to credit risk by only investing in liquid securities. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have 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.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the Company maintains the following lines of credit:

- Two overdraft facilities of EC$10 million and EC$6 million which are secured. Interest is payable at the rate of 9% and 8% respectively.
- A standby credit facility in the amount of EC$10 Million which will be utilised to restore transmission and distribution assets damaged by hurricane and other natural disasters, should it become necessary. This facility is convertible into a 12-year term instalment loan subject to the necessary approvals. The interest rate is 7.41% on the credit facility and 6.5% if converted into a demand loan.

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.

The Company is exposed to currency risk on purchases and borrowings denominated in a currencies other than its functional currency. The Company's exposure to currency risk is minimal since most of its obligations are denominated in United States Dollars and the United States dollar has been formally pegged to the Eastern Caribbean Dollar at EC$2.70 = US$1.00 since 1976.

The Company limits its interest rate risk by ensuring as far as possible that fixed rate borrowings are negotiated. The Company is not exposed to equity price risk.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

5. Financial Risk Management (Cont'd)

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 behaviour. Operational risks arise from all of the Company's operations. 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 overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors and the senior management. 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 adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

5. Financial Risk Management (Cont'd)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net profit after tax divided by average shareholders' equity. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Under the terms of the mortgage debenture agreement, the Company's total debt shall not exceed two times its tangible net worth which currently comprises its share capital and retained earnings. The Company was in compliance with this requirement at year-end.

There were no changes in the Company's approach to capital management during the year.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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6. Property, Plant and Equipment

		Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fittings	Work in Progress	Total
Cost							
Balance at January 1, 2012	$	88,161,346	548,195,383	3, 555,539	12,208,299	45,473,611	697,594,178
Prior periods' adjustments (Note 33)		-	-	-	-	(3,413,786)	(3,413,786)
Balance at January 1, 2012 as restated		88,161,346	548,195,383	3, 555,539	12,208,299	42,059,825	694,180,392
Additions		539,840	737,164	-	1,410,630	88,300,576	90,988,210
Prior periods' adjustments (Note 33)		-	-	-	-	(272,945)	(272,945)
Additions as restated		539,840	737,164	-	1,410,630	88,027,631	90,715,265
Transfers		(20, 987)	97,146,570	47,076	23,874	(97,196,533)	-
Reclassifications from intangible assets		402,532	-	-	90,542	(133,141)	359,933
Disposals		-	-	(271,039)	(26,312)	-	(297,351)
Balance at December 31, 2012 as restated		89,082,731	646,079,117	3,331,576	13,707,033	32,757,782	784,958,239
Balance at January 1, 2013 as restated		89,082,731	646,079,117	3,331,576	13,707,033	32,757,782	784,958,239
Additions		491,960	8,067,540	400,680	893,695	15,906,472	25,760,347
Transfers		328,925	27,398,274	-	4,212	(27,731,411)	-
Reclassifications to intangible assets		(930,338)	-	-	947,603	(69,090)	(51,825)
Disposals		-	-	(47,000)	(214,408)	-	(261,408)
Balance at December 31, 2013	$	88,973,278	681,544,931	3,685,256	15,338,135	20,863,753	810,405,353
Accumulated Depreciation							
Balance at January 1, 2012	$	33,022,063	360,522,613	2,792,902	10,078,275	-	406,415,853
Charge for the year		2,061,338	29,021,197	322,050	557,970	-	31,962,555
Eliminated on disposals		-	-	(262,592)	(25,435)	-	(288,027)
Balance at December 31, 2012		35,083,401	389,543,810	2,852,360	10,610,810	-	438,090,381
Balance at January 1, 2013		35,083,401	389,543,810	2,852,360	10,610,810	-	438,090,381
Charge for the year		2,047,588	27,616,587	225,810	789,953	-	30,679,938
Reclassifications to intangible assets		(86,532)	-	-	95,164	-	8,632
Eliminated on disposals		-	-	(47,000)	(212,888)	-	(259,888)
Balance at December 31, 2013	$	37,044,457	417,160,397	3,031,170	11,283,039	-	468,519,063
Carrying Amounts							
At January 1, 2012 as restated	$	55,139,283	187,672,770	762,637	2,130,024	42,059,825	287,764,539
At December 31, 2012 as restated	$	53,999,330	256,535,307	479,216	3,096,223	32,757,782	346,867,858
At January 1, 2013 as restated	$	53,999,330	256,535,307	479,216	3,096,223	32,757,782	346,867,858
At December 31, 2013	$	51,928,821	264,384,534	654,086	4,055,096	20,863,753	341,886,290

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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(Expressed In Eastern Caribbean Dollars)

6. Property, Plant and Equipment (Cont'd)

Borrowing costs amounting to $0 (2012 - $3,099,599) were capitalized during the year.

As stated in Note 14, borrowings are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable property and floating charges over all other assets, all ranking pari passu pursuant to a security sharing agreement, and assignment of insurance policies.

The useful lives of certain classes of property, plant and equipment were revised effective January 1, 2013. The effect of the change was a decrease in depreciation expense of $3,600,000 for the year ended December 31, 2013.

7. Intangible Assets

		Information Systems	Way Leave Rights	Work In Progress	Total
Cost					
Balance at January 1, 2012	$	6,930,634	2,254,087	5,372,157	14,556,878
Additions		2,290,871	290,553	3,673,346	6,254,770
Transfers		8,624,192	200,622	(8,824,814)	-
Reclassifications to property, plant and equipment		-	(272,244)	(87,689)	(359,933)
Balance at December 31, 2012		17,845,697	2,473,018	133,000	20,451,715
Balance at January 1, 2013		17,845,697	2,473,018	133,000	20,451,715
Additions		346,325	187,945	1,915,970	2,450,240
Transfers		1,832,679	-	(1,832,679)	-
Reclassifications from property, plant and equipment		27,501	24,324	-	51,825
Balance at December 31, 2013	$	20,052,202	2,685,287	216,291	22,953,780
Accumulated Amortisation					
Balance at January 1, 2012	$	4,734,983	-	-	4,734,983
Amortised for the year		662,741	-	-	662,741
Balance at December 31, 2012		5,397,724	-	-	5,397,724
Balance at January 1, 2013		5,397,724	-	-	5,397,724
Amortised for the year		1,975,969	-	-	1,975,969
Reclassifications to property, plant and equipment		(8,632)	-	-	(8,632)
Balance at December 31, 2013	$	7,365,061	-	-	7,365,061
Carrying Amounts					
At January 1, 2012	$	2,195,651	2,254,087	5,372,157	9,821,895
At December 31, 2012	$	12,447,973	2,473,018	133,000	15,053,991
At January 1, 2013	$	12,447,973	2,473,018	133,000	15,053,991
At December 31, 2013	$	12,687,141	2,685,287	216,291	15,588,719

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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7. Intangible Assets (Cont'd)

Way leave rights, which have an indefinite life period, allow the Company access to property owned by third parties for the purpose of installing and maintaining the Company's transmission and distribution network.

The useful lives of computer software were revised effective January 1, 2013. The effect of the change was a decrease in amortisation expense of $180,000 for the year ended December 31, 2013.

8. Retirement Benefit Assets

Grade I Employees
The Company contributes to a defined benefit pension scheme with Sagicor Life Inc. for Grade I employees who were employed prior to January 1, 2008.

Grade II Employees
The Company contributes to a defined benefit pension scheme for Grade II employees who were employed prior to January 1, 2008 which, up to December 31, 2008, was held with CLICO International Life Insurance Company Limited ("CLICO"). Subsequent fundings to the plan are currently being managed by RBC Investments Management (Caribbean) Limited (Note 31).

The most recent actuarial valuation of these two schemes is dated December 31, 2012. The plans were valued using the "Projected Unit Credit" method of valuation.

Grade III Employees
For its senior employees who were employed prior to January 1, 2008, the Company contributes to the regional CDC Caribbean Pension Scheme administered by Sagicor Life Inc.

The most recent actuarial valuation of the plan was completed December 31, 2012.

The plan was valued using the "Projected Unit Credit" method of valuation.

The principal actuarial assumptions used for all schemes were as follows:

	Grade III		Grades I and II	
	2013	**2012**	**2013**	**2012**
	%	**%**	**%**	**%**
Discount rates	7.0	7.0	7.0	7.0
Future salary increases	3.5	2.5	5.5	5.5
Future pension increases	3.0	3.0	0.0	0.0
Future promotional increases	2.0	2.0	0.0	0.0

ST. LUCIA ELECTRICITY SERVICES LIMITED
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8. Retirement Benefit Assets (Cont'd)

The amounts recognised in the statement of financial position at December 31, 2013 are determined as follows:

		Grade III		Grade II		Grade I		Total	
		2013	**2012 Restated**	**2013**	**2012 Restated**	**2013**	**2012 Restated**	**2013**	**2012 Restated**
Present value of defined benefit obligations	$	(22,662,000)	(20,483,000)	(13,887,000)	(13,872,000)	(13,395,000)	(12,788,000)	(49,944,000)	(47,143,000)
Fair value of plans' assets		22,739,000	20,127,000	15,705,000	17,228,000	14,930,000	14,420,000	53,374,000	51,775,000
Defined benefit asset/(liability)	$	77,000	(356,000)	1,818,000	3,356,000	1,535,000	1,632,000	3,430,000	4,632,000

The amount of $3,430,000 (2012 - $4,632,000) is recognised as a defined benefit asset as it will be available to the Company to fund a contribution reduction in the future.

The Trustees of the pension schemes are precluded from paying out any part of this amount to the Company. The Company has set up a retirement benefit reserve for the same amount which is not available for distribution to shareholders.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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8. Retirement Benefit Assets (Cont'd)

The movements in the defined benefit obligations for the year ended December 31, 2013 were as follows:

	Grade III		Grade II		Grade I		Total	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Defined benefit obligations as at January 1,	$ 20,483,000	19,385,000	13,872,000	12,956,000	12,788,000	12,102,000	47,143,000	44,443,000
Service costs	1,032,000	1,035,000	537,000	551,000	191,000	169,000	1,760,000	1,755,000
Interest costs	1,498,000	1,319,000	946,000	888,000	888,000	837,000	3,332,000	3,044,000
Members' contributions	-	-	221,000	230,000	195,000	186,000	416,000	416,000
Benefits paid	(214,000)	(268,000)	(728,000)	(598,000)	(290,000)	(371,000)	(1,232,000)	(1,237,000)
Re-measurements:experience adjustments	(137,000)	(988,000)	(961,000)	(155,000)	(377,000)	(135,000)	(1,475,000)	(1,278,000)
Defined benefit obligations as at December 31,	$ 22,662,000	20,483,000	13,887,000	13,872,000	13,395,000	12,788,000	49,944,000	47,143,000

The movements in the plans' assets for the year ended December 31, 2013 were as follows:

	Grade III		Grade II		Grade I		Total	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Fair value of plan's assets at January 1,	$ 20,127,000	17,577,000	17,228,000	16,048,000	14,420,000	13,935,000	51,775,000	47,560,000
Contributions paid - Company	1,222,000	1,181,000	458,000	553,000	243,000	265,000	1,923,000	1,999,000
Contributions paid - members	-	-	221,000	230,000	195,000	186,000	416,000	416,000
Interest income	1,444,000	1,172,000	1,202,000	1,127,000	1,012,000	976,000	3,658,000	3,275,000
Return on plans' assets, excluding interest income	232,000	465,000	(2,610,000)	(63,000)	(589,000)	(514,000)	(2,967,000)	(112,000)
Benefits paid	(214,000)	(268,000)	(728,000)	(598,000)	(290,000)	(371,000)	(1,232,000)	(1,237,000)
Expense allowance	(72,000)	-	(66,000)	(69,000)	(61,000)	(57,000	(199,000)	(126,000)
Fair value of plans' assets at December 31,	$ 22,739,000	20,127,000	15,705,000	17,228,000	14,930,000	14,420,000	53,374,000	51,775,000

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Notes to Financial Statements (Continued)
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8. Retirement Benefit Assets (Cont'd)

Plans' assets consist of the following:

	Grade III		Grade II		Grade I	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Overseas equities	$ 9,506,519	8,916,491	-	-	-	-
Government issued nominal bonds	6,268,990	5,673,174	7,699,000	6,891,000	-	-
Corporate bonds	3,365,372	2,978,796	-	-	-	-
Cash/money market	2,241,953	990,973	471,000	672,000	-	-
Deposit administration account	-	-	5,964,000	7,585,000	14,930,000	14,420,000
Other	1,356,166	1,567,566	1,571,000	2,080,000	-	-
Total	$ 22,739,000	20,127,000	15,705,000	17,228,000	14,930,000	14,420,000

Grade I
The value of the Grade I plan assets is equal to the face value of the deposit administration contract provided by the Investment Manager, Sagicor Life Inc. The value of this policy is not quoted and is reliant on Sagicor's financial strength.

Grade II
The Grade II plan assets values as at December 31, 2013 were estimated using the asset value as at September 30, 2013 provided by the Plan's Investment Manager, RBC, the residual value of the deposit administrative contract with CLICO as at December 31, 2012 as shown in the Scheme's audited accounts and an estimate of the Plan's immediate annuity policies which was calculated using the same assumptions used to calculate the defined benefit obligations. The Investment Manager calculates the fair value of government bonds by discounting expected future proceeds using a constructed yield curve. All of the Plan's government bonds were issued by the governments of countries within Caricom.

The plan assets for the Grade I and II Pension Schemes are invested in a strategy agreed with the Plan's Trustees which is largely driven by statutory constraints and asset availability. There ar e no asset-liability matching strategies used by the Plan.

Grade III
The Grade III plan assets values as at December 31, 2013 were estimated using the asset value as at September 30, 2013 provided by the Plan's Investment Managers, Deutsche Bank and Sagicor Life Inc. The assets held by Deutsche Bank are all quoted in a formal market. There are no asset-liability matching strategies employed by the Plan.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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8. Retirement Benefit Assets (Cont'd)

The actual return on plans' assets for the year ended December 31, 2013 was as follows:

	Grade III		Grade II		Grade I		Total	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Return on plans' assets	$ 1,676,000	1,637,000	(1,408,000)	1,064,000	423,000	462,000	691,000	3,163,000

The amounts recognised in the statement of comprehensive income for the year ended December 31, 2013 were as follows:

	Grade III		Grade II		Grade I		Total	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Current service cost	$ 1,032,000	1,035,000	537,000	551,000	191,000	169,000	1,760,000	1,755,000
Administrative expenses	72,000	-	66,000	69,000	61,000	57,000	199,000	126,000
Net interest on defined benefit asset	54,000	147,000	(256,000)	(239,000)	(124,000)	(139,000)	(326,000)	(231,000)
Net pension costs	$ 1,158,000	1,182,000	347,000	381,000	128,000	87,000	1,633,000	1,650,000

Re-measurements recognised in Other Comprehensive Income:

	Grade III		Grade II		Grade I		Total	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Experience (gains)/losses	$ (369,000)	(1,453,000)	1,649,000	(92,000)	212,000	379,000	1,492,000	(1,166,000)
Total amount recognised in Other Comprehensive Income	$ (369,000)	(1,453,000)	1,649,000	(92,000)	212,000	379,000	1,492,000	(1,166,000)

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
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8. Retirement Benefit Assets (Cont'd)

Reconciliation of opening and closing defined benefit assets/(liability):

		Grade III		Grade II		Grade I		Total	
		2013	2012 Restated	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Defined benefit asset /(liability) at prior year end	$	(356,000)	4,454,000	3,356,000	1,703,000	1,632,000	2,978,000	4,632,000	9,135,000
Unrecognised gains/(losses) charged to retained earnings		-	(6,262,000)	-	1,389,000	-	(1,145,000)	-	(6,018,000)
Opening defined benefit asset /(liability)		(356,000)	(1,808,000)	3,356,000	3,092,000	1,632,000	1,833,000	4,632,000	3,117,000
Net pension costs		(1,158,000)	(1,182,000)	(347,000)	(381,000)	(128,000)	(87,000)	(1,633,000)	(1,650,000)
Re-measurements recognised in Other Comprehensive Income		369,000	1,453,000	(1,649,000)	92,000	(212,000)	(379,000)	(1,492,000)	1,166,000
Company contributions paid		1,222,000	1,181,000	458,000	553,000	243,000	265,000	1,923,000	1,999,000
Closing defined benefit asset/(liability)	$	77,000	(356,000)	1,818,000	3,356,000	1,535,000	1,632,000	3,430,000	4,632,000

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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8. Retirement Benefit Assets (Cont'd)

Sensitivity Analysis

The calculation of the defined benefit obligations for Grades I to III is sensitive to the assumptions used. The following tables summarise how the defined benefit obligations as at December 31, 2013 would have changed as a result of a change in the assumptions used.

Grade III

		1% p.a. increase	**1% p.a. decrease**
Discount rate	$	(3,906,000)	5,087,000
		0.5% p.a. increase	**0.5% p.a. decrease**
Future salary increases	$	787,000	(746,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2013 by $95,000.

Grade II

		1% p.a. increase	**1% p.a. decrease**
Discount rate	$	(1,717,000)	2,121,000
Future salary increases	$	728,000	(651,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2013 by $287,000.

Grade I

		1% p.a. increase	**1% p.a. decrease**
Discount rate	$	(1,361,000)	1,783,000
Future salary increases	$	1,250,000	(1,048,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2013 by $172,000.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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9. Available-for-sale Financial Assets

		2013	2012
Securities: available-for-sale			
At beginning of year	$	167,969	166,163
Additions for year		1,772	1,806
At end of year	$	169,741	167,969

The available-for-sale financial asset as at December 31, 2013 has a stated interest rate of 1.52% to 2% (2012 - 1.52% to 2%). The above investment is not available for the day-to-day operations of the Company (Note 30).

The Company's exposure to credit, currency and interest rate risks related to the available-for-sale financial assets are disclosed in Note 28.

10. Inventories

		2013	2012
Fuel inventories	$	2,821,066	2,971,407
Generation spare parts		4,485,446	8,960,417
Transmission, distribution and other spares		6,929,839	9,049,302
Goods in transit		-	415,084
		14,236,351	21,396,2101
Less: provision for inventory obsolescence		(2,220,409)	(2,227,681)
	$	12,015,942	19,168,529

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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11. Trade, Other Receivables and Prepayments

		2013	2012
Trade receivables due from related parties (Note 25)	$	10,518,742	6,557,588
Other trade receivables		56,178,023	55,732,405
Less: provision for impairment of trade receivables		(8,445,654)	(7,154,293)
Trade receivables, net		58,251,111	55,135,700
Other receivables due from related parties (Note 25)		235,654	759,952
Other receivables		5,123,046	4,032,608
Less: provision for impairment of other receivables		(339,085)	(425,411)
Other receivables, net		5,019,615	4,367,149
Accrued income		15,570,075	16,732,600
		78,840,801	76,235,449
Prepayments		3,356,572	1,345,332
	$	82,197,373	77,580,781

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 28.

12. Cash and Cash Equivalents

Cash and cash equivalents comprise:

		2013	2012
Cash at bank and in hand	$	4,216,120	18,690,507
Term deposits		25,641,707	17,994,967
	$	29,857,827	36,685,474

The term deposits earn interest at rates ranging from 1% to 3.75% per annum (2012 - 1.85% to 4% per annum) and mature between 1 to 10 months after year end (2012 - 1 to 7 months).

Term deposits totalling $21,160,397 (2012 - $17,552,025) are not available for the day-to-day operations of the Company (Note 30).

The Company's exposure to credit and currency risk related to cash and cash equivalents are disclosed in Note 28.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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13. Share Capital

	2013	2012
Authorised:		
Voting ordinary shares	100,000,000	100,000,000
Ordinary non-voting shares	800,000	800,000
Preference shares	1,214,128	1,214,128

		2013	2012
Issued and fully paid			
22,400,000 voting ordinary shares	$	77,562,792	77,562,792
520,000 non-voting ordinary shares		2,600,000	2,600,000
	$	80,162,792	80,162,792

The shares of the Company have no par value.

14. Borrowings

This comprises:

		2013	2012
Current			
Bank borrowings	$	3,822,932	3,541,878
Related parties		11,055,407	11,721,596
		14,878,339	15,263,474
Non-current			
Bank borrowings		34,856,806	38,673,957
Related parties		118,215,751	129,123,143
		153,072,557	167,797,100
Total borrowings			
Bank borrowings		38,679,738	42,215,835
Related parties (Note 25)		129,271,158	140,844,739
	$	167,950,896	183,060,574

Borrowings include loans amounting to $95,248,142 (2012 - $100,017,120) that are guaranteed by the Government of Saint Lucia and other bank loans that are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable property and floating charges over all other assets, all ranking pari passu pursuant to a security sharing agreement, and assignment of insurance policies.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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14. Borrowings (Cont'd)

The weighted average effective rates at the date of the statement of financial position were as follows:

	2013 %	2012 %
Bank borrowings	8.13%	8.11%
Related parties	7.60%	7.59%

Maturity of non-current borrowings:

	2013	2012
Between 1 and 2 years	$ 15,347,041	14,724,543
Between 2 and 5 years	48,342,383	48,101,640
Over 5 years	89,383,133	104,970,917
	$ 153,072,557	167,797,100

The Company's exposure to interest rate, foreign currency, and liquidity risks related to borrowings is disclosed in Note 28.

15. Consumer Deposits

Consumers requesting energy connections are required to pay a deposit that is refundable when the service is terminated. Interest is accrued on these deposits at the rate of 3% (2012 - 3%) per annum.

	2013	2012
Consumer deposits	$ 11,653,734	11,105,941
Interest accrual	3,891,251	3,664,939
	$ 15,544,985	14,770,880

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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16. Deferred Tax Liabilities

Deferred tax liability is calculated in full on temporary differences under the balance sheet liability method using a principal tax rate of 30% (2012 - 30%). The movement on the deferred tax liability account is as follows:

		2013	2012 Restated
At beginning of year	$	37,446,543	30,253,824
Recognised in profit and loss (Note 22)		670,355	6,826,077
Recognised in other comprehensive income (Note 22)		(373,502)	366,642
At end of year	$	37,743,396	37,446,543

Deferred tax liabilities are attributed to the following items:

		2013	2012 Restated
Property, plant and equipment	$	37,250,187	36,620,402
Retirement benefit assets and liabilities		493,209	826,141
	$	37,743,396	37,446,543

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Notes to Financial Statements (Continued)
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17. Post-employment Medical Benefit Liability

The Company contributes to a post retirement medical scheme with The Beacon Insurance Co. Limited for all its current employees and retirees.

The principal actuarial assumptions used for all schemes were as follows:

	Grade III		Grades I and II	
	2013 %	2012 %	2013 %	2012 %
Discount rates	7.0%	7.0%	7.0%	7.0%
Medical expense increase	4.5%	4.5%	5.0%	5.0%

The amounts recognised in the statement of financial position at December 31, 2013 are determined as follows:

	Grade III		Grade II & I		Total	
	2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Present value of defined benefit obligations	$ 420,970	393,198	1,365,000	1,485,000	1,785,970	1,878,198
Fair value of plans' assets	-	-	-	-	-	-
Post retirement liability	$ 420,970	393,198	1,365,000	1,485,000	1,785,970	1,878,198

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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17. Post-employment Medical Benefit Liability (Cont'd)

The movements in the post retirement benefit obligation for the year ended December 31, 2013 were as follows:

		Grade III		Grades II & I		Total	
		2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Defined benefit obligations as at January 1,	$	393,198	334,141	1,485,000	1,462,000	1,878,198	1,796,141
Current service costs		24,487	22,958	36,000	36,000	60,487	58,958
Interest costs		29,071	23,055	103,000	101,000	132,071	124,056
Benefits paid		(4,793)	(4,814)	(33,000)	(40,000)	(37,793)	(44,814)
Re-measurements: experience adjustments		(20,993)	17,858	(226,000)	(74,000)	(246,993)	(56,142)
Defined benefit obligations as at December 31,	$	420,970	393,198	1,365,000	1,485,000	1,785,970	1,878,198

The amounts recognised in the statement of comprehensive income for the year ended December 31, 2013 were as follows:

		Grade III		Grade II & I		Total	
		2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Current service cost	$	24,487	22,958	36,000	36,000	60,487	58,958
Interest on defined benefit obligations		29,071	23,055	103,000	101,000	132,071	124,055
Net pension costs	$	53,558	46,013	139,000	137,000	192,558	183,013

Re-measurements recognised in Other Comprehensive Income:

		Grade III		Grade II & I		Total	
		2013	2012 Restated	2013	2012 Restated	2013	2012 Restated
Experience (gains)/losses	$	(20,993)	17,858	(226,000)	(74,000)	(246,993)	(56,142)
Total amount recognised in Other Comprehensive Income	$	(20,993)	17,858	(226,000)	(74,000)	(246,993)	(56,142)

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013

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17. Post-employment Medical Benefit Liability (Cont'd)

Reconciliation of opening and closing defined benefit liability:

	Grade III		Grade II & I		Total	
	2013	**2012 Restated**	**2013**	**2012 Restated**	**2013**	**2012 Restated**
Defined benefit obligations at prior period end	$ 393,198	134,234	1,485,000	1,106,00	1,878,198	1,240,234
Unrecognised gain charged to retained earnings	-	199,907	-	356,000	-	555,907
Opening defined benefit obligations	393,198	334,141	1,485,000	1,462,000	1,878,198	1,796,141
Net pension costs	53,558	46,013	139,000	137 000	192,558	183,013
Re-measurements recognised in Other Comprehensive Income	(20,993)	17,858	(226,000)	(74,000)	(246,993)	(56,142)
Benefits paid	(4,793)	(4,814)	(33,000)	(40,000)	(37,793)	(44,814)
Closing defined benefit obligations	$ 420,970	393,198	(1,365,000)	1,485,000	1,785,970	1,878,198

Sensitivity Analysis:

The calculation of the defined benefit obligations for Grades I to III is sensitive to the assumptions used. The following tables summarise how the defined benefit obligations as at December 31, 2013 would have changed as a result of a change in the assumptions used.

Grade III

		1% p.a. increase	**1% p.a. decrease**
Discount rate	$	(76,000)	100,000
Medical expense increases	$	99,576	(76,837)

An increase of 1 year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2013 by $1,000.

Grade I & II

		1% p.a. increase	**1% p.a. decrease**
Discount rate	$	(208,000)	269,000
Medical expense increases	$	271,000	(213,000)

An increase of 1 year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2013 by $48,000.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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18. Trade and Other Payables

		2013	2012 Restated
Trade payables	$	19,687,729	18,532,480
Accrued expenses		3,759,722	20,115,866
Other payables		6,487,592	7,779,549
	$	29,935,043	46,427,895

The Company's exposure to foreign currency and liquidity risks related to trade and other payables is disclosed in Note 28.

19. Tariff Reduction

In accordance with the provisions of the Electricity Supply Amendment Act Nos. 12 of 2006 and 13 of 2006, a mechanism was put into effect for the computation of the Allowable Rate of Return, based on a predetermined range of Return on Average Contributed Capital.

The Allowable Rate of Return is between 2% and 7% above the cost of the most recent long-term bonds issued by the Government of St. Lucia on the Regional Government Securities Market, with a minimum return of 10%. This was equal to a range of 10% to 14.5% in respect of 2013 (2012 - 10% to 14.5%).

In the event that the actual Rate of Return exceeds the Allowable Rate of Return, 50% of the amount in excess of the maximum of the range will be distributed proportionately to hotel and industrial consumers as a decrease in the basic energy rate based on the total kilowatt hours consumed in the preceding calendar year. The Minister may also, by Order, apply the decrease in the basic energy rate to consumers or groups of consumers in need of special protection.

In the event that the actual Rate of Return falls below the minimum of 10%, provision is also made for the upward adjustment of the basic energy rate.

As the actual Rate of Return fell below the Allowable Rate of Return for the year ended December 31, 2013, no appropriation will be made.

20. Ordinary Dividends

			2013	2012
Interim - $0.35	(2012 - $0.35) per share	$	8,022,000	8,022,000
Final - $0.00	(2012 - $0.42) per share		-	9,626,400
		$	8,022,000	17,648,400

The final dividend for the year 2013 had not been declared as at December 31, 2013.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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21. Other Gains, Net

		2013	2012
Gain on disposal of property, plant and equipment	$	13,480	39,068
Foreign exchange gain		52,377	27,808
	$	65,857	66,876

22. Taxation

		2013	2012 Restated
Current tax	$	9,045,048	3,145,885
Deferred tax (Note 16)		670,355	6,826,077
	$	9,715,403	9,971,962

Reconciliation of the applicable tax charge to the effective tax charges:

		2013	2012 Restated
Profit before taxation	$	35,943,284	38,786,549
Tax at the statutory rate of 30% (2012 - 30%)		10,782,986	11,635,965
Tax effect of self insurance appropriation		(1,067,583)	(1,057,306)
Correction to 2010 taxes		-	(603,940)
Understatement of 2012 taxes		-	(2,757)
Actual tax charge	$	9,715,403	9,971,962

Deferred tax on each component of other comprehensive income is as follows:

	2013			2012 Restated		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Re-measurement of defined benefit pension plans	$ (1,245,007)	373,502	(871,505)	1,222,142	(366,642)	855,500
Other comprehensive income	$ (1,245,007)	373,502	(871,505)	1,222,142	(366,642)	855,500

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Notes to Financial Statements (Continued)
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23. Fuel Price Hedging

The underlying strategy and imperative related to the Company's objective is to reduce, in some measure, the price volatility to its customers caused by the existing arrangements whereby fuel is purchased on a regular basis at market prices. The Company has only been authorised to use Fixed Price Swaps in its programme during the period to cover the related contracts.

The Board of Directors, as part of the hedging strategy, approved a rolling 12 month hedging program that commenced in January 2012 utilising Fixed Price Swaps covering 75% of estimated monthly volumes.

Under the provisions of the Electricity Supply Act (as amended) 1994, fuel prices are passed through to customers at cost.

24. Earnings Per Share

Earnings per share of $1.14 (2012 as restated - $1.26) have been calculated by dividing the profit for the year of $26,227,881 (2012 as restated - $28,814,587) by the weighted average number of shares outstanding during the year of 22,920,000 (2012 - 22,920,000).

25. Related Parties

(a) Identification of related party
A party is related to the Company if:

(i) Directly or indirectly the party:
- Controls, is controlled by, or is under common control with the Company.
- Has an interest in the Company that gives it significant influence over the Company or
- Has joint control over the Company,

(ii) The party is a member of the key management personnel of the Company,
(iii) The party is a close member of the family of any individual referred to in (i) or (ii),
(iv) The party is a post-employment benefit plan for the benefit of employees of the Company or any Company that is a related party of the Company.

(b) Related party transactions and balances
A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, or commercial terms and conditions.

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Notes to Financial Statements (Continued)
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25. Related Parties (Cont'd)

Transactions with key management personnel
In addition to their salaries, the Company also provides non-cash benefits to executive officers and contributions to a post-employment defined benefit plan on their behalf. The key management personnel compensations are as follows:

		2013	2012
Short-term employee benefits	$	3,503,054	3,193,306
Post-employment benefits		625,332	621,485
Directors' remuneration		316,140	287,118
Termination benefits		60,729	31,569
	$	4,505,255	4,133,477

The Company is controlled by the following entities:

	2013	2012
	%	%
Emera St. Lucia Ltd.	20.00	20.00
First Citizens Bank Limited	20.00	20.00
National Insurance Corporation	16.79	16.79
Castries City Council	16.33	16.33
Government of Saint Lucia	12.44	12.44
	85.56	85.56

The remaining 14.44% (2012 - 14.44%) of the shares is widely held.

Transactions with related parties

<u>Donations</u>

The LUCELEC Trust Company Inc. was formally established on October 14, 2005 as a non-profit company, funded through a Deed of Covenant between LUCELEC as the donor and the Trust. The Fund was set up for the purpose of providing financial assistance or purchasing items and or/property to aid any legitimate non-political entity, charitable, educational and sporting body by way of donation. LUCELEC provided initial funding of two million dollars to the Trust and under the Deed of Covenant is committed to provide additional sums to the Trust annually.

LUCELEC donated the amount of $100,000 (2012 - $360,000) to the Trust for 2013.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
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25. Related Parties (Cont'd)

Transactions with related parties (Cont'd)

Transactions with shareholders during the year were as follows:

Supply of services

		2013	2012
National Insurance Corporation	$	3,200,563	3,449,262
Castries City Council		1,880,280	1,794,304
Government of Saint Lucia		29,265,527	27,374,973
	$	34,346,370	32,618,539

The Government of Saint Lucia receives a 10% discount on electricity charges in respect of all accounts other than Street lighting, except where the minimum charges apply.

Balances at the year end arising from supply of electricity services to related parties during the year (Note 11) were as follows:

		2013	2012
National Insurance Corporation	$	292,973	308,579
Castries City Council		155,318	111,063
Government of Saint Lucia		10,070,451	6,137,946
	$	10,518,742	6,557,588

Other Services

Balances at the year end arising from supply of other services to related parties during the year (Note 11) were as follows:

		2013	2012
LUCELEC Trust Company Inc.	$	-	20,070
Emera St. Lucia Ltd.		-	1,460
Government of Saint Lucia		235,654	738,422
	$	235,654	759,952

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Notes to Financial Statements (Continued)
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25. Related Parties (Cont'd)

Transactions with related parties (Cont'd)

Loans from shareholders

Movements in loans from shareholders for the year and their balances at December 31, 2013 were as follows:

	2013	2012
National Insurance Corporation		
At beginning of year	$ 100,017,120	42,242,922
Proceeds from new loan	-	60,000,000
Repayments during year	(12,112,418)	(4,799,578)
	87,904,702	97,443,344
Interest expense	7,343,441	2,573,776
At end of year	$ 95,248,143	100,017,120

	2013	2012
First Citizens Bank Limited		
At beginning of year	$ 40,827,618	47,632,221
Repayments during year	(9,591,451)	(10,597,922)
	31,236,167	37,034,299
Interest expense	2,786,848	3,793,320
At end of year	$ 34,023,015	40,827,619

The above loans are fully secured (Note 14).

Finance costs
Details of the related finance costs are as follows:

	2013	2012
National Insurance Corporation	$ 7,343,441	2,573,776
First Citizens Bank Limited	2,786,848	3,793,320
	$ 10,130,289	6,367,096

These charges are included in the finance costs, net of $13,189,926 (2012 - $9,388,635) disclosed in the Statement of Comprehensive Income.

	2013	2012
Lease Charges		
Government of Saint Lucia	$ 100,000	100,000

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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25. Related Parties (Cont'd)

Transactions with related parties (Cont'd)

Transactions with key management personnel

A few key management personnel hold positions in other entities that result in them having significant influence over the financial or operating policies of those entities.

The aggregate value of transactions and outstanding balances relating to those entities were as follows:

Director/Shareholder	Company	Transactions	Transaction Value 2013	2012
Stephen McNamara	McNamara & Co	Legal fees	$ 62,862	395,821
		Payments on behalf of third parties	$ 406,904	230,540

26. Expenses by Nature

	2013	2012 Restated
Fuel cost over base	$ 1,347,962	22,074,156
Fuel at base price	194,012,649	187,235,821
Depreciation on property, plant and equipment	30,679,938	31,962,555
Amortisation of intangible assets	1,975,969	662,741
Repairs and maintenance	11,184,466	10,821,935
Employee benefit expenses (Note 27)	28,137,916	26,437,176
Other operating expenses	16,707,091	16,722,335
	$ 284,045,991	295,916,719
Operating expenses	$ 252,620,240	267,421,065
Administrative expenses	31,425,751	28,495,654
	$ 284,045,991	295,916,719

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Notes to Financial Statements (Continued)
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27. Employee Benefit Expenses

		2013	2012 Restated
Wages and salaries	$	21,436,966	20,147,345
Pension contributions		2,151,776	2,050,601
Medical contributions		503,803	559,209
Other employee benefits		4,045,371	3,680,021
	$	28,137,916	26,437,176

The number of permanent employees at December 31, 2013 was 240 (2012 - 249).

28. Financial Instruments

Credit risk
Exposure to credit risk

The carrying amount of financial assets represents the maximum exposure. The maximum exposure to credit risk at the reporting date was:

	Notes		Carrying Amounts 2013	Carrying Amounts 2012
Available-for-sale financial assets	9	$	169,741	167,969
Trade and other receivables	11		78,840,801	76,235,449
Cash and cash equivalents	12		29,857,827	36,685,474
		$	108,868,369	113,088,892

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

		Carrying Amounts 2013	Carrying Amounts 2012
Business, before deducting provision	$	51,419,226	47,187,831
Residential, before deducting provision		15,277,509	15,102,162
	$	66,696,765	62,289,993

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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28. Financial Instruments (Cont'd)

Credit risk (Cont'd)

Impairment losses:

The aging of trade receivables at the reporting date was:

		Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	$	24,879,042	-	25,745,899	-
Past due 30-60 days		13,326,826	-	10,289,972	-
Past due 60-90 days		5,731,870	-	4,495,490	-
Over 90 days		22,759,027	8,445,654	21,758,632	7,154,293
	$	66,696,765	8,445,654	62,289,993	7,154,293

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

		2013	2012
Balance at January 1,	$	7,154,293	6,183,439
Impairment loss recognized		1,291,361	970,854
Balance at December 31,	$	8,445,654	7,154,293

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written-off against the financial asset directly.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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(Expressed In Eastern Caribbean Dollars)

28. Financial Instruments (Cont'd)

Liquidity risk

The following are the contractual maturities of financial liabilities including estimated interest payments:

December 31, 2013

Non-derivative financial liabilities		Carrying amounts	Contractual cash flows	Under 1 year	1-2 years	2-5 years	>5 years
Secured loans	$	(167,950,896)	(249,856,253)	(26,985,691)	(26,494,550)	(74,629,740)	(121,746,272)
Trade and other payables		(29,935,043)	(29,935,043)	(29,935,043)	-	-	-
	$	(197,885,939)	(279,791,296)	(56,920,734)	(26,494,550)	(74,629,740)	(121,746,272)

December 31, 2012

Non-derivative financial liabilities		Carrying amounts	Contractual cash flows	Under 1 year	1-2 years	2-5 years	>5 years
Secured loans	$	(183,060,574)	(278,283,925)	(28,427,672)	(26,985,691)	(78,014,266)	(144,856,296)
Trade and other payables		(46,427,895)	(46,427,895)	(46,427,895)	-	-	-
	$	(229,488,469)	(324,711,820)	(74,855,567)	(26,985,691)	(78,014,266)	(144,856,296)

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
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28. Financial Instruments (Cont'd)

Currency Risk

The Company's exposure to foreign currency risk was based on notional amounts as follows:

	2013				2012		
	EURO	**GBP**	**CAN**	**TOTAL**	**EURO**	**GBP**	**Total**
Cash and cash equivalents	$ 88,229	-	-	88,229	83,605	-	83,605
Trade and other payables	(19,232)	(69,413)	(20,738)	(109,382)	-	(127,673)	(127,673)
	$ 68,997	(69,413)	(20,738)	(21,153)	83,605	(127,673)	(44,068)

The following significant exchange rates applied during the year:

		Reporting date			
XCD		**Average rates**		**Spot rates**	
		2013	**2012**	**2013**	**2012**
GBP 1	$	4.297	4.259	4.433	4.342
EURO 1	$	3.569	3.454	3.701	3.552
CAN 1	$	2.710	2.688	2.513	2.697

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Notes to Financial Statements (Continued)
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28. Financial Instruments (Cont'd)

Interest rate risk
Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

		Carrying Amounts 2013		Carrying Amounts 2012	
Fixed rate instruments:					
Financial assets	$	25,811,448	3.53%	18,162,936	2.88%
Financial liabilities (principal)		(167,797,100)	7.51%	(182,850,013)	7.50%
	$	(141,985,682)		(164,687,078)	

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Fair values
Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

		Carrying amounts as at December 31, 2013	Fair values as at December 31, 2013	Carrying amounts as at December 31, 2012	Fair values as at December 31, 2012
Available-for- sale financial assets	$	169,741	169,741	167,969	167,969
Trade and other receivables		78,840,801	78,840,801	76,235,449	76,235,449
Cash and cash equivalents		29,857,827	29,857,827	36,685,474	36,685,474
Secured borrowings		(167,950,896)	(168,344,654)	(183,060,574)	(186,911,824)
Trade and other payables		(29,935,043)	(29,935,043)	(46,427,895)	(46,427,895)
	$	(89,017,570)	(89,411,328)	(116,399,577)	(120,250,827)

The basis of determining fair values is disclosed in Note 4.

Interest rates used for determining fair values
The interest rates used to discount estimated cash flow are based on the market interest rates at the reporting date.

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Notes to Financial Statements (Continued)
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29. Commitments

Capital commitments

Company had capital commitments at December 31, 2013 of $2,449,853 (2012 - $621,448).

Operating lease commitment

(i) Union premises

The future aggregate minimum lease payments on the operating lease is as follows:

		2013	2012
Not later than 1 year	$	100,000	100,000
Later than 1 year and not later than 5 years		400,000	400,000
More than 5 years		200,000	300,000
	$	700,000	800,000

The above operating lease commenced in 2001 for a term of twenty years. The yearly rent, after being paid at the rate of $100,000 on the 1st day of May in each year of the first 5 years, is negotiated thereafter annually between the parties by reference to the cost of living index as published in the Official Gazette of Saint Lucia and by reference being paid for similar premises at Union at the time of such negotiations.

(ii) Motor vehicles and property

The Company entered into lease agreements for company vehicles for management staff and into property agreements for office premises.

The future aggregate minimum lease payments on the leases are as follows:

		2013	2012
Not later than 1 year	$	716,004	587,014
Later than 1 year and not later than 5 years		1,398,366	851,791
	$	2,114,370	1,438,805

Fuel hedging

During the year 2013, the Company executed fuel price hedging contracts for 75% of its estimated volumes. At December 31, 2013, the mark to market valuation for those contracts is US$1,275,372 or EC$3,456,258 (2012 – US$1,004,451 or EC$2,722,062).

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Notes to Financial Statements (Continued)
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30. Self Insurance Reserve

Because of the difficulty experienced by the Company in obtaining adequate and reasonably priced commercial insurance coverage primarily on its Transmission and Distribution (T&D) assets, the Board of Directors gave approval for the establishment of a Self Insurance Fund to provide coverage for its T&D assets in the first instance, in the event of natural disasters or similar catastrophic events. From 2008, the Company therefore ceased commercial insurance cover of its T&D assets and undertook on an annual basis, to provide for insurance cover and to place amounts into the fund which will be independently managed under the terms of a registered Trust Deed.

During 2011 the Company received formal notification from the Registrar of Insurances of approval in principle, subject to certain conditions, for the establishment of the fund in accordance with the Insurance Act of Saint Lucia. Payments into the fund are exempted from income tax under authority of Statutory Instrument No. 172 of 2007. The establishment of the fund was not finalised by December 31, 2013. The Company has therefore established a reserve which is not available for distribution to the shareholders.

The Company also obtained, and the Board of Directors approved, an independent report on a fund investment policy to ensure its long term sustainability.

The fund balance as at December 31, 2013 is $21,330,139 (2012 - $17,719,994), of which $21,160,397 (2012 - $17,552,025) (Note 12) included in cash and cash equivalents have been invested in local financial institutions in short-term liquid financial instruments. The balance of $169,741 (2012 - $167,969) disclosed as available-for-sale financial assets represents fund amounts invested in the Unit Trust Corporation of Trinidad and Tobago (Note 9).

The Company also has access to a line of credit in the amount of $10 million which will be used, if required, in the event of damage to the T&D assets as disclosed in Note 5 (Liquidity Risk) to these financial statements.

The movements in the Self Insurance Reserve were as follows:

		2013	2012
Balance at January 1,	$	17,771,529	14,247,175
Transferred from retained earnings		3,384,138	3,524,354
Balance at December 31,	$	21,155,667	17,771,529

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31. CLICO Investment-Grade II Pension Scheme

The Company contributes to a Defined Benefit pension scheme for Grade II employees who were employed prior to January 1, 2008. Up to December 31, 2008, this scheme was invested in a deposit administration contract with CLICO International Life Insurance Limited ("CLICO"). In addition, the scheme had purchased individual annuity policies from CLICO to secure pensions in payment.

On January 30, 2009, in accordance with the terms of the deposit administration contract between the CLICO and the scheme's trustees, the trustees with the consent of the Company served notice on CLICO to terminate the contract. Under the terms of the contract, CLICO is required to repay the value of the deposit administration contract in monthly instalments of $250,000, and interest is accrued on the residual balance at a rate of 5% per annum. These monthly instalments were paid to the scheme's new investment manager (RBC Investment Management (Caribbean) Limited) up until October 2010 when payments stopped. The estimated residual balance of the fund held with CLICO at December 31, 2013 was $5.964 million (2012 - $7.585 million). In addition, the estimated value of the immediate annuity policies that the scheme holds with CLICO was $1.571 million as at December 31, 2013 (2012 - $2.080 million). The total value of the scheme's investment in CLICO was therefore $7.535 million as at December 31, 2013 (2012 - $9.665 million).

Contributions remitted to the scheme since 2008 have been paid to the scheme's new investment manager, RBC Investment Management (Caribbean) Limited.

During 2011, the trustees also initiated legal action and obtained judgment against CLICO from the High Court of Justice (Saint Lucia) of the Eastern Caribbean Supreme Court in respect of the fund balance due to the Scheme. Subsequent to the judgment, the operations of CLICO in Barbados and the Eastern Caribbean were placed under Judicial Management and this may affect CLICO's ability to honour its financial obligations to the Grade II pension scheme.

As at December 31, 2013, the computation of the present value of the pension obligations as required by IAS 19 are reliant on the value placed on the Scheme's investments with CLICO. The Judicial Manager of CLICO has received sanction from the High Court of Barbados to pursue a restructuring plan for the Company. The proposed plan will result in a write down in value of all policyholders' liabilities to match the estimated value of the Company's net available assets. The restructured policyholder liabilities and all the assets of the Company will be transferred to a new company which will be separately governed and managed. Currently, the quantitative effects of this proposed plan is uncertain. As a result, a 25% impairment loss has been taken into consideration in the computation of the Company's asset on the Statement of Financial Position for the pension plans and its annual net pension cost as required by IAS 19.

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Notes to Financial Statements (Continued)
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32. Contingent Liability

The Company has been named a defendant to a number of claims as at December 31, 2013. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Company believes that their defenses to all these various claims are meritorious on both the law and the facts. Having regard to the foregoing, the Company (i) does not consider it appropriate to make any provision in respect of any pending litigation and (ii) does not believe that the ultimate outcome of this litigation will significantly impair the Company's financial condition. Payments if any, arising from these claims will be recorded in the period that the payment is made.

33. Prior Periods' Adjustments

Changes in accounting policy

IAS 19 (Revised), Employee Benefits

The amendments to IAS 19, Employee Benefits, became effective January 1, 2013. The financial statements of 2011 and 2012 have been restated to reflect the amendments. The effect of the restatement is summarised below.

		Effect on 2012
Statement of Comprehensive Income		
Increase in administrative expenses	$	(161,000)
Decrease in deferred tax expense		48,300
Decrease in profit		(112,700)
Increase in other comprehensive income		1,076,109
Increase in total comprehensive income	$	963,409

		Effect on 2012	Effect on 2011
Statement of Financial Position			
Increase/(decrease) in retirement benefit assets	$	1,296,000	(6,018,000)
(Increase)/decrease in deferred tax liabilities		(412,889)	1,972,172
Decrease/(increase) in retirement benefit liability		80,298	(555,907)
Increase/(decrease) in retained earnings	$	963,409	(4,601,735)
Increase/(decrease) in retirement benefit reserve	$	1,296,000	(6,018,000)
(Decrease)/increase in retained earnings	$	(1,296,000)	6,018,000
Net (decrease)/increase in retained earnings	$	(332,591)	1,416,265

There was a decrease in earnings per share at December 31, 2012 of $0.005.

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Notes to Financial Statements (Continued)
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33. Prior Periods' Adjustments

Application of accounting standards

Property, Plant and Equipment - Research Costs

In the prior years, costs incurred in the research of least cost and alternative sources of energy were incorrectly capitalised to Property, Plant and Equipment - Work-in-Progress. The financial statements of 2011 and 2012 have been restated to correct this error. The effect of the restatement is summarised below.

		Effect on 2012
Statement of Comprehensive Income		
Increase in administrative expenses	$	(272,945)
Decrease in income tax expense		81,883
Decrease in profit and total comprehensive income	$	(191,062)

		Effect on 2012	Effect on 2011
Statement of Financial Position			
Decrease in property, plant and equipment	$	(272,945)	(3,413,786)
Increase in income tax receivable		81,883	1,024,136
Decrease in retained earnings	$	(191,062)	(2,389,650)

There was a decrease in earnings per share December 31, 2012 of $0.008.

Deferred tax

In the prior years, deferred tax was incorrectly calculated by including the tax impact of consumer contributions. In addition, in 2012, the deferred tax expense which related to components of other comprehensive income was recorded as part of taxation instead of being recorded in other comprehensive income. The financial statements of 2011 and 2012 have been restated to correct this error. The effect of the restatement is summarised below.

		Effect on 2012
Statement of Comprehensive Income		
Increase in deferred tax expense	$	(645,541)
Decrease in profit		(645,541)
Increase in other comprehensive income		94,547
Decrease in profit and total comprehensive income	$	(550,994)

		Effect on 2012	Effect on 2011
Statement of Financial Position			
Increase in deferred tax liabilities	$	(550,994)	(9,400,223)
Decrease in retained earnings	$	(550,994)	(9,400,223)

There was an increase in earnings per share at December 31, 2012 of $0.028.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

33. Prior Periods' Adjustments (Cont'd)

Consumer Contributions

In 2009, the International Financial Reporting Interpretations Committee ("IFRIC") issued an interpretation that provided additional guidance on the accounting for transfers of assets from customers. The interpretation ("IFRIC18") had an effective date for transfers received on or after July 1, 2009. This required that transfers received from consumers be treated as revenue in the period in which the related services are performed.

For the year ended December 31, 2012, the Company had recorded $33,170,723 in Consumer Contributions as deferred revenue in the Statement of Financial Position, of which $8,708,892 related to the periods subsequent to July 1, 2009. The IFRIC interpretation had not been adopted at that date.

Therefore, financial statements for the year ended December 31, 2011 and 2012 have been restated and in so doing the Company has elected to apply the transitional provisions of this IFRIC interpretation retrospectively to the past transfers. The effects of the restatement are summarized below:

		Effect on 2012
Statement of Comprehensive Income		
Increase in other revenue	$	2,191,055
Increase in transmission and distribution expenses		(555,030)
Increase in income tax expense		(647,269)
Increase in profit and total comprehensive income	$	988,756

		Effect on 2012	Effect on 2011
Statement of Financial Position			
Decrease in income tax receivable	$	(647,269)	(4,781,803)
Decrease in consumer contributions		1,636,025	31,534,698
Increase in retained earnings	$	988,756	26,752,895

There was an increase in earnings per share at December 31, 2012 of $0.043.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

33. Prior Periods' Adjustments (Cont'd)

Self Insurance

In the prior years, the self insurance fund was incorrectly recorded as a liability instead of a reserve on the Statement of Financial Position. Further, appropriations to the fund were recorded as Transmission and Distribution expenses instead of transfers from retained earnings. The financial statements of 2011 and 2012 have been restated to correct this error. The effect of the restatement is summarised below.

		Effect on 2012
Statement of Comprehensive Income		
Decrease in transmission and distribution expenses		3,524,354
Increase in profit and total comprehensive income	$	3,524,354

		Effect on 2012	Effect on 2011
Statement of Financial Position			
Decrease in trade and other payables		3,524,354	14,247,175
Increase in retained earnings	$	3,524,354	14,247,175
Increase in self insurance reserve		3,524,354	14,247,175
Decrease in retained earnings	$	(3,524,354)	(14,247,175)

There was an increase in earnings per share at December 31, 2012 of $0.154.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Financial Statements (Continued)
For the Year Ended December 31, 2013
(Expressed In Eastern Caribbean Dollars)

33. Prior Periods' Adjustments (Cont'd)

The net effect of the above restatements as a result of application of accounting standards is summarised below:

		Effect on 2012
Statement of Comprehensive Income		
Increase in other revenue	$	2,191,055
Decrease in transmission and distribution expense		2,969,324
Increase in administrative expenses		(272,945)
Increase in income tax expense		(565,386)
Increase in deferred tax expense		(645,541)
Increase in profit		3,676,507
Increase in other comprehensive income		94,547
Increase in total comprehensive income	$	3,771,054

		Effect on 2012	Effect on 2011
Statement of Financial Position			
Decrease in property, plant and equipment	$	(272,945)	(3,413,786)
Decrease in income tax receivable		(565,386)	(3,757,667)
Increase in deferred tax liabilities		(550,994)	(9,400,223)
Decrease in consumer contributions		1,636,025	31,534,698
Decrease in trade and other payables		3,524,354	14,247,175
Increase in retained earnings	$	3,771,054	29,210,197
Increase in self insurance reserve	$	3,524,354	14,247,175
Decrease in retained earnings	$	(3,524,354)	(14,247,175)
Net increase in retained earnings	$	246,700	14,963,022

There was an increase in earnings per share at December 31, 2012 by $0.16.

34. Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in the presentation in the current year.

FINANCIAL STATISTICS
2004 - 2013

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Units Sold (kWh x 1000)	334,479	333,324	333,378	330,729	315,082	301,975	297,841	284,398	277,399	266,402
Tariff Sales (Cents per kWh)	98.3	95.5	84.0	75.0	75.1	80.7	77.5	67.4	40.8	41.7
Fuel Charge (Cents per kWh)	0.4	6.6	11.8	8.1	0.0	19.0	3.4	12.3	32.1	22.6
Operating costs (Cents per kWh)	84.9	88.8	82.8	69.1	61.4	86.1	66.3	65.2	59.2	47.8
Summarised Balance Sheet (EC$000's)										
Fixed Assets (Net)	336,395	328,031	250,154	273,400	292,279	292,916	296,606	267,447	267,872	223,932
Retirement Benefit Asset	3,430	4,632	9,135	9,017	8,828	8,749	7,768	2,850	2,637	2,395
Available for Sale Investment	170	168	166	163	8,504	5,643	3,452	2,687	1,961	1,266
Capital Work in Progress	21,080	33,891	50,846	16,477	9,659	9,582	6,518	11,055	9,297	49,930
Current Assets	124,071	138,156	124,642	99,651	85,080	68,527	63,419	54,460	60,000	54,878
Current Liabilities	(49,469)	(72,790)	(68,511)	(68,796)	(67,635)	(52,483)	(57,776)	(57,545)	(66,625)	(48,165)
Total	435,677	432,088	366,432	329,913	336,714	332,934	319,987	280,954	275,142	284,236
Share Capital	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163
Retained Earnings	122,781	107,629	84,267	76,970	69,338	63,789	58,330	53,932	46,028	49,081
Other Reserves & Consumer Contributions	24,586	22,403	40,670	38,893	37,913	37,177	32,315	25,328	24,332	24,515
Long Term Debt	153,073	167,797	123,396	94,709	107,848	110,754	107,288	81,360	84,916	88,848
Other Long Term Liabilities	55,074	54,096	37,937	39,178	41,452	41,051	41,891	40,171	39,703	41,629
Total	435,677	432,088	366,432	329,913	336,714	332,934	319,987	280,954	275,142	284,236
Summarised Income Statement (EC$000's)										
Operating Revenues										
Electricity	328,735	318,265	280,177	247,945	236,745	243,691	230,754	191,525	113,251	111,108
Fuel Surcharge	1,172	22,083	39,185	26,908	20	57,448	10,178	34,962	88,961	60,147
Other	3,207	3,677	1,657	1,417	1,926	1,082	657	943	848	545
Total	333,114	344,025	321,019	276,271	238,691	302,221	241,589	227,430	203,060	171,800

FINANCIAL STATISTICS
2004 - 2013 *(continued)*

Operating Costs	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Fuel (Cost over Base)	1,348	22,074	40,335	27,742	-	57,915	10,846	34,712	89,170	60,114
Generation O&M	204,721	198,154	155,985	124,133	117,791	133,943	121,317	91,504	13,682	15,202
Transmission & Distribution	16,530	15,778	19,318	17,618	20,557	16,601	16,810	14,888	14,080	11,802
Administrative & Selling	28,792	27,286	26,148	24,784	23,266	22,167	21,180	19,596	23,352	18,407
Depreciation and amortisation	32,656	32,625	34,264	34,314	31,832	29,468	27,171	24,763	23,885	21,905
Total	284,047	295,917	276,050	228,591	193,446	260,094	197,324	185,463	164,169	127,430
Operating Income	49,067	48,108	44,969	47,679	45,245.00	42,127	44,265	41,967	38,870	44,370
Interest Expense	13,190	9,389	8,761	7,618	6,915	8,997	7,201	7,131	6,074	5,686
Foreign Exchange (Gain) Loss/ Other	(66)	(67)	(66)	(296)	(636)	(462)	(151)	(503)	116	15
Net Income before Tax	35,943	38,786	36,274	40,357	38,966	33,592	37,215	35,339	32,680	38,669
Taxation	9,715	9,972	10,003	11,138	11,151	11,049	9,125	8,585	7,083	10,628
Net Income after Tax	26,228	28,814	26,271	29,219	27,815	22,543	28,090	26,754	25,597	28,124
Other Comprehensive income	(872)	856	(192)	(178)	(239)	48	-	-	-	-
Dividend Declared	8,022	17,648	18,107	18,666	17,228	**15,705**	16,642	16,642	15,715	19,462
Retained Earnings for Year	17,334	12,022	7,972	10,376	10,348	6,886	11,448	10,112	9,882	8,662
Retained Earnings beginning of Year	107,629	84,267	76,970	69,338	62,282	57,061	52,303	45,924	49,081	40,831
Transfer to Retirement Benefit & Reserves	(2,182)	(5,039)	(118)	(189)	(79)	(981)	(644)	636	(242)	(412)
Tariff Reduction Reserve	-	-	(557)	(2,555)	(3,213)	(1,953)	(6,046)	(3,087)	(4,557)	-
Prior Year Adjustment	-	16,379	-	-	-	-	-	(1,282)	(8,240)	-
Retained Earnings end of Year	122,781	107,629	84,267	76,970	69,338	61,013	57,061	52,303	45,925	49,081
Return on Rate Base	12.60%	14.20%	15.12%	17.41%	18.32%	17.77%	21.42%	18.91%	19.67%	12.91%
Earnings per share (EC$)	$ 1.14	$ 1.26	$ 1.15	$ 1.27	$ 2.36	$ 1.92	$ 2.48	$ 2.30	$2.18	$2.40
Dividend per share (EC$)	$ 0.35	$ 0.77	$ 0.79	$ 1.59	$ 1.47	$ 1.34	$ 1.42	$ 1.42	$1.34	$1.66
Debt/Equity Ratio	42/58	47/53	40/60	36/64	39/61	41/59	43/57	40/60	40/60	40/60
Capital expenditure	$28,211	$97,243	$45,390	$22,262	$31,281	$28,344	$51,794	$26,108	$27,200	$42,881

The return on rate base calculations changed with effect from 2005 in accordance with Amendment Act No 12 of 2006 and 13 of 2006.

OPERATING STATISTICS

2004 - 2013

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Generating Plant (kW)										
Available Capacity	86,200	86,200	76,000	76,000	76,000	76,000	76,000	65,800	65,800	56,800
Firm Capacity	55,600	55,600	55,600	55,600	55,600	55,600	55,600	46,300	46,300	37,000
Peak Demand	59,700	59,800	60,300	59,200	55,900	54,100	52,700	49,800	49,200	46,600
Percentage growth in peak demand	-0.2%	-0.8%	1.9%	5.9%	3.3%	2.7%	5.8%	1.2%	5.6%	3.8%
Sales (kWh x 1000)										
Domestic	112,743	112,272	113,505	113,757	107,820	103,214	104,784	101,635	98,914	96,062
Commercial (including Hotels)	193,199	192,847	190,846	188,640	178,518	170,624	168,151	160,895	158,483	151,451
Industrial	17,624	17,679	18,761	18,373	19,002	18,626	15,789	12,982	12,522	12,345
Street Lighting	10,913	10,526	10,263	9,959	9,741	9,510	9,117	8,886	7,480	6,544
Total Sales	334,479	333,324	333,375	330,729	315,081	301,975	297,841	284,398	277,399	266,402
Power Station and Office Use (kWh x 1000)	14,706	14,511	14,599	14,127	14,312	14,256	13,185	13,071	13,172	12,076
Losses (kWh x 1000)	33,791	36,948	37,234	36,033	33,597	36,105	34,672	33,291	33,043	30,062
Units Generated (kWh x 1000)	382,976	384,783	385,208	380,889	362,990	352,335	345,698	330,760	323,614	308,540
Percentage growth in units generated	-0.5%	-0.1%	1.1%	4.9%	3.0%	1.9%	4.5%	2.2%	4.9%	3.2%
Percentage growth in sales	0.3%	0.0%	0.8%	5.0%	4.3%	1.4%	4.7%	2.5%	4.1%	5.7%
Percentage Losses (excl. prior year sales adjs.)	8.8%	9.6%	9.7%	9.5%	9.3%	10.2%	10.0%	10.1%	10.2%	10.2%
Number of Consumers at Year End										
Domestic	58,648	55,110	54,415	53,566	52,986	51,444	50,163	48,697	47,417	46,347
Commercial (Including Hotels)	7,096	6,629	6,641	6,557	6,479	6,169	5,938	5,714	5,474	5,307
Industrial	98	100	101	100	100	98	101	95	95	96
Street Lighting (accounts)	20	10	9	9	7	7	7	3*	16	16
	65,862	61,849	61,166	60,232	59,572	57,718	56,209	54,509	53,002	51,766
Percentage growth	6.5%	1.1%	1.6%	1.1%	3.2%	2.7%	3.1%	2.8%	2.4%	3.0%
Average Annual Consumption Per Customer (kWh)										
Domestic	1,922	2,037	2,086	2,124	2,035	2,006	2,089	2,087	2,086	2,073
Commercial (including Hotels)	27,226	29,091	28,738	28,769	27,553	27,658	28,318	28,158	28,952	28,538
Industrial	**179,837**	176,790	185,752	183,730	190,024	190,065	156,327	136,653	131,811	128,594
Diesel fuel consumed (Imp. Gall.)	19,448,764	19,541,743	19,712,324	19,561,441	18,256,739	17,870,149	17,729,217	17,009,188	16,666,145	15,961,905

*** At their request the accounts of the Government of St. Lucia was rationalised from 15 to 2 and this total includes one other entity**

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