ST. VINCENT ELECTRICITY SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative figures for December 31, 2011)

ST. VINCENT ELECTRICITY SERVICES LIMITED

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CORPORATE INFORMATION

Registered Office

Kingstown
St. Vincent and the Grenadines

Directors

Ms. René M. Baptiste – Chairman, C.M.G. LL.B (Hons.); L.E.C.
Sir Vincent Beache - KCMG
Mr. Maurice Edwards – BSc., CGA, O.B.E.
Mr. Kirk Da Silva – MCMI, AFA, AICB, CFE, Acc. Dir., Cr. FA, DABFA
Mr. Godfred Pompey – Q.A.T, BSc., MA
Mr. Brian George – B. Eng. (Hons.), MSc, PMP
Mr. Simon Glynn
Mr. Patrick Da Silva
Mr. Roosevelt Trent

Company Secretary

Mrs. Juliette Hinds-Wilson – CMA, ACIS

Chief Executive Officer

Mr. Thornley Myers – MSc, MASC, Dip. Mgmt.

Solicitors

Saunders & Huggins

Bankers

The Bank of Nova Scotia
CIBC FirstCaribbean International Bank Limited
Bank of St. Vincent and the Grenadines
RBTT Bank (Caribbean) Limited

Auditors

KPMG Eastern Caribbean
Chartered Accountants

KPMG

KPMG Eastern Caribbean
The Financial Services Centre
Kingstown Park
P.O. Box 561
Kingstown
St. Vincent and the Grenadines

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INDEPENDENT AUDITORS' REPORT

To the Shareholder
St. Vincent Electricity Services Limited
Kingstown

Report on the Financial Statements

We have audited the accompanying financial statements of St. Vincent Electricity Services Limited, which comprise the statement of financial position as at December 31, 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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 preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 auditors' 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 auditors consider 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholder
St. Vincent Electricity Services Limited
Kingstown

Report on the Financial Statements

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of St. Vincent Electricity Services Limited as of December 31, 2012, and its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

KPMG Eastern Caribbean
Kingstown, St. Vincent and the Grenadines
December 18, 2014

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Financial Position
As of December 31, 2012
With comparatives as of December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	Note	2012 $	2011 $
Assets			
Long term investment	5	200,000	200,000
Property, plant and equipment	6	229,077,892	242,736,142
Retirement benefit asset	7	273,520	661,897
Other receivables	8	17,027,642	-
Total non-current assets		246,579,054	243,598,039
Cash and cash equivalents	9	3,488,997	10,912,064
Short-term securities	10	21,588,010	18,621,698
Trade and other receivables	8	58,379,420	43,596,126
Income tax refundable	11	1,942,878	1,541,899
Inventories	12	9,312,080	12,619,326
Total current assets		94,711,385	87,291,113
Total assets		341,290,439	330,889,152
Equity			
Share capital	13	29,045,910	29,045,910
Self insurance fund	6	27,000,000	24,000,000
Revaluation surplus		19,861,635	21,067,188
Retirement benefit reserve		273,526	661,901
Retained earnings		70,864,659	71,531,251
Total equity		147,045,730	146,306,250
Liabilities			
Borrowings	14	77,078,966	87,824,844
Consumers' contributions	15	5,158,332	5,618,744
Deferred grant income	16	164,956	175,485
Consumers' deposits	17	9,259,537	8,891,765
Trade payables	8,18	17,027,642	-
Deferred tax liabilities	19	37,816,521	35,595,704
Total non-current liabilities		146,505,954	138,106,542
Bank overdraft	9	2,187,708	-
Trade and other payables	18	32,440,525	35,874,304
Borrowings	14	13,110,522	10,602,056
Total current liabilities		47,738,755	46,476,360
Total liabilities		194,244,709	184,582,902
Total equity and liabilities		341,290,439	330,889,152

The notes on pages 8 to 38 are an integral part of these financial statements.

Approved By:

Gene Baptiste
Director

M. Edwards
Director

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Comprehensive Income
For the year ended December 31, 2012
With comparative figures for December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	Note	2012 $	2011 $
Revenues			
Energy sales		65,630,599	64,889,442
Fuel surcharge recovered		67,715,456	58,921,060
Other revenue		1,808,925	2,645,111
		135,154,980	126,455,613
Operating expenses			
Diesel generation		26,986,810	25,905,942
Hydro generation		4,232,209	4,114,693
Transmission & distribution		11,240,285	11,674,265
Fuel surcharge		67,324,839	58,694,264
Administrative expenses		14,391,326	15,137,142
	25	124,175,469	115,526,306
Operating profit		10,979,511	10,929,307
Other losses, net	20	(77,670)	(2,500,752)
Profit before finance costs and taxation		10,901,841	8,428,555
Finance costs		(4,248,440)	(4,066,925)
Profit before taxation		6,653,401	4,361,630
Taxation	21	(3,009,329)	(2,541,469)
Net profit and comprehensive income for the year		3,644,072	1,820,161
Earnings per share	22	0.63	0.31

The notes on pages 8 to 38 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity
For the year ended December 31, 2012
With comparative figures for December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	Share capital $	Self insurance fund $	Revaluation surplus $	Retirement benefit reserve $	Retained earnings $	Total $
Balance as of December 31, 2011	29,045,910	24,000,000	21,067,188	661,901	71,531,251	146,306,250
Total comprehensive income for the year						
Profit for the year	-	-	-	-	3,644,072	3,644,072
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	3,644,072	3,644,072
Transactions with owners, recorded directly in equity contributions by and distributions to owners						
Revaluation surplus realized	-	-	(1,205,553)	-	1,205,553	-
Self insurance fund appropriation	-	3,000,000	-	-	(3,000,000)	-
Dividend	-	-	-	-	(2,904,592)	(2,904,592)
Transfer to retirement benefit reserve	-	-	-	(388,375)	388,375	-
Balance as of December 31, 2012	29,045,910	27,000,000	19,861,635	273,526	70,864,659	147,045,730

The notes on pages 8 to 38 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity (cont'd)
For the year ended December 31, 2012
With comparative figures for December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	Share capital $	Self insurance fund $	Revaluation surplus $	Retirement benefit reserve $	Retained earnings $	Total $
Balance as of December 31, 2010	29,045,910	21,000,000	22,752,114	1,035,894	74,428,139	148,262,057
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,820,161	1,820,161
Total other comprehensive loss	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	1,820,161	1,820,161
Transactions with owners, recorded directly in equity contributions by and distributions to owners						
Revaluation surplus realized	-	-	(1,684,926)	-	1,684,926	-
Self insurance fund appropriation	-	3,000,000	-	-	(3,000,000)	-
Dividend	-	-	-	-	(3,775,968)	(3,775,968)
Transfer to retirement benefit reserve	-	-	-	(373,993)	373,993	-
Balance as of December 31, 2011	29,045,910	24,000,000	21,067,188	661,901	71,531,251	146,306,250

The notes on pages 8 to 38 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Cash Flows
For the year ended December 31, 2012
With comparative figures for December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	2012 $	2011 $
Cash flows from operating activities		
Profit before taxation	6,653,401	4,361,630
Adjustments for:		
Depreciation	20,787,017	21,465,600
Amortization of consumers' contribution	(1,099,010)	(1,070,375)
(Gain) loss on disposal of property, plant and equipment	(122,451)	2,411,114
Finance costs	4,248,440	4,066,925
Retirement benefit expense	675,169	611,877
Foreign exchange loss	200,121	89,638
Amortization of deferred grant income	(10,529)	(11,202)
Finance income	(1,235,442)	(1,014,608)
Operating profit before working capital changes	30,096,717	30,910,599
Change in inventories	3,307,246	(3,162,161)
Change in trade and other receivables	(14,676,871)	(7,922,416)
Change in trade and other payables	(4,062,190)	10,666,139
Cash generated from operations	14,664,902	30,492,161
Interest paid	(3,442,957)	(4,112,011)
Finance income received	1,129,019	973,062
Income tax paid	(1,189,491)	(1,737,275)
Net cash generated from operating activities	11,161,473	25,615,937
Cash flows from investing activities		
Acquisition of short-term securities	(2,966,312)	(918,548)
Acquisition of property, plant and equipment	(7,132,507)	(16,644,199)
Proceeds from disposal of property, plant and equipment	126,190	370,809
Retirement benefit contributions	(286,792)	(237,880)
Net cash used in investing activities	(10,259,421)	(17,429,818)
Cash flows from financing activities		
Change in consumers' deposits	190,700	144,459
Proceeds from borrowings	-	8,064,600
Repayment of borrowings	(8,437,533)	(8,900,644)
Dividends paid	(2,904,592)	(3,775,967)
Change in consumers' contributions	638,598	426,557
Net cash used in financing activities	(10,512,827)	(4,040,995)
Net (decrease) increase in cash	(9,610,775)	4,145,124
Cash and cash equivalents - beginning of year	10,912,064	6,766,940
Cash and cash equivalents - end of year	1,301,289	10,912,064
Represented by:		
Cash at bank	3,488,997	10,912,064
Bank overdraft	(2,187,708)	-
	1,301,289	10,912,064

The notes on pages 8 to 38 are an integral part of these financial statements.

1. Company status

St. Vincent Electricity Services Limited (the Company) was incorporated under the laws of St. Vincent and the Grenadines on November 27, 1961 and continued as Company 64 of 1961 under Section 365 of the Companies' Act of 1994, under the laws of St. Vincent and the Grenadines. The Company operates under the Electricity Supply Act of 1973, and has an exclusive licence for the exercise and performance of functions relating to the supply of electricity in St. Vincent and the Grenadines. The Company's registered office is situated at Paul's Avenue, Kingstown, St. Vincent and the Grenadines.

The financial statements were approved for issue by the directors on November 27, 2014.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented and conform in all material respects to International Financial Reporting Standards unless otherwise stated.

(a) *Basis of preparation and statement of compliance*

The financial statements of St. Vincent Electricity Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and using the historical cost basis except for property, plant and equipment which is based on reproduction cost.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these 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 any future periods affected.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 4.

(b) *Cash, cash equivalents and short-term investment securities*

Cash and cash equivalents comprise cash on hand and deposits held with banks. Cash equivalents include highly liquid investments with insignificant interest risk and original maturities of ninety (90) days or less at the date of purchase. Investments with maturities between ninety (90) days and one year at the date of purchase are considered to be short-term investment securities. Short-term investment securities consist primarily of investment grade commercial paper, bankers acceptances, and certificates of deposit.

2. Summary of significant accounting policies (cont'd)

(c) Dividends

Dividends that are proposed and declared after the reporting date are not shown as a liability but are disclosed as a note to the financial statements.

Dividends declared are recognised as a liability in the Company's financial statements in the period in which they become a constructive obligation.

(d) Foreign currency translation

(i) Measurement currency

Items included in these financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company.

These financial statements are presented in Eastern Caribbean dollars which is the measurement currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into Eastern Caribbean dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities demonstrated in foreign currencies at the balance sheet date are translated to Eastern Caribbean dollars at the selling rates ruling at that date. Foreign transaction gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of income. Foreign currency monetary items are reported using the exchange rates at the balance sheet date.

(e) Trade receivables

Trade receivables are carried initially at fair value and subsequently measured at amortized cost less a provision for doubtful debts. The provision for doubtful debts is determined by reference to specific disconnected consumers' accounts. Customers whose service have been disconnected during the current financial year and those that have been disconnected in excess of one year are subject to a provision of 50% and 100%, respectively on the outstanding balance, less deposits thereon.

(f) Inventories

Inventories held for maintenance and capital improvements are stated at the lower of cost, cost being determined on the weighted average basis, and replacement value. Allowance is made for obsolete, slow-moving and damaged goods.

Goods-in-transit are stated at invoiced cost.

2. Summary of significant accounting policies (cont'd)

(g) Financial instruments

(i) Classification

The Company classifies its investments as either fair value through profit and loss, or held-to-maturity, or available-for-sale. The classification depends on the purpose for which investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Fair value through profit and loss investments are securities which are either acquired for generating a profit from short-term fluctuations in price or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Held-to-maturity investments are securities with fixed maturity where management has both the intent and the ability to hold to maturity.

Available-for-sale financial assets are investment securities intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(ii) Recognition

The Company recognizes a financial asset or financial liability on its balance sheet using the settlement date method. Accordingly, a financial asset or a financial liability is recognized on the date of receipt or delivery to or by the Company respectively. Any gains or losses arising from price, interest rate, or currency changes between the trade date, the date the Company commits to the purchase or sale of an asset, and balance sheet date are recorded in current operations. All purchases and sales of investment securities are recognized at settlement date.

(iii) Measurement

a) Initial measurement

Financial instruments are measured initially at cost, including transaction costs.

b) Subsequent measurement

All fair value through profit and loss and available-for-sale assets are measured at fair value based on quoted market prices where available or amounts derived from discounted cash flow models without any deduction for transaction costs.

2. Summary of significant accounting policies (cont'd)

(g) Financial instruments (cont'd)

(iii) Measurement (cont'd)

(b) Subsequent measurement (cont'd)

When the instrument is not actively traded or quoted on recognized exchanges (and for unlisted securities), the Company establishes fair value by using discounted cash flow analysis and applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Any fair value through profit and loss and available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured is stated at cost, including transaction costs, less any impairment losses.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective yield of the instrument.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. When securities become impaired the related accumulated fair value adjustments previously recognized in equity are included in the statement of income as impairment expense on investment securities.

All related gains and losses, realized and unrealized on securities classified as fair value through profit and loss are included in the statement of income as gains and losses from investment securities.

Realised and unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities.

Interest earned whilst trading or holding investment securities are included in the statement of comprehensive income as interest income.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2012
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies (cont'd)

(h) Property, plant and equipment

(i) Owned and constructed assets

Property, plant and equipment, except land which is carried at market value, are stated at replacement cost as of December 31, 2004. Reproduction cost and observed depreciation is determined on the basis of an independent appraisal of the assets made by Agra Monenco Inc., as of January 1, 1993. The value of assets at that date, together with the cost of subsequent additions, less retrials was re-appraised to December 31, 2004 using indices supplied by Agra Monenco Inc. The method of appraisal was to determine reproduction cost new less observed depreciation at the appraisal date.

The net proceeds of assets disposed of or retired during the year less the net book value of such assets are taken to current operations.

Revaluation surplus realized through the use of the revalued assets is systematically transferred to retained earnings.

(ii) Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

(iii) Depreciation

Land and 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 on other assets is calculated using the straight-line method to allocate their cost less their residual lives over their estimated useful lives as follows:

- Freehold property $2^1/_2$ - 5% per annum
- Generation 5 - 20% per annum
- Transmission & distribution 5 - 6% per annum
- Motor vehicles 25% per annum
- Furniture and equipment $12^1/_2$% per annum

(iv) Disposal

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss.

2. Summary of significant accounting policies (cont'd)

(h) Property, plant and equipment (cont'd)

(v) Other

The assets' residual value, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly into equity, in which case it is recognised in equity.

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

Deferred income tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets relating to tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the losses or temporary differences can be utilised.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2012
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies (cont'd)

(j) Impairment

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of income, is removed from equity and recognised in the statement of income.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In assessing impairment of assets that are subject to amortization, the Company considers projected future operating results, cash flows, trends and other circumstances in making such estimates and evaluation. Generally, any impairment in the value of an asset is charged to current operations. In the case of revalued assets, impairment in the carrying value is charged to revaluation surplus to the extent that previous increases credited thereto are unutilized. Amounts in excess of previous credits for the same asset are charged to operations

An impairment loss in respect of a receivable amount carried at amortised cost is reversed if a subsequent increase in its recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss shall be reversed, with the amount of the reversal recognised in statement of income.

In respect of other assets, 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.

2. Summary of significant accounting policies (cont'd)

(k) Trade and other payables

Liabilities for trade and other payables which are normally settled on 30 – 90 day terms and conditions and 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.

(l) Borrowings

Borrowings are recognized initially as the proceeds are received and are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(m) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Consumers' deposits

Given the long-term nature of the customer relationship, customer deposits are shown as non-current liabilities.

Customers' deposits are refundable on termination of supply and bear interest at the rate of 4% per annum.

(o) Consumers' contributions

In certain specified circumstances, consumers requiring line extensions are required to contribute the estimated capital cost of the extensions. These contributions are amortised over the estimated useful lives of the relevant capital cost on the straight line basis by way of a reduction of the depreciation charge under transmission and distribution costs. Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed. The capital costs of consumer line extensions are included in property, plant and equipment.

(p) Share capital

Ordinary shares are classified as equity.

2. Summary of significant accounting policies (cont'd)

(q) 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. The provision for unbilled sales is calculated on the basis of apportionment of revenue derived from the meter reading period under review. In addition to the normal 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 fuel price at the base period. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month.

Unbilled sales

The provision for unbilled sales is calculated on the basis of apportionment of revenue derived from the meter reading period under review. The provision for unbilled sales is included in accrued income. The provision for unbilled fuel surcharge is included in accrued income.

Finance income

Finance income is recognised using the effective interest method.

(r) Employee benefits

Pension

The Company provides retirement benefits, under a defined benefit plan and a defined contribution plan, for substantially all of its employees. The pension plans are funded by payments from employees and the Company, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is one that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit plan is a multi-employer scheme. There are five contributing employers; the others are Anguilla Electricity Company Ltd., Montserrat Electricity Services Ltd., St. Lucia Mortgage Finance Company Ltd. and St. Lucia Electricity Services Ltd. Multi-employers schemes pool the assets contributed by the various enterprises that are not under common control, and use the assets to provide benefits to employees of more than one enterprise on the basis that contributed and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned. The plan is accounted for as a defined benefit plan under IAS 19 – Employee Benefits

The Company's contributions to the defined contribution pension plan are charged to operations in the year to which they relate.

2. Summary of significant accounting policies (cont'd)

(r) *Employee benefits (cont'd)*

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value

(s) *Deferred grant income*

Grants related to the acquisition of property, plant and equipment are deferred and credited to income on a basis consistent with the amortization of the cost of asset to which they relate (Note 16).

(t) *New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 *Financial instruments*, which becomes mandatory for the Company's 2013 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

ST. VINCENT ELECTRICITY SERVICES LIMITED
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3. Financial instruments and financial risk management

(a) *Financial risk factors*

The Company's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. Management seeks to mitigate potential adverse effects on the financial performance of the Company by applying procedures to identify, evaluate and manage these risks.

(i) *Currency risk (in Eastern Caribbean Dollars)*

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company does not generally engage in currency hedges, and rather aims to have financial liabilities denominated in local currencies in order to avoid currency risk.

The Company's operations are conducted in Eastern Caribbean currency and are exposed to currency risk associated with the effect of fluctuations in the rates of exchange in various currencies. The Company has not used any derivative instruments to hedge its foreign exchange risk. As of balance sheet date, the Company has the following significant currency positions:

	2012		
	Financial assets $	**Financial liabilities $**	**Currency sensitivity gap $**
US Dollar (USD)	20,297,336	(111,226,728)	(90,929,392)
EC Dollar (XCD)	80,386,733	(28,430,927)	51,955,806
TOTAL	100,684,069	(139,657,655)	(38,973,586)

	2011		
	Financial assets $	**Financial liabilities $**	**Currency sensitivity gap $**
Kuwaiti Dinar (KWD)	-	(275,715)	(275,715)
US Dollar (USD)	4,192,370	(98,151,185)	(93,958,815)
EC Dollar (XCD)	68,119,664	(50,408,398)	17,711,266
TOTAL	72,312,034	(148,835,298)	(76,523,264)

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3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(i) Currency risk (in Eastern Caribbean Dollars) (cont'd)

Exchange rates of 1 unit of the relevant foreign currencies to the EC dollar (XCD) at year end were as follows:

	USD	**KWD**
	$	**$**
At December 31, 2012	2.71	-
At December 31, 2011	2.71	9.64

Currency risk sensitivity analysis

A 10% weakening of the EC dollar against the following currencies at December 31, would have increased profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	2012	**2011**
	$	**$**
USD	8,685,919	9,396,226
KWD	-	27,571

A 10% strengthening of the EC dollar against the above currencies at December 31 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

The exchange rate between the EC dollar and US dollar is fixed and does not fluctuate.

(ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market. The Company has no significant exposure to such risks.

3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(iii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company has policies in place to ensure that sales are made to customers with an appropriate credit rating. Accounts receivable are shown net of provision for impairment for doubtful debts. Cash and short-term investments are held with substantial financial institutions, which present minimal risk of default.

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

	Carrying amount	
	2012	**2011**
	$	**$**
Long-term investment	200,000	200,000
Short-term securities	21,588,010	18,621,698
Trade receivables	47,447,745	36,969,376
Other receivables	27,959,317	6,626,750
Income tax refundable	1,942,878	1,541,899
Cash and cash equivalents	3,488,997	10,912,064
	102,626,947	74,871,787

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

	Carrying amount	
	2012	**2011**
	$	**$**
Domestic	13,912,510	12,970,475
Commercial	12,903,532	11,249,338
Industrial	1,560,637	1,171,476
Government	27,824,584	20,058,410
	56,201,263	45,449,699
Provision for impairment of trade receivables	(8,753,518)	(8,480,323)
Trade receivables, net	47,447,745	36,969,376

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Notes to the Financial Statements
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3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(iv) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The management of the Company aims at maintaining flexibility in funding by monitoring budgeting commitments and by keeping committed lines of credit available and by monitoring the timing of its cash flows.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

2012
$

	Carrying amount	Contractual cash flows	1 year	2-5 years	More than 5 years
Trade payables	32,853,342	(34,854,810)	16,022,751	4,817,755	14,014,304
Other payables	44,117,208	(44,117,208)	44,117,208		
Borrowings	92,377,196	(92,377,196)	15,298,230	52,442,088	24,636,878
Customers' contributions	5,158,332	(5,158,332)	1,099,010	4,059,322	-
Deferred grant income	164,956	(164,956)	10,529	42,116	112,311
Customers' deposits	9,259,537	(9,259,537)	367,772	1,471,088	7,420,677
	183,930,571	(185,932,039)	76,915,500	62,832,369	46,184,170

2011
$

	Carrying amount	Contractual cash flows	1 year	2-5 years	More than 5 years
Trade payables	16,612,875	(16,612,875)	16,612,875	-	-
Other payables	19,261,429	(19,261,429)	19,261,429	-	-
Borrowings	98,426,900	(120,643,451)	14,813,769	61,990,378	43,839,304
Customers' contributions	5,618,744	(5,618,744)	1,030,837	4,123,348	464,559
Deferred grant income	175,485	(175,485)	11,200	44,800	119,485
Customers' deposits	8,891,765	(8,891,765)	460,101	1,840,404	6,591,260
	148,987,198	(171,203,749)	52,190,211	67,998,930	51,014,608

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Notes to the Financial Statements
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3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(v) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The table below summarizes the Company's exposure to interest rate risks:

	2012				
	Up to one year $	**One to five years $**	**Over five years $**	**Non-interest bearing $**	**Total $**
Financial assets	24,857,704	-	-	57,025,929	81,883,633
Financial liabilities	(15,666,002)	(53,913,176)	(32,057,555)	(33,754,216)	(135,390,949)
Interest sensitivity gap	9,191,702	(53,913,176)	(32,057,555)		(53,507,316)

	2011				
	Up to one year $	**One to five years $**	**Over five years $**	**Non-interest bearing $**	**Total $**
Financial assets	22,810,625	-	-	52,429,109	75,239,734
Financial liabilities	(11,062,157)	(44,248,628)	(52,007,879)	(41,516,633)	(148,835,297)
Interest sensitivity gap	11,748,468	(44,248,628)	(52,007,879)		(73,595,563)

(b) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists market price is used as the best evidence of the fair value of a financial instrument. Where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities; and

(ii) The fair value of variable-rate financial instruments is assumed to approximate their carrying amounts.

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4. Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant use of material adjustment in the next financial year are below:

(a) Allowances for credit losses
(b) Impairment of assets
(c) Determining fair values
(d) Estimation of unbilled sales and fuel charges
(e) Financial asset and liability classification

Accounting policies 2(e), 2(j), 2(g) and 2(q) contain information about the assumptions and their factors relating to allowances for credit losses, impairment of assets, estimation of unbilled sales and fuel charges, and financial asset and liability classification respectively. Note 3 contains information about the assumptions and their factors relating to determining fair values.

It is possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amounts of the assets.

5. Long-term investment

	2012	**2011**
	$	**$**
20,000 Eastern Caribbean Security Exchange Limited Class B Shares	200,000	200,000

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6. Property, plant and equipment

	Freehold property $	Generation $	Transmission & distribution $	Other $	Total $
Operational assets valuation					
As of December 31, 2010	118,627,554	196,705,061	174,289,779	18,310,671	507,933,065
Transfers	-	57,973,085	30,702,316	703,524	89,378,925
Disposals	-	(6,047,660)	-	-	(6,047,660)
As of December 31, 2011	118,627,554	248,630,486	204,992,095	19,014,195	591,264,330
As of December 31, 2011	118,078,671	249,231,721	204,135,159	19,818,778	591,264,329
Transfers	-	354,779	3,760,165	668,007	4,782,951
Disposals	-	-	-	(1,168,761)	(1,168,761)
As of December 31, 2012	118,078,671	249,586,500	207,895,324	19,318,024	594,878,519
Accumulated depreciation					
As of December 31, 2010	70,460,664	115,076,526	130,496,433	16,322,543	332,356,166
Charge for the year	2,551,496	10,826,285	7,351,765	736,054	21,465,600
Disposals and transfers	-	(3,265,737)	-	-	(3,265,737)
As of December 31, 2011	73,012,160	122,637,074	137,848,198	17,058,597	350,556,029
As of December 31, 2011	73,012,160	122,637,074	137,848,098	17,058,697	350,556,029
Charge for the year	2,551,497	10,692,020	6,851,841	691,659	20,787,017
Disposals and transfers	-	-	-	(1,165,021)	(1,165,021)
As of December 31, 2012	75,563,657	133,329,094	144,699,939	16,585,335	370,178,025
Net book value					
As of December 31, 2010	48,166,890	132,162,961	67,924,407	2,085,209	250,339,467
As of December 31, 2011	45,066,511	126,594,647	66,287,061	2,760,081	240,708,300
As of December 31, 2012	42,515,014	116,257,406	63,195,385	2,732,689	224,700,494

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6. Property, plant and equipment (cont'd)

	Freehold property $	Generation $	Transmission & distribution $	Other $	Total $
Non-operational assets					
As of December 31, 2010	-	50,534,426	24,131,061	97,081	74,762,568
Additions	-	9,216,882	7,236,799	190,518	16,644,199
Transfers	-	(57,977,876)	(31,272,692)	(128,358)	(89,378,926)
As of December 31, 2011	-	1,773,432	95,168	159,241	2,027,841
As of December 31, 2011	-	1,879,735	95,265	52,842	2,027,842
Additions	-	608,164	4,167,663	2,356,680	7,132,507
Transfers	-	(354,779)	(3,760,165)	(668,007)	(4,782,951)
As of December 31, 2012	-	2,133,120	502,763	1,741,515	4,377,398
Net book value					
As of December 31, 2010	48,166,890	132,162,961	67,924,407	2,085,209	250,339,467
As of December 31, 2011	45,066,511	128,474,382	66,382,326	2,812,923	242,736,142
As of December 31, 2012	42,515,014	118,390,526	63,698,148	4,474,204	229,077,892

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6. Property, plant and equipment (cont'd)

Revaluation surplus realized, which represents the excess of depreciation on reproduction cost over original cost, during the year amounted to $1,205,553 (2011: $1,684,926). Depreciation on the original cost basis for 2012 is $19,582,084 (2011: $19,780,673).

Self insurance fund
The Company has created a self insurance fund for the coverage of its transmission and distribution assets. The transmission and distribution system which is included in property, plant and equipment has a carrying value of $66.5 million at December 31, 2012 (2011: $67 million). The value of the fund was $27 million at December 31, 2012 (2011: $24 million).

The fund is held as a reserve and has been created by way of appropriations from the retained earnings.

7. Retirement benefit asset

The Company provides retirement benefits, under a regional multi-employer defined benefit plan and a defined contribution plan, for substantially all of its employees.

(a) *Defined benefit plan*
The Company contributes to the regional CDC Caribbean Pension Plan which is administered by Sagicor Life Inc.

The most recent actuarial valuation of the plan is dated December 31, 2012. The plan was valued using the "Projected Unit Credit" method of valuation.

The principal actuarial assumptions used in determining the present value of plan obligations were as follows:

	2012	**2011**
	%	**%**
Discount rate at end of year	7.00	6.50
Expected return on plan assets at end of year	7.50	7.00
Future promotional salary increases	2.00	2.00
Future inflationary salary increases	4.00	3.50
Future pension increases	3.00	3.00

The amounts recognised in the balance sheet are determined as follows:

	2012	**2011**
	$	**$**
Present value of funded obligations	(8,280,304)	(7,806,075)
Fair value of plan assets	7,387,243	6,643,648
Unrecognised actuarial loss	1,166,581	1,824,324
Defined benefit asset	273,520	661,897

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7. Retirement benefit asset (cont'd)

(a) Defined benefit plan (cont'd)

The amount of $273,520 (2011 - $661,897) 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 scheme are precluded from paying out the $273,520 (2011: $661,897) to the Company.

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

	2012 $	**2011 $**
Current service costs	(260,597)	(241,835)
Interest costs	(518,292)	(511,946)
Expected return on plan assets	468,586	487,420
Actuarial loss recognised during the year	(364,866)	(345,516)
Defined benefit obligation as at December 31	(675,169)	(611,877)

The expense has been included as part of employee benefit expense (Note 25) within administrative expenses in the statement of comprehensive income.

Movement in asset recognised was as follows:

	2012 $	**2011 $**
Defined benefit asset as at January 1	661,897	1,035,894
Net expenses recognised in profit and loss	(675,169)	(611,877)
Contributions	286,792	237,880
At end of year	273,520	661,897

The movements in the defined benefit obligation for the year ended were as follows:

	2012 $	**2011 $**
Defined benefit obligation as at January 1	(7,806,075)	(7,308,048)
Interest costs	(518,292)	(511,946)
Current service costs	(260,597)	(241,834)
Benefits paid	185,877	472,749
Actuarial gain (loss)	118,783	(216,996)
Defined benefit obligation as at December 31	(8,280,304)	(7,806,075)

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Notes to the Financial Statements
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7. Retirement benefit asset (cont'd)

(a) Defined benefit plan (cont'd)

The movements in the plan assets for the year ended were as follows:

	2012 $	2011 $
Fair value of plan assets as at January 1	6,643,648	6,616,368
Expected return on plan assets	468,586	487,420
Contributions	286,792	237,880
Benefits paid	(185,877)	(472,749)
Actuarial gain (loss)	174,094	(225,271)
Fair value of plan assets as at December 31	7,387,243	6,643,648

Actuarial gains and losses recognized directly in equity were as follows:

	2012 $	2011 $
Cumulative unrecognized loss as at January 1	1,824,324	1,727,574
Actuarial (gain) loss for the year – plan obligation	(118,783)	216,996
Actuarial (gain) loss for the year – plan assets	(174,094)	225,270
	1,531,447	2,169,840
Actuarial loss recognised during the year	(364,866)	(345,516)
Cumulative unrecognised loss as at December 31	1,166,581	1,824,324

Plan asset consists of the following:

	2012 %	2011 %
Bonds	43.0	0.0
Equities	44.0	94.0
Other	13.0	6.0
	100.0	100.0

The actual return on plan assets for the year ended was as follows:

	2012 $	2011 $
Return on plan assets	642,680	262,148

Amounts for current and previous periods are as follows:

	2012 $	2011 $
Present value of defined benefit obligation	(8,280,304)	(7,806,075)
Fair value of plan assets	7,387,243	6,643,648
Deficit	(893,061)	(1,162,427)
Experience adjustments on plan obligations	83,450	234,688
Experience adjustments on plan assets	174,093	(225,270)
Current year cost - Senior Executives	63,271	56,117

7. Retirement benefit asset (cont'd)

(b) *Defined contribution plan*

The Company has contributed to a defined contribution plan for all its other employees which is administered by Colonial Life Insurance Company (Trinidad) Limited. The most recent actuarial valuation carried out on January 1, 2000 revealed a surplus of assets. The Company's contributions to the plan are expensed when incurred.

8. Trade and other receivables

	2012 $	2011 $
Current		
Trade receivables	56,201,263	45,449,699
Less: provision for impairment of trade receivables	(8,753,518)	(8,480,323)
Trade receivables, net	47,447,745	36,969,376
Other receivables	10,139,175	5,616,538
Less: provision for impairment of other receivables	(7,642)	(7,642)
Other receivables, net	10,131,533	5,608,896
Prepayments	800,142	1,017,854
	58,379,420	43,596,126
Non-current		
Other receivables	17,027,642	-
	75,407,062	43,596,126

Included in other receivables is $17,027,642 receivable from the Government of St. Vincent and the Grenadines. A corresponding payable of $17,027,642 to PDVSA Petroleo, S.A. (PDVSA), a company incorporated in the Bolivarian Republic of Venezuela is recognized in trade payables for the importation of petroleum products.

St. Vincent Electricity Services Limited (VINLEC) was the Government of St. Vincent and the Grenadines' designated buyer of petroleum products under the PetroCaribe Energy Agreement (the Agreement) entered into between the Government of St. Vincent and the Grenadines (GOSVG) and the Government of the Bolivarian Republic of Venezuela dated June 25, 2005. The agreement between the GOSVG and VINLEC was subsequently terminated on May 31, 2009.

Pursuant to an indemnity agreement dated May 31, 2009 between the GOSVG and VINLEC $s18,460,961 was paid to Petrocaribe St. Vincent and the Grenadines Ltd, but to date PDVSA has not recognized the agreement which provides that the GOSVG fully assumes and discharges all subsisting duties of VINLEC under the contract for the importation of petroleum products.

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9. Cash

	2012 $	2011 $
Cash at bank	3,488,997	10,912,064
Bank overdraft	(2,187,708)	-
Cash on hand and at bank	1,301,289	10,912,064

Bank overdraft bears interest at the rate of 11% and is unsecured.

10. Short-term securities

Short-term securities are comprised of interest bearing certificates of deposits with maturities of less than one year held with the Bank of St. Vincent and the Grenadines. The deposits bear interest at rates ranging from 4.5-5.5% annually (2011: 5-5.5%).

11. Income tax refundable

	2012 $	2011 $
Beginning of year	1,541,899	-
Offset current tax expense	(788,512)	(195,376)
Payments in current year	1,189,491	1,737,275
	1,942,878	1,541,899

Income tax refundable represents amounts over paid as of year end. These amounts are available to offset future tax liabilities.

12. Inventories

	2012 $	2011 $
Spares	9,028,242	8,917,913
Fuel and lubricants	2,389,767	5,936,042
Stationery	99,544	124,910
Goods-in-transit	172,034	17,968
	11,689,587	14,996,833
Less: provision for obsolescence	(2,377,507)	(2,377,507)
	9,312,080	12,619,326

13. Share capital

Authorized – Unlimited number of ordinary shares without nominal or par value.

	2012 $	2011 $
Issued and fully paid – 5,809,182 ordinary shares without nominal or par value	29,045,910	29,045,910

14. Borrowings

	Note	2012 $	2011 $
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	14(a)	927,828	982,406
Third Power Project:-			
Lowmans Bay Project	14(b)	34,908,766	39,413,123
Government of St. Vincent and the Grenadines			
United States Agency for International Development	14(c)(i)	10,008,570	10,629,742
European Investment Bank Loan III	14(c)(ii)	920,413	1,811,651
Kuwait Fund for Arab Economic Development	14(d)	-	275,697
European Investment Bank Loan IV	14(e)	17,694,128	19,776,381
Alba Bank	14(f)	25,729,783	25,537,900
Total long-term borrowings		90,189,488	98,426,900
Less: Current portion		(13,110,522)	(10,602,056)
		77,078,966	87,824,844

	2012 $	2011 $
Current		
Bank borrowings	13,110,522	10,602,056
	13,110,522	10,602,056
Non-current		
Bank borrowings	67,710,341	76,895,859
Government of St Vincent and the Grenadines	9,368,625	10,928,985
	77,078,966	87,824,844
Total borrowings	90,189,488	98,426,900

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14. Borrowings (cont'd)

(a) Caribbean Development Bank (CDB) First Power Project
10.5% loan obtained through the International Development Association (IDA).

This loan is for US$664,209 and is repayable in 80 semi-annual installments, of US$10,075, plus interest, due July 15, 2029.

The above loan was made by the CDB to the Government of St Vincent and the Grenadines for on-lending by the Government to the Company. The loan agreement provides that:

(i) all payments of principal and interest shall be made by the Company to CDB and such payments shall be deemed payments by the Company to the Government.
(ii) the loan is secured by execution of a debenture giving a first floating charge over the undertaking and its uncalled capital.

(b) Caribbean Development Bank (CDB) Third Power Project
Loan for USD$18,311,000, obtained through the ordinary capital resources of the Caribbean Development Bank, repayable in 44 approximately equal and consecutive quarterly installments of US$416,160, plus interest at a rate of 5.5% per annum on the principal amount. The Company shall pay a commitment charge of 1% per annum on the amount of the loan unwithdrawn. The loan has been secured by a guarantee of the Government of St. Vincent and the Grenadines and is due to mature in July 2020.

The loan agreement provides for a grace period of 4 years following the date of first draw-down on the loan. Other covenants stipulated in the agreement provide that:

(i) the Company's accounts receivables shall not exceed sixty (60) days sales;
(ii) the Company maintain a debt service coverage ratio of at least 1.5 times its total debt service;
(iii) no further expansion shall take place at Cane Hall site; and
(iv) the Company continues to set aside an amount of at least one million Eastern Caribbean dollars ($1,000,000) annually for the purposes of its self insurance plan in respect to its transmission and distribution assets.

(c) Government of St. Vincent and the Grenadines

(i) <u>United States Agency for International Development</u>
Loan for US$7,500,000, repayable in 60 semi-annual installments of US$122,951 and a final installment of US$122,940, plus interest at 4% to June 30, 2007, and at 5% thereafter, due on June 30, 2025. The loan agreement provides that the Company is required to earn an annual rate of return of 8% on the current net asset value of the Company's operational assets.

(ii) <u>European Investment Bank Loan III</u>
Loan for the EC dollar equivalent of US$3,485,620 of which US$2,685,805 is charged at 5.81% and US$799,814 at 4.14% (fixed). The loan is due on August 31, 2013.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2012
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14. Borrowings (cont'd)

(d) *Kuwait Fund for Arab Economic Development*
4% loan for 1,000,000 Kuwait Dinars repayable in thirty semi-annual installments of 28,470 Kuwait Dinars, plus interest, due on February 15, 2012. The loan was secured by a guarantee of the Government of St Vincent and the Grenadines.

(e) *European Investment Bank Loan IV*
Loan for EUR 8,300,000, to be disbursed up to US$10,000,000, repayable in 22 semi-annual installments of US$454,545, plus interest at a fixed rate of 5.505% due to mature in May 2020.

The loan agreement provides for a grace period of 4 years from the date of the first tranche. This loan is secured by a guarantee of the Government of St. Vincent and the Grenadines. Financial covenants stipulates that the Company shall:

(i) maintain a debt service ratio of at least 1.5; and
(ii) not declare any dividends or make any other distributions to any shareholder, unless debt service ratio is more than 1.5.

(f) *Alba Bank*
Loan for US$12,000,000, for a period of ten (10) years, including a two (2) year grace period from the date of the first drawdown. The loan is repayable in equal, or approximately equal and consecutive semi-annual installments, plus interest at a fixed rate of 4.5%; commencing from the first due date after the expiry of the two (2) years grace period.

15. Consumers' contributions

	2012		
	Government	**Other consumers**	**Total**
	$	**$**	**$**
Contributions			
Beginning of year	4,363,153	17,881,227	22,244,380
Received during the year	-	638,598	638,598
Refunds	-	-	-
End of year	4,363,153	18,519,825	22,882,978
Amortization			
Beginning of year	4,260,035	12,365,601	16,625,636
For the year	-	1,099,010	1,099,010
End of year	4,260,035	13,464,611	17,724,646
Balance - 2011	103,118	5,515,626	5,618,744
Balance - 2012	103,118	5,055,214	5,158,332

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
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(Expressed in Eastern Caribbean Dollars)

15. Consumers' contributions (cont'd)

	2011		
	Government $	**Other consumers** $	**Total** $
Contributions			
Beginning of year	4,260,035	17,557,787	21,817,822
Received during the year	103,118	329,704	432,822
Refunds	-	(6,264)	(6,264)
End of year	4,363,153	17,881,227	22,244,380
Amortization			
Beginning of the year	4,260,035	11,295,226	15,555,261
For the year	-	1,070,375	1,070,375
End of year	4,260,035	12,365,601	16,625,636
Balance - 2010	-	6,262,561	6,262,561
Balance - 2011	103,118	5,515,626	5,618,744

16. Deferred grant income

	2012 $	2011 $
Agence Française de Développement Group Grant	175,485	186,687
Amortisation	(10,529)	(11,202)
	164,956	175,485

17. Consumers' deposits

	2012 $	2011 $
Deposits		
Beginning of year	5,809,074	5,664,615
Received during the year	450,172	783,970
Refunds	(259,472)	(639,511)
End of year	5,999,774	5,809,074
Interest		
Beginning of year	3,082,691	2,902,149
For the year	422,223	410,043
Paid during the year	(245,151)	(229,501)
	3,259,763	3,082,691
	9,259,537	8,891,765

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2012
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18. Trade and other payables

	2012 $	2011 $
Current		
Trade payables	15,825,700	16,612,875
Accrued expenses	8,840,649	11,431,876
Other payables	4,766,483	2,821,860
Government of St. Vincent and the Grenadines	3,007,693	5,007,693
	32,440,525	35,874,304
Non-current		
Trade payables	17,027,642	-
	49,468,167	35,874,304

19. Deferred tax liabilities

Deferred tax liabilities are attributable to the following:-

	2012 $	2011 $
Property, plant and equipment	37,959,414	37,150,848
Bad debt provision	(2,803,571)	(2,636,548)
Provision for obsolescence	(760,802)	(760,802)
Unbilled sales	3,515,895	2,849,415
Retirement benefit	(87,526)	(211,807)
Unutilized losses	(6,889)	(795,402)
	37,816,521	35,595,704

20. Other losses, net

	2012 $	2011 $
Gain (loss) on disposal of property, plant and equipment	122,451	(2,411,114)
Foreign exchange loss	(200,121)	(89,638)
	(77,670)	(2,500,752)

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2012
(Expressed in Eastern Caribbean Dollars)

21. Taxation

Income tax expense comprises:-

	2012 $	2011 $
Current	788,512	-
Deferred	2,220,817	2,541,469
	3,009,329	2,541,469

Reconciliation of effective tax rate	**2012 %**	**2012 $**	**2011 %**	**2011 $**
Profit before taxation		6,653,401		4,361,630
Income tax using applicable corporation tax rate	32.0	2,129,088	32.0	1,395,722
Non-deductible expenses (net)	115.81	7,705,451	199.47	8,700,164
Tax incentives	(124.11)	(8,257,515)	(251.53)	(10,970,888)
Tax loss utilized	(11.85)	(788,512)	20.06	875,002
Change in temporary differences	33.38	2,220,817	58.27	2,541,469
	45.23	3,009,329	58.27	2,541,469

22. Earnings per share

Earnings per share is calculated upon net profit for the year of $3,644,072 (2011: $1,820,161) and on the average issued share capital of 5,809,182 (2011: 5,809,182) ordinary shares.

23. Capital commitments

As of December 31, 2012, the directors approved capital expenditure totaling $29.7 million (2011: 21 million).

24. Contingent liabilities

The Company has also been assessed for PAYE of $845,652 including interest of $560,389 on gratuity payments to staff. The Company has objected to the assessment and management is of the view that the Company is not liable for the amounts assessed. If final determination should go against the Company, any additional taxes would be accounted for as a charge in current operations.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2012
(Expressed in Eastern Caribbean Dollars)

25. Operating expenses

	2012 $	2011 $
Fuel cost over base	67,324,839	58,694,264
Fuel at base price	3,475,487	3,237,502
Depreciation on property, plant and equipment	20,787,017	21,465,600
Repairs and maintenance	8,939,385	8,632,948
Employee benefit expense	15,203,917	14,696,967
Other operating expenses	9,543,834	9,869,399
Amortisation of consumers' contributions	(1,099,010)	(1,070,374)
	124,175,469	115,526,306

26. 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 entity 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.

(c) *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:

- Short-term employee benefits
- Post-employment benefits
- Termination benefits

The Company is controlled by the Government of St. Vincent and the Grenadines.

26. Related parties (cont'd)

(c) Transactions with key management personnel (cont'd)

Transactions with the Government during the year were as follows:

	2012 $	2011 $
Revenue		
Government of St. Vincent and the Grenadines and its corporations	16,148,775	15,031,313

The Government of St. Vincent and the Grenadines receives a 10% discount on tariff sales for all accounts other than street lighting.

Balances arising from supply of services at year end were as follows:

	2012 $	2011 $
Government of St. Vincent and the Grenadines	27,824,584	20,058,410

27. Employee benefit expense

	2012 $	2011 $
Staff costs	15,203,917	14,696,967
Number of employees at the reporting date	310	310

28. Contingent liabilities

Interest at the rate of 18% is charged on amounts past due to PDVSA for the purchase of petroleum products. As at November 30, 2012, accrued interest amounting to $5,092,867 has been accrued by PDVSA on the outstanding balance.

Under the Petrocaribe Energy Agreement, LPG was imported into St. Vincent however the LPG was not received by VINLEC in its capacity as the Government's designated buyer for petroleum products. Amounts outstanding to PDVSA related to LPG imports total $3,891,027.

VINLEC is not admitting liability and is disputing any claims for the above amounts. The Board of VINLEC does not believe that the Company is liable for the overdue interest and purchases of LPG. If, however, the resolution of the dispute does not go in VINLEC's favor, the liability will be recorded in the period in which the dispute is resolved.

ST. VINCENT ELECTRICITY SERVICES LIMITED

ADDITIONAL INFORMATION

TO THE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012
(With comparative figures)

ADDITIONAL INFORMATION

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ADDITIONAL COMMENTS OF INDEPENDENT AUDITORS

To the Shareholder
St. Vincent Electricity Services Limited
Kingstown

The accompanying schedules I and II are presented as supplementary information only. In this respect, they do not form part of the financial statements of St. Vincent Electricity Services Limited for the year ended December 31, 2012 and hence are excluded from the opinion expressed in our report dated December 18, 2014 to the shareholder on such financial statements.

KPMG

KPMG Eastern Caribbean

Kingstown, St. Vincent and the Grenadines

December 18, 2014

Schedule I

ST. VINCENT ELECTRICITY SERVICES LIMITED
Financial Statistics
(Expressed in Eastern Caribbean Dollars)

	2012 EC$ 000's	2011 EC$ 000's	2010 EC$ 000's	2009 EC$ 000's	2008 EC$ 000's	2007 EC$ 000's	2006 EC$ 000's
SUMMARISED BALANCE SHEET							
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	70,865	71,531	74,428	68,410	68,661	66,455	64,107
Other reserves	99,370	95,836	92,671	91,069	89,704	87,920	82,338
Non –current liabilities	94,106	87,825	90,084	76,573	79,008	76,603	64,936
Deferred income	165	175	187	199	211	224	239
	293,552	284,413	286,416	265,297	266,630	260,248	240,666
Fixed assets (Net)	229,078	242,736	250,339	233,492	217,791	210,697	209,508
Long-term investments	200	200	200	200	200	200	200
Other long-term asset	17,028	-	-	-	-	-	-
Retirement benefit asset	273	662	1,036	1,300	1,802	1,663	-
Current assets	94,712	87,291	69,559	65,515	88,087	78,662	59,009
Current liabilities	(47,739)	(46,476)	(34,718)	(35,210)	(41,250)	(31,001)	(28,051)
	293,552	284,413	286,416	265,297	266,630	260,221	240,666
SUMMARISED RESULTS							
Operating Revenues							
Electricity sales	65,630	64,889	66,417	64,857	64,578	66,093	62,871
Fuel surcharge	67,715	58,921	46,129	35,513	65,589	44,592	40,957
Other	1,809	2,645	2,582	1,993	1,551	806	750
Total	135,154	126,455	115,128	102,363	131,718	111,491	104,578
Operating Expenses							
Fuel cost covered by surcharge	67,325	58,694	46,113	35,540	66,596	44,421	40,642
Operating and maintenance							
- Hydro	2,252	2,109	2,074	2,033	1,851	1,883	2,258
- Diesel	15,664	14,478	15,487	18,606	14,360	16,217	16,309
Transmission & distribution	4,304	4,209	3,766	3,351	3,254	4,417	3,681
Administration & other	13,921	17,071	14,230	17,270	14,131	12,804	16,528
Depreciation	20,787	21,466	17,486	17,533	18,620	19,215	17,258
Total	124,253	118,027	99,156	94,333	118,812	98,957	96,676
Operating income	10,901	8,428	15,972	8,030	12,906	12,534	7,902
Interest	(4,248)	(4,067)	(4,524)	(4,498)	(5,596)	(4,130)	(1,944)
Net profit before tax	6,653	4,361	11,448	3,532	7,310	8,404	5,958
Income tax expense	(3,009)	(2,541)	(4,913)	(1,504)	(3,317)	(3,943)	(4,957)
Net profit after tax	3,644	1,820	6,535	2,028	3,993	4,461	1,001
Appraisal element in depreciation	1,206	1,685	2,219	2,218	3,353	3,478	5,359
Retained earnings brought forward	71,531	74,428	68,410	68,661	66,455	63,604	60,747
Deferred tax on retirement benefit reserve	388	374	264	503	(140)	(88)	(503)
Final/Interim dividend	(2,904)	(3,776)	-	(2,000)	(2,000)	(2,000)	0
Self insurance fund	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Retained earnings carried forward	70,865	71,531	74,428	68,410	68,661	66,455	63,604

Schedule II

ST. VINCENT ELECTRICITY SERVICES LIMITED
Operational Statistics
For the year ended December 31, 2012
(Expressed in Eastern Caribbean Dollars)

	2012	2011	2010	2009	2008	2007
GENERATING PLANT (KW)						
Site Rated Capacity (KW)						
St. Vincent	42,693	42,693	40,357	37,989	40,615	40,615
Bequia	4,145	4,145	2,865	2,865	2,865	2,865
Union Island	1,300	1,300	1,300	1,300	1,300	1,300
Canouan	3,120	3,120	3,120	4,400	4,400	4,400
Mayreau	180	180	180	180	180	180
Firm Capacity (KW)						
St. Vincent	33,993	33,993	31,657	29,289	31,915	31,915
Bequia	2,579	2,579	1,881	1,881	1,881	1,881
Union Island	810	810	810	810	810	810
Canouan	1,782	1,782	1,782	2,808	2,808	2,808
Mayreau	108	108	108	108	108	108
Peak Demand (KW)- (All Time)						
St. Vincent	21,120	21,120	21,120	20,590	19,980	19,160
Bequia	1,500	1,500	1,500	1,500	1,500	1,325
Union Island	533	533	517	517	517	517
Canouan	2,447	2,447	2,447	2,447	2,310	2,154
Mayreau	50	50	43	43	43	40
PRODUCTION AND SALES						
Gross Generation (kWhs)						
Hydro	24,688,510	30,910,393	24,505,990	26,107,890	23,673,460	22,713,780
Diesel	118,000,901	109,798,084	115,481,698	116,104,891	115,455,782	118,378,885
	142,689,411	140,708,477	139,987,688	142,212,781	139,129,242	141,092,665
Own Use	(4,925,262)	(4,878,169)	(4,706,254)	(4,957,704)	(5,003,096)	(3,624,125)
Net Generation	137,764,149	135,830,308	135,281,434	137,255,077	134,126,146	137,468,540
Sales (kWhs)						
Domestic	60,698,402	60,355,448	61,379,473	58,080,762	55,532,302	56,747,530
Commercial	58,160,981	55,458,862	54,230,403	58,751,973	58,280,375	58,941,289
Industrial	6,541,938	6,854,256	6,893,921	6,735,673	6,183,035	6,832,412
Street lighting	3,165,738	3,086,329	2,979,159	2,934,957	2,929,342	2,930,481
Total Sales	128,567,059	125,754,895	125,482,956	126,503,365	122,925,054	125,451,712
Loss (% of Net Generation)	6.68%	7.42%	7.24%	7.83%	8.35%	8.74%
Number of Consumers at Year end						
Domestic	36,292	35,970	35,571	35,218	34,495	33,705
Commercial	4,395	4,377	4,264	4,239	4,208	4,147
Industrial	20	22	24	26	27	28
Street lighting	47	48	48	48	48	47
	40,754	40,417	39,907	39,531	38,778	37,927