ST. VINCENT ELECTRICITY SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011
(With comparative figures for December 31, 2010)

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
FirstCaribbean International Bank (Barbados) Limited
Bank of St. Vincent and the Grenadines
RBTT Bank (Caribbean) Limited

Auditors

KPMG Eastern Caribbean
Chartered Accountants

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, 2011, 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.

KPMG

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 of the financial position of St. Vincent Electricity Services Limited as of December 31, 2011, and of 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 14, 2012

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Financial Position
As of December 31, 2011
With comparatives as of December 31, 2010
(Expressed in Eastern Caribbean Dollars)

	Note	2011 $	2010 $
Assets			
Long term investments	5	200,000	200,000
Property, plant and equipment	6	242,736,142	250,339,467
Retirement benefit asset	7	661,897	1,035,894
Total non-current assets		243,598,039	251,575,361
Cash and cash equivalents	8	10,912,064	6,766,940
Short-term securities	9	18,621,698	17,703,150
Trade and other receivables	10	43,596,126	35,632,164
Income tax refundable	11	1,541,899	-
Inventories	12	12,619,326	9,457,165
Total current assets		87,291,113	69,559,419
Total assets		330,889,152	321,134,780
Equity			
Share capital	13	29,045,910	29,045,910
Self insurance fund	6	24,000,000	21,000,000
Revaluation surplus		21,067,188	22,752,114
Retirement benefit reserve		661,901	1,035,894
Retained earnings		71,531,251	74,428,139
Total equity		146,306,250	148,262,057
Liabilities			
Borrowings	14	87,824,844	90,084,320
Consumers' contributions to line extensions	15	5,618,744	6,262,561
Grant	16	175,485	186,687
Consumers' deposits	17	8,891,765	8,566,764
Deferred tax liabilities	18	35,595,704	33,054,236
Total non-current liabilities		138,106,542	138,154,568
Trade and other payables	19	35,874,304	25,433,794
Income tax payable		-	195,375
Borrowings	14	10,602,056	9,088,986
Total current liabilities		46,476,360	34,718,155
Total liabilities		184,582,902	172,872,723
Total equity and liabilities		330,889,152	321,134,780

The notes on pages 8 to 37 are an integral part of these financial statements.

Approved By:

Director

M. Edwards

Director

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Comprehensive Income
For the year ended December 31, 2011
With comparative figures for December 31, 2010
(Expressed in Eastern Caribbean Dollars)

	Note	2011 $	2010 $
Revenues			
Energy sales		64,889,442	66,417,020
Fuel surcharge recovered		58,921,060	46,128,806
Other revenue		2,645,111	2,581,899
		126,455,613	115,127,725
Operating expenses			
Diesel generation		25,905,942	23,917,482
Hydro generation		4,114,693	4,052,255
Transmission & distribution		11,674,265	10,254,173
Fuel surcharge		58,694,264	46,113,409
Administrative expenses		15,137,142	14,496,061
	25	115,526,306	98,833,380
Operating profit		10,929,307	16,294,345
Other losses, net	20	(2,500,752)	(321,824)
Profit before finance costs and taxation		8,428,555	15,972,521
Finance costs		(4,066,925)	(4,524,903)
Profit before taxation		4,361,630	11,447,618
Taxation	21	(2,541,469)	(4,912,427)
Net profit for the year from continuing operations		1,820,161	6,535,191
Other comprehensive income		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		1,820,161	6,535,191
Earnings per share	22	0.31	1.12

The notes on pages 8 to 37 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity
For the year ended December 31, 2011
With comparative figures for December 31, 2010
(Expressed in Eastern Caribbean Dollars)

Current year	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
Other comprehensive income	-	-	-	-	-	-
Total other comprehensive income	-	-	-	-	-	-
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 37 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, 2011
With comparative figures for December 31, 2010
(Expressed in Eastern Caribbean Dollars)

Previous year	Share capital $	Self insurance fund $	Revaluation surplus $	Retirement benefit reserve $	Retained earnings $	Total $
Balance as of December 31, 2009	29,045,910	18,000,000	24,970,906	1,300,282	68,409,768	141,726,866
Total comprehensive income for the year						
Profit for the year	-	-	-	-	6,535,191	6,535,191
Other comprehensive income	-	-	-	-	-	-
Total other comprehensive loss	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	6,535,191	6,535,191
Transactions with owners, recorded directly in equity contributions by and distributions to owners						
Revaluation surplus realized	-	-	(2,218,792)	-	2,218,792	-
Self insurance fund appropriation	-	3,000,000	-	-	(3,000,000)	-
Dividend	-	-	-	-	-	-
Transfer to retirement benefit reserve	-	-	-	(264,388)	264,388	-
Balance as of December 31, 2010	29,045,910	21,000,000	22,752,114	1,035,894	74,428,139	148,262,057

The notes on pages 8 to 37 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Cash Flows
For the year ended December 31, 2011
With comparative figures for December 31, 2010
(Expressed in Eastern Caribbean Dollars)

	2011 $	2010 $
Cash flows from operating activities		
Profit before taxation	4,361,630	11,447,618
Adjustments for:		
Depreciation	21,465,600	17,485,594
Amortization of consumers' contribution to line extensions	(1,070,375)	(1,030,837)
Loss on disposal of property, plant and equipment	2,411,114	160,541
Finance costs	4,066,925	4,524,903
Defined benefit pension expense	611,877	535,103
Foreign exchange loss	89,638	161,283
Amortization of deferred grant	(11,202)	(11,916)
Interest income	(1,014,608)	(963,306)
Operating profit before working capital changes	30,910,599	32,308,983
Change in inventories	(3,162,161)	52,015
Change in trade and other receivables	(7,922,416)	(693,641)
Change in trade and other payables	10,666,139	(651,553)
Cash generated from operations	30,492,161	31,015,804
Interest paid	(4,112,011)	(4,326,300)
Interest received	973,062	592,339
Income tax paid	(1,737,275)	-
Net cash generated from operating activities	25,615,937	27,281,843
Cash flows from investing activities		
Acquisition of short-term securities	(918,548)	(525,000)
Acquisition of property, plant and equipment	(16,644,199)	(34,560,331)
Proceeds from disposal of property, plant and equipment	370,809	66,934
Defined benefit plan contributions	(237,880)	(270,715)
Net cash used in investing activities	(17,429,818)	(35,289,112)
Cash flows from financing activities		
Change in consumers' deposits	144,459	(39,356)
Proceeds from borrowings	8,064,600	22,365,720
Repayment of borrowings	(8,900,644)	(7,414,234)
Dividends paid	(3,775,967)	(1,832,387)
Change in consumers' contributions	426,557	1,045,253
Net cash used in financing activities	(4,040,995)	14,124,996
Net increase in cash	4,145,124	6,117,727
Cash and cash equivalents - beginning of year	6,766,940	649,213
Cash and cash equivalents - end of year	10,912,064	6,766,940

The notes on pages 8 to 37 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 29, 2012.

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, as modified by the revaluation of available-for-sale financial assets.

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. Revision to accounting estimates are recognized in the period in which the estimate is 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 net realizable 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)

(iv) 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, 2011
(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 buildings & construction — $2^1/_2$ - 5% per annum
- Plant & machinery — 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.

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) *Consumer 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) *Consumer 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.

Interest income

Interest income is recognised on a time-proportion basis 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)

<u>Termination benefits</u>

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) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are present in Eastern Caribbean dollars, which is the Company's functional and presentation currency.

(t) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income.

(u) 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).

(v) 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, 2011, 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.

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:

	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)

	2010		
	Financial assets $	**Financial liabilities $**	**Currency sensitivity gap $**
Kuwaiti Dinar (KWD)	-	(819,500)	(819,500)
US Dollar (USD)	416,564	(98,353,806)	(97,937,242)
EC Dollar (XCD)	59,660,533	(40,449,806)	19,210,727
TOTAL	60,077,097	(139,623,112)	(79,546,015)

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, 2011	2.71	9.64
At December 31, 2010	2.71	9.44

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 2010.

	2011 $	2010 $
USD	9,396,226	9,793,724
KWD	27,571	81,950

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 USD 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.

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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 receivables 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	
	2011	**2010**
	$	**$**
Long-term investment	200,000	200,000
Short-term securities	18,621,698	17,703,150
Trade receivables	36,969,376	31,160,063
Other receivables	5,608,896	4,246,944
Cash and cash equivalents	10,912,064	6,766,940
	72,312,034	60,077,097

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

	Carrying amount	
	2011	**2010**
	$	**$**
Domestic	12,970,475	11,792,439
Commercial	11,249,338	8,174,192
Industrial	1,171,476	1,085,919
Government	20,058,410	17,689,086
	45,449,699	38,741,636
Provision for impairment of trade receivables	(8,480,323)	(7,581,573)
Trade receivables, net	36,969,376	31,160,063

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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:

	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 to line extensions	5,618,744	(5,618,744)	1,030,837	4,123,348	464,559
Grants	175,485	(175,485)	11,200	441,800	119,485
Customer deposits	8,891,765	(8,891,765)	460,101	1,840,404	6,591,260
	148,987,198	(171,203,749)	52,190,211	68,395,930	51,014,608

	2010 $				
	Carrying amount	**Contractual cash flows**	**1 year**	**2-5 years**	**More than 5 years**
Trade payables	9,036,678	(9,036,678)	9,036,678	-	-
Other payables	16,397,116	(16,397,116)	16,397,116	-	-
Borrowings	99,173,306	(99,173,306)	9,088,986	37,283,355	52,800,965
Customers' contributions to line extensions	6,262,561	(6,262,561)	1,030,837	4,123,348	1,108,376
Grants	186,687	(186,687)	11,916	47,664	127,107
Customer deposits	8,566,764	(8,566,764)	460,101	1,840,404	6,266,259
	139,623,112	(139,623,112)	36,025,634	43,294,771	60,302,707

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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 summarises the Company's exposure to interest rate risks:

	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)

	2010				
	Up to one year $	One to five years $	Over five years $	Non-interest bearing $	Total $
Financial assets	21,858,606	-	-	38,443,648	60,302,254
Financial liabilities	(9,549,087)	(39,123,759)	(59,067,224)	(32,050,650)	(139,790,720)
Interest sensitivity gap	12,309,519	(39,123,759)	(59,067,224)		(79,488,466)

(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.

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(f), 2(j), 2(r) and 2(h) 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 amount of the assets.

5. Long-term investment

	2011 $	2010 $
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
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
Net book value					
As of December 31, 2010	48,166,890	81,628,535	43,793,346	1,988,128	175,576,899
As of December 31, 2011	45,615,394	125,993,412	67,143,897	1,955,598	240,708,301
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
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	45,615,394	127,766,844	67,239,065	2,114,839	242,736,142

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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 $1,684,926 (2010: $2,218,792). Depreciation on the original cost basis for 2011 is $19,780,673 (2010: $15,266,802).

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, 2011 (2010: $67 million). The value of the fund was $24 million at December 31, 2011 (2010: $21 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, 2011. 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:

	2011 %	2010 %
Discount rate at end of year	6.50	7.00
Expected return on plan assets at end of year	7.00	7.50
Future promotional salary increases	2.00	2.00
Future inflationary salary increases	3.50	4.00
Future pension increases	3.00	3.00
Proportion of employees opting for early retirement	0.00	0.00

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

	2011 $	2010 $
Present value of funded obligations	(7,806,075)	(7,308,048)
Fair value of plan assets	6,643,648	6,616,368
Unrecognised actuarial loss	1,824,324	1,727,574
Defined benefit asset	661,897	1,035,894

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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 amount of $661,897 (2010 - $1,035,894) 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 $661,897 (2010: $1,035,894) to the Company.

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

	2011 $	2010 $
Current service costs	(241,835)	(229,730)
Interest costs	(511,946)	(488,270)
Expected return on plan assets	487,420	493,180
Actuarial loss recognised during the year	(345,516)	(310,283)
Defined obligation benefit as at December 31	(611,877)	(535,103)

The credit 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:

	2011 $	2010 $
Defined benefit asset as at January 1	1,035,894	1,300,282
Net expenses recognised in profit and loss	(611,877)	(535,103)
Contributions	237,880	270,715
At end of year	661,897	1,035,894

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

	2011 $	2010 $
Defined benefit obligation as at January 1	(7,308,048)	(6,344,834)
Interest costs	(511,946)	(488,270)
Current service costs	(241,834)	(229,730)
Benefits paid	472,749	128,596
Actuarial loss	(216,996)	(373,810)
Defined obligation benefit as at December 31	(7,806,075)	(7,308,048)

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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:

	2011 $	2010 $
Fair value of plan assets as at January 1	6,616,368	6,093,696
Expected return on plan assets	487,420	493,180
Contributions	237,880	270,715
Benefits paid	(472,749)	(128,596)
Actuarial loss	(225,271)	(112,627)
Fair value of plan assets as at December 31	6,643,648	6,616,368

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

	2011 $	2010 $
Cumulative unrecognized loss as at January 1	1,727,574	1,551,420
Actuarial loss for the year – plan obligation	216,996	373,810
Actuarial loss for the year – plan assets	225,270	112,627
	2,169,840	2,037,857
Actuarial loss recognised during the year	(345,516)	(310,283)
Cumulative unrecognised loss as at December 31	1,824,324	1,727,574

Plan asset consists of the following:

	2011 %	2010 %
Equities	94.0	100.0
Other	6.0	-
	100.0	100.0

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

	2011 $	2010 $
Return on plan assets	262,148	380,553

Amounts for current and previous periods are as follows:

	2011 $	2010 $
Present value of defined benefit obligation	(7,806,075)	(7,308,048)
Fair value of plan assets	6,643,648	6,616,368
Deficit	(1,162,427)	(691,680)
Experience adjustments on plan obligations	234,688	41,017
Experience adjustments on plan assets	(225,270)	(112,627)
Current year cost - Senior Executives	56,117	46,407

7. Retirement benefit asset (cont'd)

(a) 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. Cash

	2011 $	2010 $
Cash and cash equivalents in the statement of cash flows	10,912,064	6,766,940

9. Short-term securities

	2011 $	2010 $
Securities held to maturity		
Bank of St. Vincent and the Grenadines (BOSVG) formerly National Commercial Bank (SVG) Limited - 5.0% Certificate of deposit, due October 27, 2011	-	5,512,500
Bank of St. Vincent and the Grenadines (BOSVG) formerly National Commercial Bank (SVG) Limited - 5.0% Certificate of deposit, due October 27, 2011	-	5,512,500
Bank of St. Vincent and the Grenadines (BOSVG) formerly National Commercial Bank (SVG) Limited - 5.5% Certificate of deposit, due December 31, 2010	-	6,678,150
Bank of St. Vincent and the Grenadines (BOSVG) formerly National Commercial Bank (SVG) Limited - 5.0% Certificate of deposit, due October 27, 2012	5,788,125	-
Bank of St. Vincent and the Grenadines (BOSVG) formerly National Commercial Bank (SVG) Limited - 5.0% Certificate of deposit, due October 27, 2012	5,788,125	-
Bank of St. Vincent and the Grenadines (BOSVG) formerly National Commercial Bank (SVG) Limited - 5.5% Certificate of deposit, due December 31, 2011	7,045,448	-
	18,621,698	17,703,150

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10. Trade and other receivables

	2011 $	2010 $
Trade receivables	45,449,699	38,741,636
Less: provision for impairment of trade receivables	(8,480,323)	(7,581,573)
Trade receivables, net	36,969,376	31,160,063
Other receivables	5,616,538	4,254,586
Less: provision for impairment of other receivables	(7,642)	(7,642)
Other receivables, net	5,608,896	4,246,944
Prepayments	1,017,854	225,157
	43,596,126	35,632,164

11. Income tax refundable

	2011 $	2010 $
Beginning of year	-	3,610,995
Offset current tax expense	-	(3,610,995)
Payments in current year	1,541,899	-
	1,541,899	-

Income tax refundable represents amounts over paid in the current financial year. These amounts are available to offset future tax liabilities.

12. Inventories

	2011 $	2010 $
Spares	8,917,913	8,213,103
Fuel and lubricants	5,936,042	3,266,162
Stationery	124,910	162,999
Goods-in-transit	17,968	192,408
	14,996,833	11,834,672
Less: provision for obsolescence	(2,377,507)	(2,377,507)
	12,619,326	9,457,165

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13. Share capital

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

	2011 $	2010 $
Issued and fully paid – 5,809,182 ordinary shares without nominal or par value	29,045,910	29,045,910

14. Borrowings

	Note	2011 $	2010 $
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	14(a)(ii)	982,406	1,036,986
Third Power Project:-			
Lowmans Bay Project	14(b)	39,413,123	43,917,480
Government of St. Vincent and the Grenadines			
United States Agency for International Development	14(c)(i)	10,629,742	11,527,498
European Investment Bank Loan III	14(c)(ii)	1,811,651	2,677,479
Agence Française de Développement Group (Formerly Caisse Française de Développement)	14(d)	-	102,215
Kuwait Fund for Arab Economic Development	14(e)	275,697	819,500
European Investment Bank Lowmans Bay	14(f)	19,776,381	21,618,848
Alba Bank	14(g)	25,537,900	17,473,300
Total long-term borrowings		98,426,900	99,173,306
Less: Current portion		(10,602,056)	(9,088,986)
		87,824,844	90,084,320

	2011 $	2010 $
Current		
Bank borrowings	10,602,056	9,088,986
	10,602,056	9,088,986
Non-current		
Bank borrowings	76,895,859	77,680,662
Government of St Vincent and the Grenadines	10,928,985	12,403,658
	87,824,844	90,084,320
Total borrowings	98,426,900	99,173,306

14. Borrowings (cont'd)

(a) Caribbean Development Bank (CDB) First Power Project

(i) 10.5% loan obtained through the International Development Association-Special Action Credit (IDA/SAC) for an equivalent of US$593,890.

During 2010, the currencies in which the loan was repayable were amended, by conversion, to the United States dollar. The loan balance at conversion, of US$571,845 is repayable in 42 semi-annual installments of US$13,615 and is due October 15, 2029.

(ii) 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 loans were made by the CDB to the Government of St Vincent and the Grenadines for on-lending by the Government to the Company. The loan agreements provide 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 loans are to be 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 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.

14. Borrowings (cont'd)

(c) Government of St. Vincent and the Grenadines

(i) United States Agency for International Development
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) European Investment Bank Loan III
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.

(d) Agence Française de Développement Group

4% loan of US$680,000 repayable in eighteen semi-annual installments of US$37,780 due on April 30, 2011. This loan is secured by a guarantee of the Government of St Vincent and the Grenadines.

(e) 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 has been secured by a guarantee of the Government of St Vincent and the Grenadines.

(f) European Investment Bank Loan IV

Loan for EUR 8,300,000, to be disbursed as up to USD$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.

(g) 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 before principal and interest payments begin. 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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2011
(Expressed in Eastern Caribbean Dollars)

15. Consumers' contributions to line extensions

	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. Grant

	2011 $	2010 $
Agence Française de Développement Group Grant	186,687	198,603
Amortisation	(11,202)	(11,916)
	175,485	186,687

17. Consumers' deposits

	2011 $	2010 $
Deposits		
Beginning of year	5,664,615	5,703,971
Received during the year	783,970	420,745
Refunds	(639,511)	(460,101)
End of year	5,809,074	5,664,615
Interest		
Beginning of the year	2,902,149	2,898,750
For the year	410,043	227,707
Paid during the year	(229,501)	(224,308)
	3,082,691	2,902,149
	8,891,765	8,566,764

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2011
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18. Deferred tax liabilities

Deferred tax assets liabilities are attributable to the following:-

	2011 $	2010 $
Property, plant and equipment	37,150,848	33,531,239
Bad Debt Provision	(2,636,548)	(2,428,549)
Provision for Obsolescence	(760,802)	(760,802)
Unbilled Sales	2,849,415	2,380,862
Defined benefit	(211,807)	331,486
Unutilized losses	(795,402)	-
	35,595,704	33,054,236

19. Trade and other payables

	2011 $	2010 $
Trade payables	16,612,875	9,036,678
Accrued expenses	11,431,876	8,557,895
Other payables	2,821,860	2,998,504
Government of St Vincent and the Grenadines	5,007,693	4,840,717
	35,874,304	25,433,794

20. Other losses net

	2011 $	2010 $
Loss on disposal of property, plant and equipment	(2,411,114)	(160,541)
Foreign exchange loss	(89,638)	(161,283)
	(2,500,752)	(321,824)

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2011
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21. Taxation

Income tax expense comprises:-

	2011 $	2010 $
Current	-	3,806,371
Deferred	2,541,469	1,106,056
	2,541,469	4,912,427

Reconciliation of effective tax rate	2011 %	2011 $	2010 %	2010 $
Profit before taxation		4,361,630		11,447,618
Income tax using applicable corporation tax rate	32.0	1,395,722	32.0	3,663,238
Non-deductible expenses (net)	199.47	8,700,164	56.3	6,441,836
Tax incentives	(251.53)	(10,970,888)	(54.0)	(6,177,194)
Current year tax loss	20.06	875,002	(1.1)	(121,509)
Change in temporary differences	58.27	2,541,469	9.7	1,106,056
	58.27	2,541,469	43.1	4,912,427

22. Earnings per share

Earnings per share is calculated upon net profit for the year of $1,820,161 (2010: $6,535,191) and on the average issued share capital of 5,809,182 (2010: 5,809,182) ordinary shares.

23. Capital commitments

As of December 31, 2011, the directors approved capital expenditure totaling $20.984million (2010: $51.5 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, 2011
(Expressed in Eastern Caribbean Dollars)

25. Operating expenses

	2011 $	2010 $
Fuel cost over base	58,694,264	46,113,409
Fuel at base price	3,237,502	3,397,830
Depreciation on property, plant and equipment	21,465,600	17,485,594
Repairs and maintenance	8,632,948	8,676,293
Employee benefit expense	14,696,967	14,016,908
Other operating expenses	9,869,399	10,174,183
Amortisation of consumer contributions	(1,070,374)	(1,030,837)
	115,526,306	98,833,380

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
- Part-employment benefits
- Termination benefits

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

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2011
(Expressed in Eastern Caribbean Dollars)

26. Related parties (cont'd)

Transactions with the Government during the year were as follows:

	2011 $	2010 $
Revenue		
Government of St. Vincent and the Grenadines and its corporations	15,031,313	14,492,157

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:

	2011 $	2010 $
Government of St. Vincent and the Grenadines	20,058,410	17,689,086

27. Employee benefit expense

	2011 $	2010 $
Staff costs	14,696,967	14,016,908
Number of employees at the reporting date	310	311

ST. VINCENT ELECTRICITY SERVICES LIMITED

ADDITIONAL INFORMATION

TO THE

FINANCIAL STATEMENTS

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

ADDITIONAL INFORMATION

Table of Contents

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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, 2011 and hence are excluded from the opinion expressed in our report dated December 14, 2012 to the shareholder on such financial statements.

KPMG

KPMG Eastern Caribbean

Kingstown, St. Vincent and the Grenadines

December 14, 2012

Schedule I

ST. VINCENT ELECTRICITY SERVICES LIMITED
Financial Statistics
For the year ended December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	2011 EC$ 000's	2010 EC$ 000's	2009 EC$ 000's	2008 EC$ 000's	2007 EC$ 000's	2006 EC$ 000's	2005 EC$ 000's
SUMMARISED BALANCE SHEET							
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	71,531	74,428	68,410	68,661	66,455	64,107	60,747
Other reserves	95,836	92,671	91,069	89,704	87,920	82,338	79,819
Non –current liabilities	87,825	90,084	76,573	79,008	76,603	64,936	50,756
Deferred income	175	187	199	211	224	239	254
	284,413	286,416	265,297	266,630	260,248	240,666	220,622
Fixed assets (Net)	242,736	250,339	233,492	217,791	210,697	209,508	198,020
Long-term investments	200	200	200	200	200	200	200
Retirement benefit asset	662	1,036	1,300	1,802	1,663	-	-
Current assets	87,291	69,559	65,515	88,087	78,662	59,009	53,417
Current liabilities	(46,476)	(34,718)	(35,210)	(41,250)	(31,001)	(28,051)	(31,015)
	284,413	286,416	265,297	266,630	260,221	240,666	220,622
SUMMARISED RESULTS							
Operating Revenues							
Electricity sales	64,889	66,417	64,857	64,578	66,093	62,871	60,924
Fuel surcharge	58,921	46,129	35,513	65,589	44,592	40,957	33,504
Other	2,645	2,582	1,993	1,551	806	750	831
Total	126,455	115,128	102,363	131,718	111,491	104,578	95,259
Operating Expenses							
Fuel cost covered by surcharge	58,694	46,113	35,540	66,596	44,421	40,642	32,836
Operating and maintenance							
- Hydro	2,109	2,074	2,033	1,851	1,883	2,258	2,434
- Diesel	14,478	15,487	18,606	14,360	16,217	16,309	14,850
Transmission & distribution	4,209	3,766	3,351	3,254	4,417	3,681	5,458
Administration & other	17,071	14,230	17,270	14,131	12,804	16,528	11,873
Depreciation	21,466	17,486	17,533	18,620	19,215	17,258	17,798
Total	118,027	99,156	94,333	118,812	98,957	96,676	85,249
Operating income	8,428	15,972	8,030	12,906	12,534	7,902	10,010
Interest	(4,067)	(4,524)	(4,498)	(5,596)	(4,130)	(1,944)	(2,257)
Net profit before tax	4,361	11,448	3,532	7,310	8,404	5,958	7,753
Income tax expense	(2,541)	(4,913)	(1,504)	(3,317)	(3,943)	(4,957)	(4,338)
Net profit after tax	1,820	6,535	2,028	3,993	4,461	1,001	3,415
Appraisal element in depreciation	1,685	2,219	2,218	3,353	3,478	5,359	5,811
Retained earnings brought forward	74,428	68,410	68,661	66,455	63,604	60,747	54,521
Deferred tax on retirement benefit reserve	374	264	503	(140)	(88)	(503)	0
Final/Interim dividend	(3,776)	-	(2,000)	(2,000)	(2,000)	0	0
Self insurance fund	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)
Retained earnings carried forward	71,531	74,428	68,410	68,661	66,455	63,604	60,747

Schedule II

ST. VINCENT ELECTRICITY SERVICES LIMITED
Financial Statistics
For the year ended December 31, 2011
(Expressed in Eastern Caribbean Dollars)

	2011	2010	2009	2008	2007	2006
GENERATING PLANT (KW)						
Site Rated Capacity (KW)						
St. Vincent	42,693	40,357	37,989	40,615	40,615	33,195
Bequia	4,145	2,865	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	4,400	4,400	4,400	3,120
Mayreau	180	180	180	180	180	180
Firm Capacity (KW)						
St. Vincent	33,993	31,657	29,289	31,915	31,915	25,215
Bequia	2,579	1,881	1,881	1,881	1,881	1,881
Union Island	810	810	810	810	810	810
Canouan	1,782	1,782	2,808	2,808	2,808	1,728
Mayreau	108	108	108	108	108	108
Peak Demand (KW)- (All Time)						
St. Vincent	21,120	21,120	20,590	19,980	19,160	19,160
Bequia	1,500	1,500	1,500	1,500	1,325	1,325
Union Island	533	517	517	517	517	517
Canouan	2,447	2,447	2,447	2,310	2,154	2,154
Mayreau	50	43	43	43	40	40
PRODUCTION AND SALES						
Gross Generation (kWhs)						
Hydro	30,910,393	24,505,990	26,107,890	23,673,460	22,713,780	23,193,142
Diesel	109,798,084	115,481,698	116,104,891	115,455,782	118,378,885	111,109,123
	140,708,477	139,987,688	142,212,781	139,129,242	141,092,665	134,302,265
Own Use	(4,878,169)	(4,706,254)	(4,957,704)	(5,003,096)	(3,624,125)	(3,929,090)
Net Generation	135,830,308	135,281,434	137,255,077	134,126,146	137,468,540	130,373,175
Sales (kWhs)						
Domestic	60,355,448	61,379,473	58,080,762	55,532,302	56,747,530	54,867,257
Commercial	55,458,862	54,230,403	58,751,973	58,280,375	58,941,289	54,134,549
Industrial	6,854,256	6,893,921	6,735,673	6,183,035	6,832,412	6,586,653
Street lighting	3,086,329	2,979,159	2,934,957	2,929,342	2,930,481	2,936,597
Total Sales	125,754,895	125,482,956	126,503,365	122,925,054	125,451,712	118,525,056
Loss (% of Net Generation)	7.42%	7.24%	7.83%	8.35%	8.74%	9.08%
Number of Consumers at Year-End						
Domestic	35,970	35,571	35,218	34,495	33,705	32,710
Commercial	4,377	4,264	4,239	4,208	4,147	4,055
Industrial	22	24	26	27	28	28
Street lighting	48	48	48	48	47	47
	40,417	39,907	39,531	38,778	37,927	36,840