St. Lucia Electricity Services Limited

Consolidated Financial Statements

For the Year Ended December 31, 2019

(Expressed in thousands of Eastern Caribbean Dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of St. Lucia Electricity Services Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of St. Lucia Electricity Services Limited and its Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of changes in equity, comprehensive income and cashflow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the St. Lucia Electricity Services Limited and its subsidiaries (the Group) as at December 31, 2019, and the results of its operations for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in St. Lucia and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

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

Energy Sales

Revenue from energy sales is based on meter readings which are carried out on a rotational basis throughout each month. A provision for the current month's billing, excluding the fuel surcharge, is made to record unbilled energy sales at the end of each month. The estimate is based on the actual information for the preceding month and is periodically assessed for reasonableness. We consider energy sales to be a key audit matter because, in addition to the judgement involved in determining the unbilled energy sales, revenue recognised depends on (a) the complete capture of energy consumption based on meter readings on various dates, (b) the propriety of the rates computed and applied across customer categories and (c) the reliability of the IT systems involved in processing the billing transactions.

Note 4(l) to the consolidated financial statements provides the detailed disclosures related to this matter.

Audit response

We obtained an understanding and evaluated the design of, as well as tested the controls over, the customer file maintenance, accumulation and processing of meter data, and interface of data from the billing system to the financial reporting system. In addition, we performed a test recalculation of the billed amounts and compared them with the amounts reflected in the billing statements. We involved our internal Information Technology (IT) specialist in understanding the IT processes and in understanding and testing the IT general controls over the IT systems supporting the revenue process.

Impairment of Trade and Other Receivables

On July 24, 2014 the International Accounting Standards Board issued the final version of IFRS 9 *Financial Instruments* to replace IAS 39. IFRS 9 became effective for periods beginning on or after January 1, 2018. The Group adopted the standard on January 1, 2018. The standard requires the use of forward-looking information in arriving at the expected credit loss (ECL) for financial assets.

The Group applied the practical expedient allowed under IFRS 9 in determining the provision for impairment of trade receivables. This took the form of a provision matrix based on account categories of trade receivables except for accounts relating to related parties and other receivables and incorporated forward-looking information in arriving at a loss rate. For related parties and other receivables, the ECL was determined based on probability-weighted default outcomes, past events, current conditions and forward-looking information.

We considered the impairment provision for trade and other receivables to be a key audit matter as the assessment of the correlation between historical observed default rates, the selection of the forecast economic conditions and the expected credit loss are significant estimates which require judgement. The amount of ECL is sensitive to the changes in circumstances and the forecast economic conditions and can have a significant impact on the estimate of the provision for impairment of trade receivables.

Notes 11 and 36 to the consolidated financial statements provide the detailed disclosures related to this matter.

Audit response

We gained an understanding of management's process for determining the impairment provision for financial assets. In addition, we performed the following:

a. Reviewed the IFRS 9 methodology document developed by management for providing guidance in determining the ECL.
b. Gained an understanding of the assumptions underlying the model.
c. Validated the underlying economic data applied in developing the forward-looking information.
d. Reviewed the degree of correlation of the historical default rates and the economic data.
e. Tested the completeness and accuracy of the data inputs used in the model to the underlying accounting records.
f. Checked the calculation of the resulting loss rate.

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Provisions and contingencies

The Group is involved in certain proceedings and claims for which the Group has recognized provisions for probable costs and/or expenses, which may be incurred, and/or has disclosed relevant information about such contingencies. This matter is significant to our audit because the determination of whether any provision should be recognized and the estimation of the potential liability resulting from these assessments require significant judgment by management. The inherent uncertainty over the outcome of these matters is brought about by the differences in the interpretation and implementation of the relevant laws and regulations.

Note 38 to the consolidated financial statements provides the relevant disclosures related to this matter.

Audit response

We examined the bases of management's assessment of the possible outcomes and the related estimates of the probable costs and/or expenses that are recognized and/or disclosed in the Group's consolidated financial statements. We discussed with management the status of the claims and/or assessments and obtained correspondences with the relevant authorities and opinions from the legal counsels. We also reviewed the disclosures on provisions and contingencies in the Group's consolidated financial statements.

Other Matter

The financial statements of the Group for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 8, 2019.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Other Information Included in the Group's 2019 Annual Report

Other information consists of the information included in the Group's 2019 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2019 Annual Report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. When we read the 2019 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charges with governance.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

INDEPENDENT AUDITOR'S REPORT (CONT'D)

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

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is Andrea St. Rose.

BDO

Chartered Accountants
Castries, St. Lucia
September 21, 2020

Consolidated Statement of Financial Position
As at December 31, 2019
(Expressed in thousands of Eastern Caribbean Dollars)

	Notes	2019 $'000	2018 $'000
Assets			
Non-current			
Property, plant and equipment	7	351,729	348,085
Right-of-use assets	8	1,738	-
Intangible assets	9	12,345	11,228
Total non-current assets		365,812	359,313
Current			
Inventories	10	12,435	12,183
Trade, other receivables and prepayments	11	53,636	67,796
Other financial assets	12	41,839	35,294
Derivative financial instruments	26	2,549	-
Income tax recoverable		-	2,800
Cash and cash equivalents	13	48,020	17,659
Total current assets		158,479	135,732
Total assets		524,291	495,045
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	14	80,163	80,163
Retained earnings		169,120	161,609
Fair value reserve	15	981	(1,521)
Revaluation reserve	16	15,351	15,351
Self-insurance reserve	17	40,805	36,617
Total shareholders' equity		306,420	292,219
Liabilities			
Non-current			
Lease liabilities	18	1,318	-
Borrowings	19	94,633	89,924
Consumer deposits	20	19,488	18,240
Provision for other liabilities	21	1,485	1,485
Deferred tax liability	22	32,492	32,572
Post-employment medical benefit liabilities	24(b)	2,220	2,114
Total non-current liabilities		151,636	144,335
Current			
Lease liabilities	18	440	-
Borrowings	19	16,891	12,279
Trade and other payables	25	44,491	33,211
Derivative financial instruments	26	-	11,285
Dividends payable		325	1,716
Income tax payable		4,088	-
Total current liabilities		66,235	58,491
Total liabilities		217,871	202,826
Total shareholders' equity and liabilities		524,291	495,045

The accompanying notes form an integral part of these consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:-

Director

Director

Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2019
(Expressed in thousands of Eastern Caribbean Dollars except earnings per share)

	Notes	2019 $'000	2018 $'000
Revenue			
Energy sales		309,187	307,880
Other revenue		3,254	2,795
		312,441	310,675
Operating expenses			
Fuel costs	34	155,873	156,065
Transmission and distribution		40,728	41,901
Generation		28,810	25,793
	34	225,411	223,759
Gross income		87,030	86,916
Administrative expenses	34	(34,036)	(32,990)
Operating profit		52,994	53,926
Interest income		836	719
Fair value gain/(loss) on FVTPL financial assets	12	2,474	(1,845)
Other gains, net	27	901	60
Profit before finance costs and taxation		57,205	52,860
Finance costs	28	(5,486)	(5,233)
Profit before taxation		51,719	47,627
Taxation	29	(13,729)	(12,662)
Net profit for the year		37,990	34,965
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Fair value gain/(loss) on FVTOCI financial assets	12	28	(7)
Items that will not be reclassified to profit or loss:			
Re-measurement losses of defined benefit pension plans, net of tax	29	(439)	(5,169)
Total other comprehensive loss		(411)	(5,176)
Total comprehensive income for the year		37,579	29,789
Basic and diluted earnings per share ($)	30	1.66	1.53

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity
For the Year Ended December 31, 2019
(Expressed in thousands of Eastern Caribbean Dollars)

	Notes	Share Capital $'000	Retained Earnings $'000	Fair Value Reserve $'000	Revaluation Reserve $'000	Self-insurance Reserve $'000	Total $'000
Balance at January 1, 2018		80,163	154,387	331	15,351	33,972	284,204
Total comprehensive income for the year		-	29,796	(7)	-	-	29,789
Transfer to fair value reserve	15	-	1,845	(1,845)	-	-	-
Transfer to self-insurance reserve	17	-	(2,645)	-	-	2,645	-
Ordinary dividends	32	-	(21,774)	-	-	-	(21,774)
Balance at December 31, 2018		80,163	161,609	(1,521)	15,351	36,617	292,219
Balance at January 1, 2019		80,163	161,609	(1,521)	15,351	36,617	292,219
Total comprehensive income for the year		-	37,551	28	-	-	37,579
Transfer to fair value reserve	15	-	(2,474)	2,474	-	-	-
Transfer to self-insurance reserve	17	-	(4,188)	-	-	4,188	-
Ordinary dividends	32	-	(23,378)	-	-	-	(23,378)
Balance at December 31, 2019		80,163	169,120	981	15,351	40,805	306,420

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
(Expressed in thousands of Eastern Caribbean Dollars)

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Profit before taxation		51,719	47,627
Adjustments for:			
Depreciation on property, plant and equipment	7	33,551	35,541
Depreciation on right-of-use assets	8	547	-
Amortisation of intangible assets	9	2,030	1,984
Interest income		(836)	(719)
Finance costs	28	5,486	5,233
Impairment losses/(gains) on trade and other receivables		717	(32)
Net pension costs	23(h) & 24(d)	863	1,593
Fair value (gain)/loss on FVTPL financial assets	12	(2,474)	1,845
(Gain)/loss on disposal of property, plant and equipment	27	(88)	24
Gain on disposal of financial assets	27	(725)	-
Operating profit before working capital changes		90,790	93,096
(Increase)/decrease in inventories		(252)	1,537
Decrease/(increase) in trade, other receivables and prepayments		2,158	(8,741)
Increase/(decrease) in trade and other payables		8,729	(12,497)
Cash generated from operations		101,425	73,395
Interest received		747	702
Benefits paid on post-employment medical plan	24(f)	(52)	(50)
Finance costs paid		(5,297)	(5,205)
Income tax paid		(6,733)	(13,842)
Net cash from operating activities		90,090	55,000
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	(37,066)	(34,461)
Proceeds from disposal of property, plant and equipment		94	1
Acquisition of intangible assets	9	(3,282)	(1,609)
Pension funding contributions	23(e)	(1,332)	(8,850)
Acquisition of other financial assets		(24,036)	(6,620)
Proceeds from disposal of other financial assets		20,807	10,163
Net cash used in investing activities		(44,815)	(41,376)
Cash flows from financing activities			
Repayment of lease liabilities		(527)	-
Proceeds from borrowings		21,600	20,000
Repayment of borrowings		(12,279)	(18,472)
Dividends paid		(24,769)	(20,499)
Net collection of consumer deposits		1,061	362
Net cash used in financing activities		(14,914)	(18,609)
Net increase/(decrease) in cash and cash equivalents		30,361	(4,985)
Cash and cash equivalents at beginning of year	13	17,659	22,644
Cash and cash equivalents at end of year	13	48,020	17,659

The accompanying notes form an integral part of these consolidated financial statements.

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1. Incorporation and Principal Activity

St. Lucia Electricity Services Limited (the "Company") was incorporated under the laws of Saint Lucia on November 9, 1964 and re-registered as a public company on August 11, 1994. The Company was continued under the Companies Act 1996 of Saint Lucia on October 22, 1997 and is listed on the Eastern Caribbean Securities Exchange. The Company operates under the Electricity Supply Act, 1994 (as amended) (ESA). The principal activities of the Company and its subsidiaries (the "Group") include the generation, transmission, distribution and sale of electricity and the operation of a self-insurance fund and a trust.

The Group's registered office and principal place of business is situated at LUCELEC Building, Sans Souci, John Compton Highway, Castries, Saint Lucia.

2. Date of Authorisation of Issue

These financial statements were authorised for issue by the Board of Directors on September 11, 2020.

3. Basis of Preparation

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

(b) *Basis of measurement*
The consolidated financial statements have been prepared using the historical cost basis except for land, derivative financial instruments and other financial assets which are measured at fair value. The methods used to measure fair values are discussed further in Note 5.

(c) *Basis of consolidation*
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company as disclosed in Note 39. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its return.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of financial position and consolidated statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies.

All intracompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated on consolidation.

3. Basis of Preparation (Cont'd)

(d) *Functional and presentation currency*

These consolidated financial statements are presented in Eastern Caribbean dollars, which is the Group's functional currency. All financial information is rounded to the nearest thousand dollars.

(e) *Use of estimates and judgments*

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

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

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

- Note 4(b)(iii): Estimated useful lives of property, plant and equipment
- Note 4(c): Estimation of the lease term and assessment of whether a right-of-use asset is impaired
- Note 4(d)(iii): Estimated useful lives of intangible assets
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- Note 4(g): Estimation of impairment
- Note 4(h) Estimation of net realisable value of inventories
- Note 4(l): Estimation of unbilled sales and fuel surcharge
- Note 5: Determination of fair values
- Note 36: Valuation of financial instruments

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, except where stated otherwise.

(a) *Foreign currency*

Transactions in foreign currencies are translated to the Group's functional currency at the foreign exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

4. Significant Accounting Policies (Cont'd)

(b) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any, except for land which is measured at fair value.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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

(ii) Subsequent expenditure

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the consolidated statement of comprehensive income as incurred.

(Expressed in thousands of Eastern Caribbean Dollars)

4. Significant Accounting Policies (Cont'd)

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

(iii) Depreciation

Depreciation is recognised in the consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of each item of property, plant and equipment. Land is not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use.

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

The annual rates of depreciation are as follows:

	2019	2018
Buildings	$2^1/_2$% - $12^1/_2$% per annum	$2^1/_2$% -$12^1/_2$% per annum
Plant and machinery		
- Generator overhauls	$33^1/_3$% per annum	$33^1/_3$% per annum
- Other	4% - 10% per annum	4% - 10% per annum
Motor vehicles	20% - $33^1/_3$% per annum	20% - $33^1/_3$% per annum
Furniture and fittings		
- Computer hardware	20% per annum	20% per annum
- Other	10% per annum	10% per annum

(iv) Revaluation reserve

Revaluation related to land is credited to revaluation reserve account in the equity section of the consolidated statement of financial position (Note 16).

(c) Leases

As indicated in Note 4(q)(i) below, the Group has applied *IFRS 16, 'Leases'* using the modified retrospective approach from January 1, 2019. Therefore, comparative information has not been restated and is still reported under *IAS 17, 'Leases'*.

Accounting policy applicable from January 1, 2019:

The Group as a lessee

For any new contracts entered into on or after January 1, 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statement of financial position.

Right-of-use assets

The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

4. Significant Accounting Policies (Cont'd)

(c) Leases (Cont'd)

Accounting policy applicable from January 1, 2019 (Cont'd):

Lease liabilities

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available, or the Group's incremental borrowing rate.

Subsequent to initial measurement, the carrying amount of the lease liability is increased to reflect the interest on the lease (calculated using the effective interest method) and is reduced to reflect the lease payments made.

The Group re-measures the lease liability to reflect any modification or reassessment of the lease contract, such as a change in the lease term or change in the assessment of whether a renewal option will be exercised, in which case the lease liability is re-measured by discounting the revised lease payments by a revised discount rate. When the lease liability is re-measured, the corresponding adjustment is reflected in the related right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases (defined as leases with a lease term of 12 months or less) using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Group as a lessor

The Group's accounting policy under the new standard has not changed from the comparative period. As a lessor, the Group classifies all its leases as operating as the leases do not transfer substantially all the risks and rewards incidental to ownership of the underlying asset.

The Group earns income from rental of poles. Rental from these operating leases is recognised on a straight-line basis over the term of the lease.

Accounting policy applicable before January 1, 2019:

The Group as a lessee
The Group treats all its leases as operating leases. Payments on operating lease agreements are recognised as an expense on straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group as a lessor

The Group earns income from rental of poles. Rental from these operating leases is recognised on a straight-line basis over the term of the lease.

(d) Intangible assets

(i) *Recognition and measurement*

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

(ii) Subsequent expenditure

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

4. Significant Accounting Policies (Cont'd)

(d) Intangible assets (Cont'd)

(iii) Amortisation

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in consolidated statement of comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets, other than way leave rights and work-in-progress, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the assets that are amortised, that is, information systems, range from five (5) years to eight (8) years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Employee benefits

(i) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on government securities that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the Projected Unit Credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

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

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

(ii) Pension benefits assumptions

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

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

4. Significant Accounting Policies (Cont'd)

(e) Employee benefits (Cont'd)

(ii) Pension benefits assumptions (Cont'd)

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 23.

(iii) Defined contribution plans

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

(iv) Termination benefits

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

If benefits are payable more than twelve (12) months after the reporting period, then they are discounted to that present value.

(f) Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise financial assets measured at fair value through other comprehensive income ("FVTOCI"), financial assets measured at fair value through profit or loss ("FVTPL"), trade and other receivables, cash and cash equivalents, borrowings, trade and other payables, consumer deposits and dividends payable.

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

FVTOCI financial assets

The Group's investments in treasury bills and commercial paper are classified as financial assets measured at FVTOCI. Subsequent to initial recognition, they are measured at fair value. Changes in the carrying amount of these financial assets relating to interest income calculated using the effective interest rate, impairment losses and foreign exchange gains and losses are recognised in profit or loss. Other changes are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

4. Significant Accounting Policies (Cont'd)

(f) Financial instruments (Cont'd)

(i) Non-derivative financial instruments (Cont'd)

FVTPL financial assets

The Group's investments in mutual and income funds are classified as financial assets measured at FVTPL. Subsequent to initial recognition, they are measured at fair value. Changes in the carrying amount of these financial assets relating to interest income calculated using the effective interest rate, impairment losses, fair value and foreign exchange gains and losses are recognised in profit or loss.

Trade and other receivables

Trade and other receivables are carried initially at fair value and subsequently measured at amortised cost less any impairment. A provision for impairment of trade and other receivables is established based on lifetime expected credit losses. The amount of the provision is recognised in profit or loss.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits with maturities three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

Accounting for interest income and costs is discussed in Note 4(n).

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds, 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 profit or loss over the period of the borrowings using the effective interest rate method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve (12) months after the reporting date.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the costs of those assets until such time as the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowings, pending their expenditure on qualifying assets, is deducted from the cost of those assets. All other borrowing costs are recognised in the consolidated statement of comprehensive income in the period in which they are incurred.

Trade and other payables

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

4. Significant Accounting Policies (Cont'd)

(f) Financial instruments (Cont'd)

(i) Non-derivative financial instruments (Cont'd)

Consumer deposits

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

Dividends payable

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's Board of Directors. Dividends for the year that are approved after the reporting date are dealt with as an event after the end of the reporting date.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(g) Impairment

(i) Financial assets

In relation to the impairment of financial assets, IFRS requires the use of a forward-looking expected credit loss ("ECL") approach.

The ECL allowance is based on the credit losses expected to arise over the life of the asset unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss.

The Group's financial assets mainly comprise of trade and other receivables and financial assets measured at FVTOCI and FVTPL. As permitted by IFRS 9, the Group has voluntarily elected to select an accounting policy which recognizes full lifetime expected credit losses for trade receivables.

A practical expedient method, in the form of a provision matrix, was applied for trade receivables based on customer categories, historical credit loss experiences and future economic expectations. The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade and other receivables is disclosed in Note 36.

4. Significant Accounting Policies (Cont'd)

(g) Impairment (Cont'd)

(i) Financial assets

For all other receivables that possess varying default occurrences, the ECL was determined based on probability-weighted default outcome, past events, current conditions and forward-looking information.

For financial assets measured at FVTOCI, an ECL probabilistic approach was used based on:

(a) an unbiased and probability-weighted amount that is determined by evaluating range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions.

The key elements of the ECL calculations are outlined below:

(a) Probability of Default: This measures the instances of customer defaults over a period, divided by the number of accounts at the beginning of a period.
(b) Loss Given Default: This represents amounts never collected or amounts written off once a receivable defaults.
(c) Exposure at Default: This represents the outstanding amounts collectible at default.

Forward-looking information:

In its ECL models, the Group relied on a range of forward-looking information as economic inputs, such as:

- GDP growth
- Inflation
- Unemployment rates

Given that the investment funds are classified as FVTPL, no separate impairment assessment is necessary as all changes in fair value are immediately recognised through profit or loss.

(ii) Non-financial assets

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

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

4. Significant Accounting Policies (Cont'd)

(g) Impairment (Cont'd)

(ii) Non-financial assets (Cont'd)

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

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

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Allowance is made for slow-moving and damaged goods. Goods in transit are stated at their invoice cost.

(i) Prepayments

Prepayments represent expenses not yet incurred but are already paid. Prepayments are initially recorded as assets and measured at the amount paid. Subsequently, these are charged to the consolidated statement of comprehensive income as they are consumed in the operations or expire with passage of time.

Prepayments are classified in the consolidated statement of financial position as current asset when it is expected to be collected within one year. Otherwise, prepayments are classified as non-current.

(j) Provision for other liabilities

Provision for other liabilities are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

(k) Derivative financial instruments

The Group holds derivative instruments to manage the volatility of its fuel costs. Further details of derivative financial instruments are disclosed in Note 26.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently re-measured to their fair value at the end of each reporting period.

Management has developed an accounting policy to reflect the economic substance of the effects of engaging in the hedging programme as these costs are passed on to the customer. In developing this policy, management has considered the accounting standards of other standard-setting bodies and accepted industry practice.

4. Significant Accounting Policies (Cont'd)

(k) Derivative financial instruments (Cont'd)

Changes in the fair value of the derivative financial instruments held by the Group at the reporting date give rise to the recognition of deferred fuel costs. Deferred fuel costs recoverable represent future revenues and/or receivables associated with the hedging costs incurred that will be, or are expected to be, recovered from customers in future periods through the rate-setting process. Deferred fuel costs payable represents future reductions in revenue associated with amounts that will be or are expected to be refunded to customers through the rate-setting process. The resulting gain or loss is reported in trade and other payables or trade, other receivables and prepayments respectively.

(l) Revenue recognition

Sale of energy

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

In addition to the 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 average fuel price for the 12 months preceding January of the current year. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month. The provision for unbilled fuel surcharge revenue/rebate is included in accrued income.

Consumer contributions

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

(m) Expenses

Expenses are recognised in the consolidated statement of comprehensive income when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured. Expenses are recognised: on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the consolidated statement of financial position as an asset.

Expenses in the consolidated statement of comprehensive income are presented using the function of expense method. These are costs incurred that are associated with the premium revenue and costs attributable to administrative and other business activities of the Group.

4. Significant Accounting Policies (Cont'd)

(n) Interest income and finance costs

Interest income comprises interest on funds invested and gains on the disposal of other financial assets that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on lease liabilities, borrowings, consumer deposits and pole rental deposits, losses on disposal of other financial assets and impairment losses recognised certain on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis in "other gains, net" in profit or loss.

(o) Income tax

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

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

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

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

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

(p) Earnings per share

The Group presents basic and diluted Earnings per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated by adjusting the inputs to the basic EPS computation for the effects of all dilutive potential ordinary shares, if any.

4. Significant Accounting Policies (Cont'd)

(q) New standards, amendments to standards and interpretations

(i) New standards, amendments and interpretations effective in the 2019 financial year are as follows:

A number of new standards, amendments to standards and interpretations effective for annual periods beginning on or after January 1, 2019 have been adopted in these consolidated financial statements. Note: those new standards, amendments and interpretations effective for annual periods beginning on or after January 1, 2019 which do not affect the Group's consolidated financial statements have not been disclosed below.

- *IFRS 16, 'Leases'* replaced *IAS 17, 'Leases'* as at January 1, 2019. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the commencement of the lease, except for short term leases and leases of low value assets. In contrast, requirements for lessor accounting have remained largely unchanged.

The Group has adopted the new standard using the modified retrospective approach from January 1, 2019 but has not restated comparative information for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Therefore, the comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. The impact of the adoption of this new standard on the Group's consolidated financial statements is described below.

Applying the new standard for all leases (except as noted below), the Group:

(a) Recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

(b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income; and

(c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Right-of-use assets are tested for impairment in accordance with *IAS 36, 'Impairment of Assets'*.

For short-term leases (lease term of 12 months or less from the date of initial application), the Group has opted to recognise a lease expense on a straight-line basis. This expense is presented within administrative expenses in the consolidated statement of comprehensive income.

(Expressed in thousands of Eastern Caribbean Dollars)

4. Significant Accounting Policies (Cont'd)

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

(i) New standards, amendments and interpretations effective in the 2019 financial year are as follows (Cont'd)

- *IFRS 16, 'Leases'(Cont'd)*

  The following is a reconciliation of total operating lease commitments as disclosed in the consolidated financial statements as at December 31, 2018 to the lease liabilities recognized as at January 1, 2019:

	$'000
Total operating lease commitments disclosed as at December 31, 2018	958
Recognition exemption: lease with remaining lease term less than 12 months	(14)
Overstated lease commitments	(3)
Operating lease liabilities before discounting	941
Effect of discounting	(99)
Total operating lease liabilities recognized under IFRS 16 at January 1, 2019	842

  The weighted average rate applied to lease liabilities recognised in the consolidated statement of financial position at the date of initial application was 10.04%.

- *IFRS 9, 'Financial Instruments'* was amended to clarify that for the purpose of assessing whether a prepayment feature meets the solely payments of principal and interest ("SPPI") condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

  The application of this amendment did not have a material impact on amounts reported in respect to the Group's consolidated financial statements.

- *IAS 12, 'Income Taxes'* was amended to clarify that all income tax consequences of dividends (i.e. distribution of profits) should be recognised in profit or loss, regardless of how the tax arises.

  The application of this amendment did not have a material impact on amounts reported in respect to the Group's consolidated financial statements.

4. Significant Accounting Policies (Cont'd)

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

(i) New standards, amendments and interpretations effective in the 2019 financial year are as follows (Cont'd)

- *IAS 19, 'Employee Benefits' was* amended to clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

  The application of this amendment did not have a material impact on amounts reported in respect to the Group's consolidated financial statements.

- *IAS 23, 'Borrowing Costs' was* amended to clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

  The application of this amendment did not have a material impact on amounts reported in respect to the Group's consolidated financial statements.

- *IAS 28, 'Investments in Associates and Joint Ventures'* was amended to clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9, *'Financial Instruments'* before applying the loss allocation and impairment requirements in IAS 28.

The application of this amendment did not have a material impact on amounts reported in respect to the Group's consolidated financial statements.

- *IFRIC 23, 'Uncertainty over Income Tax Treatments'* was issued to address the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12, 'Income Taxes'.

The application of this amendment did not have a material impact on amounts reported in respect to the Group's consolidated financial statements.

4. Significant Accounting Policies (Cont'd)

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

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

- IAS 1, '*Presentation of Financial Statements*' and IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors*' were amended to clarify when information is material. In particular, the amendments clarify:

  (a) That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

  (b) The meaning of "primary users of general-purpose financial statements" to whom those financial statements are directed, by defining them as "existing and potential investors, lenders and other creditors" that must rely on general purpose financial statements for much of the financial information they need.

This amendment is applicable for annual periods beginning on or after January 1, 2020. It is not anticipated that the application of this amendment will have a material impact on amounts reported in respect to the Group's consolidated financial statements.

5. Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value measurements are categorised into Levels 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurements in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The carrying values of trade and other receivables, cash and cash equivalents, trade and other payables and dividends payable are assumed to approximate their fair values at the reporting date due to their short-term nature.

(Expressed in thousands of Eastern Caribbean Dollars)

5. **Determination of Fair Values (Cont'd)**

The following table presents the level, valuation techniques and key inputs of the Group's assets and liabilities that are measured or disclosed at fair value at the reporting date:

	As at December 31, 2019 $'000	As at December 31, 2018 $'000	Level	Valuation techniques and key inputs
Non-Financial Assets Measured at Fair Value				
Land (Note 7)	28,478	28,477	2	Market comparable approach. Key inputs-Price per square foot
Financial Instruments Measured at Fair Value				
Financial Assets				
FVTOCI financial assets (Note 12)	20,269	1,620	2	Rate index based on quoted yields for similar instruments
FVTPL financial assets (Note 12)	21,570	33,674	3	Discounted cash flows using unobservable inputs
Derivative financial asset (Note 26)	2,549	-	2	Discounted cash flow. Future cash flows are estimated based on futures prices and discount rates (swap prices and LIBOR) rates
Financial Liabilities				
Derivative financial liability (Note 26)	-	11,285	2	Discounted cash flow. Future cash flows are estimated based on futures prices and discount rates (swap prices and LIBOR) rates
Financial Instruments Disclosed at Fair Value				
Financial Liabilities				
Lease liabilities (Note 36)	1,680	-	2	Present value of future lease payments, discounted at the implicit rate of the lease and incremental borrowing rate
Borrowings (Note 36)	85,946	94,320	2	Present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date

There were no transfers between levels 1, 2 or 3 during the year.

6. Financial Risk Management

Overview

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

- Credit risk
- Liquidity risk
- Market risk (including currency risk and interest rate risk)
- Operational risk

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

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established an Audit Committee, which oversees how management monitors compliance with the Group's risk management policies and procedures, and which also reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by the Internal Audit Department, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

6. Financial Risk Management (Cont'd)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's amounts due from subsidiary companies, receivables from customers, and cash and cash equivalents.

Trade and other receivables

The Group's exposure to credit risk is influenced significantly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate also have an influence on credit risk.

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

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

The Group establishes an allowance for impairment that represents the expected credit losses over the lifetime of trade and other receivables. The collective loss allowance is determined using a practical expedient method in the form of a provision matrix, based on customer categories, historical credit loss experiences and future economic expectations. For all other receivables, an ECL probabilistic approach was used.

Cash and cash equivalents

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

6. Financial Risk Management (Cont'd)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

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

- An overdraft facility of EC$10,000 which is secured. Interest is payable at the rate of 3.95% (2018 – 3.95%) per annum.
- Customs bond valued at $600.

Liquidity risk of derivative financial instruments is minimised as the Group is required to post collateral when the mark-to-market exposures have surpassed the credit limits agreed with the relevant counterparties.

Market risk

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

Currency risk

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

Interest rate risk

There is no significant interest rate risk arising on the Group's cash and cash equivalents as at December 31, 2019 and 2018. The Group's interest-bearing financial liabilities are its lease liabilities, borrowings and consumer deposits which have fixed rates of interest as disclosed in Notes 18, 19 and 20, respectively.

Equity risk

The Group is not exposed to equity price risk as at December 31, 2019 and 2018.

6. Financial Risk Management (Cont'd)

Market risk (Cont'd)

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in commodity prices. Prices for these commodities are impacted by world economic events that dictate the levels of supply and demand. The Group is not exposed to commodity price risk on its derivative financial instruments as, although these instruments are affected by changes in the price of fuel, the changes in the value of these instruments are recoverable from customers as disclosed in Note 4(k).

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to the Board of Directors and the senior management. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

6. Financial Risk Management (Cont'd)

Capital management

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

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. Under the terms of the mortgage debenture agreement, the Group's total debt shall not exceed two times its tangible net worth which currently comprises its share capital and retained earnings. The Group was in compliance with this requirement as at December 31, 2019 and 2018.

There were no changes in the Group's approach to capital management in 2019 and 2018.

(Expressed in thousands of Eastern Caribbean Dollars)

7. Property, Plant and Equipment

	Land $'000	Buildings $'000	Plant and Machinery $'000	Motor Vehicles $'000	Furniture and Fittings $'000	Work In Progress $'000	Total $'000
Cost							
Balance at January 1, 2018	28,395	87,278	768,000	4,546	18,680	39,561	946,460
Additions	1	10	13	-	25	34,412	34,461
Transfers	81	53	48,455	173	2,086	(50,848)	-
Reclassifications from/(to) intangibles (Note 9)	-	-	-	-	841	(8)	833
Disposals	-	-	-	-	(227)	-	(227)
Balance at December 31, 2018	28,477	87,341	816,468	4,719	21,405	23,117	981,527
Balance at January 1, 2019	28,477	87,341	816,468	4,719	21,405	23,117	981,527
Additions	1	-	132	23	119	36,791	37,066
Transfers	-	7	31,681	349	611	(32,648)	-
Reclassifications from intangibles (Note 9)	-	-	-	-	135	-	135
Disposals	-	-	-	(614)	(48)	-	(662)
Balance at December 31, 2019	28,478	87,348	848,281	4,477	22,222	27,260	1,018,066
Accumulated Depreciation							
Balance at January 1, 2018	-	45,288	534,604	3,480	14,731	-	598,103
Depreciation charge (Note 34)	-	2,113	31,902	371	1,155	-	35,541
Eliminated on disposals	-	-	-	-	(202)	-	(202)
Balance at December 31, 2018	-	47,401	566,506	3,851	15,684	-	633,442
Balance at January 1, 2019	-	47,401	566,506	3,851	15,684	-	633,442
Depreciation charge (Note 34)	-	2,114	29,666	445	1,326	-	33,551
Eliminated on disposals	-	-	-	(614)	(42)	-	(656)
Balance at December 31, 2019	-	49,515	596,172	3,682	16,968	-	666,337
Carrying Amounts							
January 31, 2018	28,395	41,990	233,396	1,066	3,949	39,561	348,357
December 31, 2018	28,477	39,940	249,962	868	5,721	23,117	348,085
December 31, 2019	28,478	37,833	252,109	795	5,254	27,260	351,729

(Expressed in thousands of Eastern Caribbean Dollars)

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

Fair value measurement of the Group's land

The Group's lands are stated at their revalued amounts, being the fair value at the date of revaluation of June 3, 2015. The fair value measurements were performed by an independent and qualified quantity surveyor. The fair values of the land were determined based on the market comparable approach that reflects recent transactions prices for similar properties.

The carrying amounts of the Group's land would have been $13,127 had they been measured at a historical cost basis as at December 31, 2019 (2018 - $13,126).

Assets pledged as security

As stated in Note 19, borrowings are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable properties and floating charges over all other assets, all ranking *pari passu* pursuant to a security sharing agreement, and assignment of insurance policies.

8. Right-of-use Assets

	Buildings $'000	Motor Vehicles $'000	Total $'000
Cost			
Balance at January 1, 2019	102	740	842
Additions	1,040	403	1,443
Balance at December 31, 2019	1,142	1,143	2,285
Accumulated Depreciation			
Balance at January 1, 2019	-	-	-
Depreciation charge for the year (Note 34)	127	420	547
Balance at December 31, 2019	127	420	547
Carrying Amounts			
January 1, 2019	102	740	842
December 31, 2019	1,015	723	1,738

The Group has leases for office premises, land and Company vehicles for management staff. With the exception of short-term leases on certain office premises and land, each lease is reflected on the consolidated statement of financial position as a right-of-use asset and a lease liability (see Note 18).

(Expressed in thousands of Eastern Caribbean Dollars)

8. Right-of-use Assets (Cont'd)

The table below describes the nature of the Group's leasing activities by type of a right-of-use asset:

	No. of leases	Range of remaining term	Average remaining lease terms	No. of leases with renewal options
Buildings	2	1-10 years	6 years	1
Motor vehicles	13	0-4 years	2 years	-

The Group has elected not to recognise a right-of-use asset and lease liability for short-term leases (leases with a lease term of 12 months or less). Payments made under such leases are expensed over a straight-line basis. The expense relating to lease payments for 2019 was $44 and is included in administrative expenses of $33,424 as disclosed in the consolidated statement of comprehensive income. Total cash outflow for leases for 2019 was $527 as disclosed in the consolidated statement of cash flows.

9. Intangible Assets

	Information Systems $'000	Way Leave Rights $'000	Work In Progress $'000	Total S'000
Cost				
Balance at January 1, 2018	21,488	5,427	1,573	28,488
Additions	75	554	980	1,609
Transfers	567	-	(567)	-
Reclassification from/(to) PPE (Note 7)	8	-	(841)	(833)
Balance at December 31, 2018	22,138	5,981	1,145	29,264
Balance at January 1, 2019	22,138	5,981	1,145	29,264
Additions	4	701	2,577	3,282
Transfers	2,366	-	(2,366)	-
Reclassification to PPE (Note 7)	-	-	(135)	(135)
Balance at December 31, 2019	24,508	6,682	1,221	32,411
Accumulated Amortization				
Balance at January 1, 2018	16,052	-	-	16,052
Amortized for the year (Note 34)	1,984	-	-	1,984
Balance at December 31, 2018	18,036	-	-	18,036
Balance at January 1, 2019	18,036	-	-	18,036
Amortized for the year (Note 34)	2,030	-	-	2,030
Balance at December 31, 2019	20,066	-	-	20,066
Carrying Amounts				
January 1, 2018	5,436	5,427	1,573	12,436
December 31, 2018	4,102	5,981	1,145	11,228
December 31, 2019	4,442	6,682	1,221	12,345

(Expressed in thousands of Eastern Caribbean Dollars)

9. Intangible Assets (Cont'd)

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

10. Inventories

	2019 $'000	2018 $'000
Fuel inventories	3,092	3,069
Generation spare parts	5,369	4,774
Transmission, distribution and other spares	5,317	6,010
Goods-in-transit	772	389
	14,550	14,242
Less: provision for inventory obsolescence	(2,115)	(2,059)
	12,435	12,183

11. Trade, Other Receivables and Prepayments

	2019 $'000	2018 $'000
Trade receivables due from related parties (Note 33(d)(ii))	6,533	7,786
Other trade receivables	29,446	33,123
Trade receivables, gross	35,979	40,909
Less: provision for impairment of trade receivables (Note 36)	(10,781)	(12,757)
Trade receivables, net	25,198	28,152
Other receivables due from related parties (Note 33(d)(iii))	895	880
Other receivables	9,615	8,194
Other receivables, gross	10,510	9,074
Less: provision for impairment of other receivables (Note 36)	(1,494)	(1,364)
Other receivables, net	9,016	7,710
Accrued income	17,248	18,229
	51,462	54,091
Deferred fuel costs	-	11,285
Prepayments	2,174	2,420
	53,636	67,796

The Group's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 36.

(Expressed in thousands of Eastern Caribbean Dollars)

12. Other Financial Assets

	2019	2018
	$'000	$'000
Financial assets measured at FVTOCI		
Treasury bills	9,729	1,620
Commercial paper	10,540	-
	20,269	1,620
Financial assets measured at FVTPL		
Investments funds	21,570	33,674
	41,839	35,294

The weighted average effective interest rate was 1.79% (2018 – 1.63%) per annum.

The other financial assets are not available for the day-to-day operations of the Group (Note 17).

The movements in other financial assets during the year are as follows:

	2019	2018
	$'000	$'000
Beginning balance	35,294	34,210
Purchases	24,036	6,620
Redemptions	(20,807)	(3,730)
Amortisation of discount	89	46
Realised fair value gain on redemption	725	-
Unrealised fair value gain/ (loss) on financial assets measured at FVTOCI	28	(7)
Unrealised fair value gain/(loss) on financial assets measured at FVTPL	2,474	(1,845)
Ending balance	41,839	35,294

13. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2019	2018
	$'000	$'000
Cash on hand	15	15
Cash at bank	48,005	17,644
	48,020	17,659

Cash at bank are non-interest bearing.

Included in cash at bank are $1,013 (2018 - $827) that are not available for the day-to-day operations of the Group (Note 17).

The Group's exposure to credit risk related to cash and cash equivalents is disclosed in Note 36.

13. Cash and Cash Equivalents (Cont'd)

Reconciliation of liabilities arising from financing activities:

	Non-current lease liabilities (Note 18) $'000	Current lease liabilities (Note 18) $'000	Non-current borrowings (Note 19) $'000	Current borrowings (Note 19) $'000	Consumer deposits (Note 20) $'000	Total $'000
Balance at January 1, 2018	-	-	82,203	18,563	17,761	118,527
Cash flows during the year	-	-	20,000	(23,487)	202	(3,285)
Non-cash flows during the year:						
-Borrowings classified as non-current becoming current in 2018	-	-	(12,279)	12,279	-	-
-Interest accrued in 2018	-	-	-	4,924	277	5,201
Balance at December 31, 2018	-	-	89,924	12,279	18,240	120,443
Effect of changes in accounting policy for IFRS 16	842	-	-	-	-	842
Balance at January 1, 2019	842	-	89,924	12,279	18,240	121,285
Cash flows during the year	(610)	-	21,600	(17,389)	957	4,558
Non-cash flows during the year:						
-New leases	1,443	-	-	-	-	1,443
-Lease liabilities classified as non-current becoming current in 2019	(440)	440	-	-	-	-
-Borrowings classified as non-current becoming current in 2019	-	-	(16,891)	16,891	-	-
-Interest accrued in 2019	83	-	-	5,110	291	5,484
Balance at December 31, 2019	1,318	440	94,633	16,891	19,488	132,770

(Expressed in thousands of Eastern Caribbean Dollars)

14. Share Capital

	2019	2018
Authorised		
Voting ordinary shares	100,000	100,000
Ordinary non-voting shares	800	800
Preference shares	1,214	1,214

	2019 $'000	2018 $'000
Issued and fully paid		
22,400,000 voting ordinary shares	77,563	77,563
520,000 non-voting ordinary shares	2,600	2,600
	80,163	80,163

15. Fair Value Reserve

	2019 $'000	2018 $'000
Balance at beginning of year	(1,521)	331
Fair value gain/(loss) on FVTOCI financial assets	28	(7)
Transferred from retained earnings	2,474	(1,845)
Balance at end of year	981	(1,521)

The fair value reserve represents the cumulative fair value gains and losses arising on the revaluation of financial assets measured at both FVTPL and FVTOCI.

16. Revaluation Reserve

	2019 $'000	2018 $'000
Balance at beginning and end of year	15,351	15,351

The revaluation reserve represents the gain realised on the revaluation of the Group's land. When land is sold, the portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings. Items of other comprehensive income included in the revaluation reserve will not be reclassified subsequently to profit or loss.

17. Self-insurance Reserve

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

(Expressed in thousands of Eastern Caribbean Dollars)

17. Self-insurance Reserve (Cont'd)

During 2011, the Group received formal notification from the Registrar of Insurances of the approval in principle, subject to certain conditions, for the establishment of the fund in accordance with the Insurance Act of Saint Lucia. Payments into the fund are exempted from income tax under the authority of Statutory Instrument No. 172 of 2007.

LUCELEC Cap-Ins. Inc. was incorporated on December 31, 2014. This subsidiary company has established a reserve which is not available for distribution to the shareholder.

The fund balance comprises the following:

	2019 $'000	2018 $'000
FVTOCI financial assets (Note 12)	20,269	1,620
FVTPL financial assets (Note 12)	21,570	33,674
Cash and cash equivalents (Note 13)	1,013	827
	42,852	36,121

The movements in the Self-insurance Reserve were as follows:

	2019 $'000	2018 $'000
Balance at beginning of year	36,617	33,972
Transferred from retained earnings	4,188	2,645
Balance at end of year	40,805	36,617

18. Lease Liabilities

	2019 $'000
Current	440
Non-current	1,318
	1,758

The weighted average rate of interest applied to lease liabilities is 6.62%.

Lease liabilities are secured by the related underlying asset (see Note 8).

(Expressed in thousands of Eastern Caribbean Dollars)

18. Lease Liabilities (Cont'd)

Future minimum lease payments at year end were as follows:

	2019
	$'000
Between 1 and 2 years	301
Between 2 and 5 years	504
Greater than 5 years	513
	1,318

The Group's exposure to liquidity risks related to lease liabilities is disclosed in Note 36.

19. Borrowings

	2019	2018
	$'000	$'000
Current		
Bank borrowings	8,760	4,562
Related parties	8,131	7,717
	16,891	12,279
Non-current		
Bank borrowings	44,241	31,401
Related parties	50,392	58,523
	94,633	89,924
Total borrowings		
Bank borrowings	53,001	35,963
Related parties (Note 33(d)(v))	58,523	66,240
	111,524	102,203

Borrowings are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable properties and floating charges over all other assets, all ranking *pari passu* pursuant to a security sharing agreement, and assignment of insurance policies (Note 7).

(Expressed in thousands of Eastern Caribbean Dollars)

19. Borrowings (Cont'd)

The weighted average effective rates at the reporting date were as follows:

	2019 %	2018 %
Bank borrowings	3.67	3.76
Related parties	5.35	5.35

Maturity of non-current borrowings:

	2019 $'000	2018 $'000
Between 1 and 2 years	17,652	12,866
Between 2 and 5 years	54,856	42,432
Over 5 years	22,125	34,626
	94,633	89,924

The Group's exposure to liquidity risks related to borrowings is disclosed in Note 36.

20. Consumer Deposits

Consumers requesting energy connections are required to pay a deposit that is refundable when the service is terminated. Interest is accrued on these deposits at the rate of 2% (2018 - 2%) per annum.

	2019 $'000	2018 $'000
Consumer deposits	15,144	14,083
Interest accrual	4,344	4,157
	19,488	18,240

21. Provision for Other Liabilities

	2019 $'000	2018 $'000
Balance at beginning and end of year	1,485	1,485

The provision represents the most recent reasonable estimated decommissioning costs of the old power stations located at Union and Vieux Fort.

(Expressed in thousands of Eastern Caribbean Dollars)

22. Deferred Tax Liability

Deferred tax liability is calculated in full on temporary differences under the statement of financial position liability method using a principal tax rate of 30% (2018 - 30%). The movement on the deferred tax liability account is as follows:

	2019 $'000	2018 $'000
Balance at beginning of year	32,572	33,596
Recognised in profit and loss (Note 29)	108	1,191
Recognised in other comprehensive income (Note 29)	(188)	(2,216)
Balance at end of year	32,492	32,572

Deferred tax liability is attributed to the following items:

	2019 $'000	2018 $'000
Property, plant and equipment	33,164	33,206
Post-employment medical benefit liabilities	(666)	(634)
Leased assets	521	-
Lease liabilities	(527)	-
	32,492	32,572

23. Retirement Benefit Liabilities

(a) Background

Grade I Employees

The Group contributes to a defined benefit pension scheme for Grade I employees who were employed prior to January 1, 2008. The plan is administered and managed by Sagicor Life, Inc. ("Sagicor")

Grade II Employees

The Group contributes to a defined benefit pension scheme for Grade II employees who were employed prior to January 1, 2008 which, up to December 31, 2008, was administered by CLICO International Life Insurance Group Limited ("CLICO"). Subsequent funding to the plan is currently administered by RBC Investments Management (Caribbean) Limited.

The most recent actuarial valuations of these two plans were completed December 31, 2015 using the "Projected Unit Credit" method of valuation.

Grade III Employees

For its senior employees who were employed prior to January 1, 2008, the Group contributed to the regional Eastern Caribbean Utilities Pension Scheme (formerly the CDC Caribbean Pension Scheme), which is a multi-employer plan administered by Sagicor Life Inc.

The Trustees agreed to wind up the Pension Plan with effect from July 8, 2018 and as a result, the Group has recognised any gain or loss on the settlement of the plan at July 8, 2018.

(Expressed in thousands of Eastern Caribbean Dollars)

23. Retirement Benefit Liabilities (Cont'd)

(b) The principal actuarial assumptions used for all plans were as follows:

	Grade II		Grades I	
	2019	2018	2019	2018
	%	%	%	%
Discount rates	7.5	7.5	7.5	7.5
Future salary increases	4.0	4.0	4.0	4.0
Future pension increases	-	-	-	-
Future promotional increases	-	-	-	-
Future NIS earnings increases	-	-	2.0	2.0

Assumptions regarding future mortality are based on standard mortality tables.

(c) The amounts recognised in the consolidated statement of financial position are determined as follows:

	Grade III		Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Present value of defined benefit obligations	-	-	(17,622)	(17,034)	(13,928)	(13,101)	(31,550)	(30,135)
Fair value of plan assets	-	-	22,748	21,803	16,984	16,248	39,732	38,051
Effect of asset ceiling	-	-	(5,126)	(4,769)	(3,056)	(3,147)	(8,182)	(7,916)
Defined benefit liabilities	-	-	-	-	-	-	-	-

(Expressed in thousands of Eastern Caribbean Dollars)

23. Retirement Benefit Liabilities (Cont'd)

(d) The movements in the present value of defined benefit obligations were as follows:

	Grade III		Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Defined benefit obligation as at January 1, 2019	-	28,268	17,034	15,026	13,101	12,773	30,135	56,067
Current service cost	-	580	433	716	98	101	531	1,397
Interest cost	-	1,121	1,229	1,102	965	934	2,194	3,157
Members' contributions	-	-	209	339	131	142	340	481
Benefits paid	-	(183)	(1,326)	(685)	(520)	(707)	(1,846)	(1,575)
Re-measurements	-	2,765	43	536	153	(142)	196	3,159
Plan settlements	-	(32,551)	-	-	-	-	-	(32,551)
Defined benefit obligations as at December 31, 2019	-	-	17,622	17,034	13,928	13,101	31,550	30,135

(e) The movements in the fair value of plan assets were as follows:

	Grade III		Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Fair value of plan assets at January 1, 2019	-	31,562	21,803	17,900	16,248	16,664	38,051	66,126
Contributions paid - company	-	4,518	1,066	3,920	266	412	1,332	8,850
Contributions paid - members	-	-	209	339	131	142	340	481
Interest income	-	1,315	1,631	1,470	1,213	1,243	2,844	4,028
Return on plan assets, excluding interest income	-	(4,639)	(573)	(1,040)	(312)	(1,461)	(885)	(7,140)
Benefits paid	-	(183)	(1,326)	(685)	(520)	(707)	(1,846)	(1,575)
Expense allowance	-	(22)	(62)	(101)	(42)	(45)	(104)	(168)
Plan settlements	-	(32,551)	-	-	-	-	-	(32,551)
Fair value of plan assets at December 31, 2019	-	-	22,748	21,803	16,984	16,248	39,732	38,051

(Expressed in thousands of Eastern Caribbean Dollars)

23. Retirement Benefit Liabilities (Cont'd)

(f) Composition of plan assets

	Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000
Overseas equity	3,134	2,333	-	-	3,134	2,333
Government issued nominal bonds	15,902	14,097	-	-	15,902	14,097
Corporate bonds	1,047	974	-	-	1,047	974
Cash/money market	1,103	2,658	-	-	1,103	2,658
Immediate annuity policies	1,562	1,741	-	-	1,562	1,741
Deposit administration account	-	-	16,984	16,248	16,984	16,248
	22,748	21,803	16,984	16,248	39,732	38,051

23. Retirement Benefit Liabilities (Cont'd)

(f) Composition of plan assets (Cont'd)

Grade I

The asset value as at December 31, 2019 was estimated using the asset value as at October 31, 2019 provided by the Plan's Investment Manager - Sagicor. The value is reliant on Sagicor's financial strength.

The Grade I Plan's assets are invested in a strategy agreed with the Grade I Plan's Trustees which is largely driven by statutory constraints and asset availability. The Trustees have agreed to invest the Grade I Plan's assets in Sagicor's International Balanced Fund, which is a collective investment vehicle for regional pension plans investing in a diversified portfolio of bonds and equities. There are no asset-liability matching strategies used by the Grade I Plan.

Grade II

The values of the Grade II Plan assets as at December 31, 2019 were estimated using the asset value as at September 30, 2019 provided by the Plan's Investment Manager (RBC) and an estimate of the value of the Grade II Plan's immediate annuity policies which was calculated using the same assumptions used to calculate the defined benefit obligation (it is assumed that these annuities have not been impaired). The Investment Manager calculates the fair value of the Government bonds by discounting expected future proceeds using a constructed yield curve.

All of the Grade II Plan's government bonds were issued by the governments of countries within Caricom. The value of immediate annuity policies is reliant on CLICO's financial strength and its ability to pay the pension secured. It is therefore exposed to CLICO's current financial difficulties.

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

(Expressed in thousands of Eastern Caribbean Dollars)

23. Retirement Benefit Liabilities (Cont'd)

(g) The actual return on plan assets was as follows:

	Grade III		Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Return on plan assets	-	(3,324)	1,058	430	901	(218)	1,959	(3,112)

(h) The net pension costs recognised in the consolidated statement of comprehensive income were as follows:

	Grade III		Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Current service cost	-	580	433	716	98	101	531	1,397
Administration expenses	-	22	62	101	42	45	104	168
Net interest income on defined benefit asset	-	(194)	-	-	-	-	-	(194)
Net pension costs	-	408	495	817	140	146	635	1,371

(i) Re-measurements recognised in other comprehensive income were as follows:

	Grade III		Grade II		Grade I		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Experience losses	-	7,405	616	1,576	465	1,319	1,081	10,300
Effect of asset ceiling	-	(3,295)	(45)	1,527	(339)	(1,053)	(384)	(2,821)
Total amount recognised in other comprehensive income	-	4,110	571	3,103	126	266	697	7,479

(Expressed in thousands of Eastern Caribbean Dollars)

23. Retirement Benefit Liabilities (Cont'd)

(j) Reconciliation of opening and closing defined benefit liabilities:

	Grade III		Grade II		Grade I		Total	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Opening defined benefit liabilities	-	-	-	-	-	-	-	-
Net pension cost	-	(408)	(495)	(817)	(140)	(146)	(635)	(1,371)
Re-measurements recognised in other comprehensive income	-	(4,110)	(571)	(3,103)	(126)	(266)	(697)	(7,479)
Company contributions paid	-	4,518	1,066	3,920	266	412	1,332	8,850
Closing defined benefit liabilities	-	-	-	-	-	-	-	-

(Expressed in thousands of Eastern Caribbean Dollars)

23. Retirement Benefit Liabilities (Cont'd)

(k) Sensitivity Analysis

The calculation of the defined benefit obligations for Grades I to II is sensitive to the assumptions used. The following tables summarise how the defined benefit obligations as at December 31, 2019 would have changed as a result of a change in the assumptions used.

Grade I

	1% p.a. increase $'000	1% p.a. decrease $'000
Discount rate	(1,273)	1,595
Future salary increases	952	(788)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2019 by $179.

Grade II

	1% p.a. increase $'000	1% p.a. decrease $'000
Discount rate	(1,833)	2,210
Future salary increases	600	(548)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2019 by $330.

(l) Duration

The weighted average duration of the defined benefit obligation at year end for each of the plans was as follows:

	2019	2018
Grade 1	11.6 years	10.6 years
Grade II	12.3 years	11.8 years

23. Retirement Benefit Liabilities (Cont'd)

(m) Funding Policy

Grade I

The Group meets the balance of the cost of funding the defined benefit pension plan and the Group must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on regular (at least every 3 years) actuarial valuations of the plan and the assumptions used to determine the funding required may differ from those set out above. The Group expects to pay $565 to the pension plan during 2020.

Grade II

The Group meets the balance of the cost of funding the defined benefit pension plan and the Group must pay contributions at least equal to those paid by members, which are fixed. The funding requirements are based on regular (at least every 3 years) actuarial valuations of the plan and the assumptions used to determine the funding required may differ from those set out above. The Group expects to pay $1,022 to the pension plan during 2020.

(Expressed in thousands of Eastern Caribbean Dollars)

24. Post-employment Medical Benefit Liabilities

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

(a) The principal actuarial assumptions used were as follows:

	2019	2018
	%	%
Discount rate	7.5	7.5
Medical expense increase	5.0	5.0

Assumptions regarding future mortality are based on standard mortality tables.

(b) The amounts recognised in the consolidated statement of financial position are determined as follows:

	2019	2018
	$'000	$'000
Present value of defined benefit obligations	2,220	2,114
Fair value of plans' assets	-	-
Defined benefit liabilities	2,220	2,114

(c) The movements in the present value of defined medical benefit obligations were as follows:

	2019	2018
	$'000	$'000
Defined benefit obligations as at January 1,	2,114	2,036
Current service costs	71	71
Interest costs	157	151
Benefits paid	(52)	(50)
Re-measurements: experience adjustments	(70)	(94)
Defined benefit obligations as at December 31,	2,220	2,114

(d) The amounts recognised in the consolidated statement of comprehensive income were as follows:

	2019	2018
	$'000	$'000
Current service costs	71	71
Interest on defined benefit obligations	157	151
Net pension costs	228	222

(e) Re-measurements recognised in other comprehensive income were as follows:

	2019	2018
	$'000	$'000
Experience gains	(70)	(94)
Total amount recognized in other comprehensive income	(70)	(94)

(Expressed in thousands of Eastern Caribbean Dollars)

24. Post-employment Medical Benefit Liabilities (Cont'd)

(f) Reconciliation of opening and closing defined benefit liabilities:

	2019 $'000	2018 $'000
Opening defined benefit liabilities	2,114	2,036
Net pension costs	228	222
Re-measurement gains recognised in other comprehensive income	(70)	(94)
Benefits paid	(52)	(50)
Closing defined benefit liabilities	2,220	2,114

(g) Sensitivity Analysis

The calculation of the defined benefit obligations is sensitive to the assumptions used. The following tables summarise how the defined benefit obligations as at December 31, 2019 would have changed as a result of a change in the assumptions used.

	1% p.a. increase $'000	1% p.a. decrease $'000
Discount rate	(335)	434
Medical expense increases	441	(345)

An increase of 1 year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2019 by $70.

(h) Duration

The weighted average duration of the defined benefit obligation was 19.1 years (2018 - 18.1 years).

(i) Funding Policy

The Group insures the medical benefits for retirees with an external insurer and pays 50% of the retiree only premiums to the insurer as they fall due. The retiree meets the remaining 50%. In addition, if the retiree wishes to provide for his dependents, the retiree meets the full cost of this additional benefit.

The Group expects to pay $54 to the plan in 2020.

(Expressed in thousands of Eastern Caribbean Dollars)

25. Trade and Other Payables

	2019 $'000	2018 $'000
Trade payables	22,930	15,479
Accrued expenses	11,820	11,052
Other payables	7,192	6,680
	41,942	33,211
Deferred fuel costs (Note 26)	2,549	-
	44,491	33,211

Deferred fuel costs relate to fair value adjustments of derivative financial instruments as disclosed in Notes 4(k) and Note 26.

The Group's exposure to liquidity risks related to trade and other payables is disclosed in Note 36.

26. Derivative Financial Instruments

The underlying strategy and imperative related to the Group's objective of its fuel price hedging programme is to reduce, in some measure, the price volatility to its customers caused by the existing arrangements whereby fuel is purchased on a regular basis at market prices.

The Board of Directors, as part of the hedging strategy, approved a rolling 12-month hedging programme that commenced in January 2012 utilising Fixed Price Swaps covering up to 75% of estimated monthly volumes. This strategy was further expanded in December 2015 to include the use of Options.

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

The fair value of these hedging contracts at year end as disclosed on the consolidated statement of financial position is as follow:

	2019 $'000	2018 $'000
Fixed price swaps	2,549	(11,285)

27. Other Gains, Net

	2019 $'000	2018 $'000
Gain/(loss) on disposal of property, plant and equipment	88	(24)
Gain on disposal of financial assets	725	-
Foreign exchange gains	88	84
	901	60

28. Finance Costs

	2019 $'000	2018 $'000
Interest expense on:		
-lease liabilities	83	-
-borrowings	5,110	4,954
-consumer deposits	291	277
-pole rental deposits	2	2
	5,486	5,233

(Expressed in thousands of Eastern Caribbean Dollars)

29. Taxation

	2019 $'000	2018 $'000
Current tax	13,621	11,470
Deferred tax (Note 22)	108	1,192
	13,729	12,662

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

	2019 $'000	2018 $'000
Profit before taxation	51,719	47,627
Tax at the statutory rate of 30% (2018 - 30%)	15,515	14,288
Tax effect of non-deductible expenses	247	464
Tax effect of non-taxable income	(1,138)	(312)
Tax effect of self-insurance appropriation	(900)	(900)
Deferred tax asset unrecognised on tax loss	5	2
Tax effect of financial asset impairment	-	(880)
Tax charge	13,729	12,662

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

		2019 $'000			2018 $'000	
	Before tax	Tax	After tax	Before tax	Tax	After tax
Re-measurement of defined benefit pension plans	(627)	188	(439)	(7,385)	2,216	(5,169)

30. Basic and Diluted Earnings per Share

Basic and diluted earnings per share is calculated by dividing the net profit for the year of $37,990 (2018 - $34,965) by the weighted average number of shares outstanding during the year of 22,920 (2018 - 22,920).

31. Tariff Reduction

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

The Allowable Rate of Return is between 2% and 7% above the cost of the most recent long-term bonds issued by the Government of St. Lucia on the Regional Government Securities Market, with a minimum return of 10%. This was equal to a range of 10% to 14.25% in respect of 2019 (2018 - 10% to 14.25%).

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

(Expressed in thousands of Eastern Caribbean Dollars)

31. Tariff Reduction (Cont'd)

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

32. Ordinary Dividends

	2019	2019	2018	2018
	$	$'000	$	$'000
	Dividends Per share	Total	Dividends Per share	Total
Final - relating to 2017	-	-	0.50	11,460
Interim - relating to 2018	-	-	0.45	10,314
Final - relating to 2018	0.57	13,064	-	-
Interim - relating to 2019	0.45	10,314	-	-
	1.02	23,378	0.95	21,774

The final dividend for the year 2019 had not been declared as at December 31, 2019.

33. Related Parties

(a) Identification of related party

A party is related to the Group if:

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

(ii) The party is a member of the key management personnel of the Group,
(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 Group or any Group that is a related party of the Group,
(v) The party is an entity that is controlled or jointly controlled by a party referred to in (i) to (iii).

(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.

(Expressed in thousands of Eastern Caribbean Dollars)

33. Related Parties (Cont'd)

(c) Transactions with key management personnel

In addition to their salaries, the Group also provides non-cash benefits to executive officers and contributions to post-employment retirement plans on their behalf. The key management personnel compensations are as follows:

	2019 $'000	2018 $'000
Short-term employee benefits	4,588	5,018
Post-employment benefits	513	116
Directors' remuneration	337	357
	5,438	5,491

(i) Transactions with the key management personnel during the year were as follows:

	2019 $'000	2018 $'000
Supply of electricity services	112	153

(ii) Balances at the reporting date arising from transactions with key management personnel were as follows:

	2019 $'000	2018 $'000
Supply of electricity services	8	9

(Expressed in thousands of Eastern Caribbean Dollars)

33. Related Parties (Cont'd)

(d) Transactions with shareholders

The Group's major shareholders are as follows:

	2019 %	2018 %
Emera St. Lucia Ltd.	20.00	20.00
First Citizens Bank Limited	20.00	20.00
National Insurance Corporation	20.00	20.00
Castries Constituency Council	15.50	15.50
Government of Saint Lucia	10.05	10.05
	85.55	85.55

The remaining 14.45% (2018 - 14.45%) of the shares is widely held.

(i) Transactions with shareholders during the year were as follows:

Supply of Electricity Services

	2019 $'000	2018 $'000
National Insurance Corporation	1,873	1,564
Castries Constituency Council	1,569	1,966
Government of Saint Lucia	26,119	26,901
	29,561	30,431

The Government of Saint Lucia receives a 10% (2018 - 10%) discount on electricity charges in respect of all accounts other than Street lighting, except where the minimum charges apply.

Supply of Other Services

	2019 $'000	2018 $'000
Government of Saint Lucia	253	239

Services Rendered to the Group

	2019 $'000	2018 $'000
Castries Constituency Council	5	5

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

	2019 $'000	2018 $'000
National Insurance Corporation	7	8
Castries Constituency Council	-	180
Government of Saint Lucia	6,526	7,598
	6,533	7,786

(Expressed in thousands of Eastern Caribbean Dollars)

33. Related Parties (Cont'd)

(d) Transactions with shareholders (Cont'd)

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

	2019 $'000	2018 $'000
Government of Saint Lucia	895	880

(iv) Provision for impairment losses recognised against related party balances were as follows:

	2019 $'000	Restated 2018 $'000
Provision for impairment	3,929	3,482
Impairment loss/(gain)	469	(763)
Amounts written off	22	-

(v) Loans from shareholders

Movements in loans from shareholders for the year and their balances at the reporting date were as follows:

	2019 $'000	2018 $'000
National Insurance Corporation		
At beginning of year	66,240	73,565
Repayments during year	(11,044)	(11,045)
	55,196	62,520
Interest expense	3,327	3,720
At end of year	58,523	66,240
First Citizens Bank Limited		
At beginning of year	-	6,799
Repayments during year	-	(6,979)
	-	(180)
Interest expense	-	180
At end of year	-	-
	58,523	66,240

The above loans are fully secured (Note 19).

(Expressed in thousands of Eastern Caribbean Dollars)

33. Related Parties (Cont'd)

(d) Transactions with shareholders (Cont'd)

(v) Loans from shareholders (Cont'd)

Finance Costs

Details of the related finance costs are as follows:

	2019 $'000	2018 $'000
National Insurance Corporation	3,327	3,720
First Citizens Bank Limited	-	210
	3,327	3,930

These charges are included in the finance costs of $5,486 (2018 - $5,233) as disclosed in the consolidated statement of comprehensive income.

34. Expenses by Nature

	2019 $'000	2018 $'000
Fuel costs	155,873	156,065
Depreciation on property, plant and equipment (Note 7)	33,551	35,541
Depreciation on right-of-use assets (Note 8)	547	-
Amortisation of intangible assets (Note 9)	2,030	1,984
Repairs and maintenance	14,061	12,830
Research costs	24	29
Employee benefit expenses (Note 35)	35,846	32,058
Other operating expenses	17,515	18,242
	259,447	256,749
Operating expenses	225,411	223,759
Administrative expenses	34,036	32,990
	259,447	256,749

(Expressed in thousands of Eastern Caribbean Dollars)

35. Employee Benefit Expenses

	2019 $'000	2018 $'000
Wages and salaries	28,167	24,565
Pension contributions	2,313	2,465
Medical contributions	886	831
Other employee benefits	4,480	4,197
	35,846	32,058

The number of permanent employees at December 31, 2019 was 261 (2018 - 256).

36. Financial Instruments

Credit risk

Exposure to credit risk

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

	Notes	2019 $'000	2018 $'000
Trade and other receivables	11	51,462	54,091
Other financial assets	12	41,839	35,294
Derivative financial instruments	26	2,549	-
Cash at bank	13	48,005	17,644
		143,855	107,029

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

	2019 $'000	2018 $'000
Business, before deducting provision	23,613	26,681
Residential, before deducting provision	12,365	14,228
	35,978	40,909

(Expressed in thousands of Eastern Caribbean Dollars)

36. Financial Instruments (Cont'd)

Credit risk (Cont'd)

The movement in the provision for impairment of trade receivables was as follows:

	$'000
Balance at January 1, 2018	8,072
Effect of change in accounting policy for IFRS 9	4,800
Impairment gain recognized per IFRS 9	(107)
Amounts written off	(8)
Balance at December 31, 2018 (Note 1 1)	12,757
Impairment gain recognized per IFRS 9	467
Amounts written off	(2,443)
Balance at December 31, 2019 (Note 11)	10,781

The movement in the allowance for impairment in respect of other receivables was as follows:

	$'000
Balance at January 1, 2018	1,290
Effect of change in accounting policy for IFRS 9	(1)
Impairment gain recognized per IFRS 9	75
Balance at December 31, 2018 (Note 11)	1,364
Impairment gain recognized per IFRS 9	250
Amounts written off	(120)
Balance at December 31, 2019 (Note 11)	1,494

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

36. Financial Instruments (Cont'd)

Liquidity risk

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

December 31, 2019

	Notes	Carrying amounts $'000	Total contractual cash flows $'000	Contractual cash flow Under 1 year $'000	1-2 years $'000	2-5 years $'000	>5 years $'000
Non-derivative financial liabilities							
Lease liabilities	18	1,758	2,072	548	364	600	560
Borrowings	19	111,524	128,249	21,586	21,586	61,778	23,299
Trade and other payables	25	41,942	41,942	41,942	-	-	-
Dividends payable		325	325	325	-	-	-
		155,549	172,588	64,401	21,950	62,378	23,859

December 31, 2018

	Notes	Carrying amounts $'000	Total contractual cash flows $'000	Contractual cash flow Under 1 year $'000	1-2 years $'000	2-5 years $'000	>5 years $'000
Non-derivative financial liabilities							
Borrowings	19	102,203	121,467	16,858	16,858	50,574	37,177
Trade and other payables	25	33,211	33,211	33,211	-	-	-
Dividends payable		1,716	1,716	1,716	-	-	-
		137,130	156,394	51,785	16,858	50,574	37,177

The Group also has liabilities totaling $19,488 (2018 - $18,240) relating to consumer deposits (Note 20) that are refundable upon the cessation of the supply of services. It is not practicable to determine the contractual maturities of these liabilities, including estimated interest payments.

36. Financial Instruments (Cont'd)

Fair values

Fair values versus carrying amounts

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

	Notes	Carrying amounts As at December 31, 2019 $'000	Fair values As at December 31, 2019 $'000	Carrying amounts As at December 31, 2018 $'000	Fair values As at December 31, 2018 $'000
Trade and other receivables	11	51,462	51,462	54,091	54,091
Other financial assets	12	41,839	41,839	35,294	35,294
Cash and cash equivalents	13	48,020	48,020	17,659	17,659
Lease liabilities	5 & 18	(1,758)	(1,680)	-	-
Borrowings	5 & 19	(111,524)	(85,946)	(102,203)	(94,320)
Trade and other payables	25	(41,942)	(41,942)	(33,211)	(33,211)
Dividends payable		(325)	(325)	(1,716)	(1,716)
Derivative financial instruments	26	2,549	2,549	(11,285)	(11,285)
		(11,679)	13,977	(41,371)	(33,488)

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

Interest rates used for determining fair values

The interest rates used to discount estimated cash flows of lease liabilities are the rate implicit in the lease or the Group's incremental borrowing rate.

The interest rates used to discount estimated cash flows of borrowings are based on the market interest rates at the reporting date.

The Group also has liabilities totaling $19,488 (2018 - $18,240) relating to consumer deposits (Note 20) that are refundable upon the cessation of the supply of services. It is not practicable to determine the fair values of these liabilities.

37. Commitments

Capital commitments

The Group had capital commitments at December 31, 2019 of $2,133 (2018 - $2,069).

Operating lease commitments

(i) Pole rental

The Group expects to earn annual income from pole rentals of $1,055 (2018 - $941) for the foreseeable future.

38. Contingent Liabilities

Claims

The Group has been named a defendant to a number of claims as at December 31, 2019. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Group believes that its defences to all these various claims are meritorious on both the law and the facts. Having regard to the foregoing, the Group (i) does not consider it appropriate to make any provision in respect of any pending matters and (ii) does not believe that the ultimate outcome of these matters will significantly impair the Group's financial condition. Payments if any, arising from these claims will be recorded in the period that the payment is made.

Wage Negotiations

The Group is currently negotiating certain benefits with the trade union representing the line staff for the triennium which ended December 31, 2016. It is not practicable to reliably estimate the retroactive pay that would be due to staff once the union agreement is signed.

Retirement Age

In 2018 the High Court issued a judgement declaring that the retirement age of employees who entered service prior to August 1, 2012 and who are members of the Group's Grade 1 Pension Scheme, is sixty years and that the Group has no obligation to make future contributions to the Pension Scheme on behalf of employees who entered service prior to August 1, 2012 and who have attained the age of sixty years.

In January 2019, the Group was served with a Notice of Appeal against the High Court Ruling.

It is not practicable to reliably estimate the amount that might become payable, if any, upon settlement of that matter.

39. Subsidiary Companies

	Country of Incorporation	Equity %
LUCELEC Cap-Ins. Inc.	Saint Lucia	100
Energyze Holdings Inc.	Saint Lucia	100

On December 31, 2018, the LUCELEC Trust Company Inc. was wound up voluntarily and its net assets were transferred to the parent company.

40. Events after the Reporting Period

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus (COVID19) outbreak a pandemic. This pandemic has caused global economic disruption. In an attempt to curb the spread of the virus, governments around the world imposed lockdowns, mandatory quarantines and travel restrictions, resulting in a contraction of the global economy for 2020. The travel restrictions have negatively affected the local tourism industry, the major contributor to the island's economy, resulting in the closure of most of the hotels on island.

The Group has not been spared the effects of the economic fallout and sales for the period ended August 31, 2020 was down 8.6% on the comparative period in 2019. Global financial markets have also experienced surges in volatility resulting in fluctuations in the market values of the Group's investment portfolio. These events are non-adjusting subsequent events and accordingly the financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact.

The Group faces the risk of disruption in its utility operations, adverse financial results and poor liquidity. While the global disruption is expected to be temporary, there is uncertainty regarding the speed of economic recovery.

We are unable to reliably quantify the potential effects of the pandemic on our consolidated financial statements for future periods, as this will depend on the effectiveness of domestic and international responses that are largely unpredictable.