

Schedule 1
FORM ECSRC – K
ANNUAL REPORT
PURSUANT TO SECTION 98(1) OF THE SECURITIES ACT, 2001

For the financial year ended

December 31, 2018

Issuer Registration number

St. Lucia Electricity Services Limited

(Exact name of reporting issuer as specified in its charter)

Saint Lucia

(Territory of incorporation)

John Compton Highway, Sans Soucis, Castries, Saint Lucia

(Address of principal office)

REPORTING ISSUER'S:

Telephone number (including area code): 758-457-4400

Fax number: 758-457-4409

Email address: lucelec@candw.lc

(Provide information stipulated in paragraphs 1 to 14 hereunder)

Indicate whether the reporting issuer has filed all reports required to be filed by section 98 of the Securities Act, 2001 during the preceding 12 months

Yes

No

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report.

CLASS	NUMBER
Ordinary Shares	22,400,000
Non Voting ordinary shares	520,000

SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Annual Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Chief Executive Officer:

Trevor M. Louisy

SIGNED AND CERTIFIED

Date

April 26th 2019

Name of Chief Financial Officer:

Ian Peter

SIGNED AND CERTIFIED

Signature

April 26th 2019

Date

Name of Director: LESLIE PROSPERE

SIGNED AND CERTIFIED

Date

April 26th 2019

INFORMATION TO BE INCLUDED IN FORM ECSRC-K

1. Business.

Provide a description of the developments in the main line of business including accomplishments and future plans. The discussion of the development of the reporting issuer's business need only include developments since the beginning of the financial year for which this report is filed.

In 2018, oil prices were generally higher than 2017 amidst some mixed fortunes. This general increase in oil prices resulted in electricity rates increasing marginally, cushioned by the fuel hedging programme.

As the Company adds on renewable forms of energy to its generation portfolio, the impact of these price fluctuations should reduce marginally.

The Company continued to explore and analyze the technical, financial, operational and other aspects of renewable energy sources such as geothermal as well as other traditional sources like natural gas, as part of the long term strategy to guide its expansion capacity. A 3MW Photovoltaic (PV) system was installed in the south of the island in 2018.

Implementation of the Automatic Metering Infrastructure (AMI) was almost 95% completed by the end of 2018. This Project involves replacing old electromechanical meters and transitioning more customers to automatic billing. The Company expects to experience a reduction in system losses and meter reading costs as a result of the installation of these meters.

The installation of a new SCADA system, complete with data collection, system monitoring and system restoration capabilities, was completed in 2018.

Electricity sales for 2019 are expected to increase marginally over 2018's performance. Sales to the domestic sector are expected to increase in line with projected housing growth. The commercial sector is forecasted to grow due mainly to new office spaces and commercial entities. Sales in the hotel sector are expected to decline in 2019. Any growth in sales from hotel room expansion is expected to be offset by the implementation of efficiency measures in relation to electricity consumption.

Grid modernization to improve remote control capabilities, efficiency and reliability will continue in 2019, primarily as a result of the new SCADA system commissioned in 2018.

The Company is in the early planning stages to construct a new Substation between the Cul-De-Sac and Union Substations that will be capable of relieving the demand on the Castries, Cul-de-Sac and Union substations. The new Substation will also help to reduce loads on the Redit substation that is located in the fastest growing area of the country. It is anticipated that the major load growth in Castries will occur in the north east corridor rather than in the city centre.

As part of its routine preventative maintenance regime, the Company intends to perform major overhauls on three of its Generator sets. Four of the Generator sets will also be outfitted with newer designed Turbo chargers to replace the outdated models and to improve their running efficiency.

The Company intends to install its first utility grade storage battery system as well as electric vehicle charging stations at various locations around the island. A project to harness the waste heat from the generators for cooling the buildings at the Cul De Sac Power facility, is also planned for 2019. Work will also continue on the construction of a fibre optic network on its distribution poles that will be a critical component of the interconnected energy space of the near future.

2. Properties

Provide a list of properties owned by the reporting entity, detailing the productive capacity and future prospects of the facilities. Identify properties acquired or disposed of since the beginning of the financial year for which this report is filed.

PROPERTIES	PRODUCTIVE CAPACITY	FUTURE PROSPECTS
Cul De Sac Complex	Power station and Transmission substation	Completion of development of generation and related activity
Union Complex	Transmission Substation	Replacement of 11KV switchgear
Union Complex	Retired generation station	Station to be demolished and the site to be cleared
Faux a Chaud	NIL	For construction of sub station
Soufriere Power Station	Former Power Station	Site to be disposed of
Vieux Fort Power Station	Former Power Station	Station to be demolished and site to be cleared
Cantonement Complex	Transmission Substation and Technical Office	As existing
Soufriere Substation	Transmission Substation	As existing
Reduit Substation	Transmission Substation	As existing
Praslin Substation	Transmission Substation	As existing
Castries Substation	Transmission Substation	Upgrade facility
Sans Soucis Office	Head Administration Office	As existing
Vieux Fort Admin Office	Sub Office	As existing
Monchy	NIL	Site to be disposed of
Ti Rocher/Bocage	NIL	As existing

3. Legal Proceedings.

Furnish information on any proceedings that were commenced or were terminated during the current financial year. Information should include date of commencement or termination of proceedings. Also include a description of the disposition thereof with respect to the reporting issuer and its subsidiaries.

The company applied for judicial review of a decision of the Labour Tribunal on the interpretation of section 159 of the Labour Act which pertains to retirement age of workers. A decision in favour of the Company was handed down by the High Court on 12th December 2018. However, the Labour Tribunal and the Trade Union, representing the affected workers, expressed their intention to appeal the decision. Whilst an unfavorable ruling would have a financial impact it would not materially affect the financial well-being of the Company.

4. Submission of Matters to a Vote of Security Holders

If any matter was submitted to a vote of security holders through the solicitation of proxies or otherwise during the financial year covered by this report, furnish the following

information:

- (a) The date of the meeting and whether it was an annual or special meeting.

Friday 4th May 2018

- (b) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

5. **RE-ELECTION OF DIRECTORS**

- The following Directors retired by rotation and were re-elected at the 53rd Annual Meeting of Shareholders:
 - Mr. Matthew Lincoln Mathurin
 - Mr Leslie Prospere
 - Mr. Roger Blackman
- **Election of Directors**
 - Mr. Frank Myers

The name of each other director whose term of office as a director continued after the 53rd Annual Meeting of Shareholders.

John Joseph
Trevor Louisy
Frank Myers
Sharon Christopher
Nicholas John
Roger Blackman
Carole Eleuthere Jn Marie
Matthew Lincoln Mathurin
Karen Darbasie
Leslie Prospere
Charles Serieux

- (c) A brief description of each other matter voted upon at the meeting and a statement of the number of votes cast for or against as well as the number of abstentions as to each such matter, including a separate tabulation with respect to each nominee for office.

Votes are on a show of hands and not votes unless a ballot is called for. The follow matters were tabled and unanimously passed on a show of hands:

1. To consider and adopt the Directors' Report.
2. To consider and adopt the Auditors' Report and the Financial Statements for the year ended 31st December 2017.
3. To re-appoint the auditor.
4. To sanction a final dividend in respect of the year ended 31st December 2017.
5. To re-elect Directors:
6. To elect Directors

- (d) A description of the terms of any settlement between the registrant and any other participant.

N/A

- (e) Relevant details of any matter where a decision was taken otherwise than at a meeting of such security holders.

N/A

5. Market for Reporting issuer's Common Equity and Related Stockholder Matters.

Furnish information regarding all equity securities of the reporting issuer sold by the reporting issuer during the period covered by the report.

N/A

6. Financial Statements and Selected Financial Data

Attach Audited Financial Statements, which comprise the following:

For the most recent financial year

- (i) Auditor's report; and
(ii) Statement of Financial Position;

For the most recent financial year and for each of the two financial years preceding the date of the most recent audited Statement of Financial Position being filed

- (iii) Statement of Comprehensive Income;
(iv) Statement of Cash Flows;
(v) Statement of Changes in Equity; and
(vi) Notes to the Financial Statements.

7. Disclosure about Risk Factors

Provide a discussion of the risk factors that may have an impact on the results from operations or on the financial conditions. Avoid generalized statements. Typical risk factors include untested products, cash flow and liquidity problems, dependence on a key supplier or customer, management inexperience, nature of business, absence of a trading market (specific to the securities of the reporting issuer), etc. Indicate if any risk factors have increased or decreased in the time interval between the previous and current filing.

1.

1. The Company had identified certain risks in the process of preparing for the new regulatory framework. To mitigate this risk, the Company established a Regulatory Reform Team to spearhead the Company's involvement in the regulatory reform process. This risk is considered stable.
2. A significant portion of the total electricity price to consumers is the cost of fuel. The Company has identified this, as well as the volatility of fuel prices on the world market, to be significant risks. The Company has therefore engaged in fuel price hedging to help mitigate volatility and rising fuel prices. Although the oil market experienced a steady increase in prices for most of the year, prices fell significantly in December due mainly to concerns of a global recession. The company took advantage of the low prices and placed hedges for the whole of 2019. Oil prices have recovered since December but there is still both upside and downside risk associated with fuel prices as the market reacts to the uncertainty in demand.
3. A key risk to the Company, is the inability to meet consumer demand for electricity. This can be brought on by either an unforeseen increase in the demand for power or the loss of generators or substations. The Company employs a robust preventative maintenance programme to mitigate the risk of unplanned asset downtime. Uncertainty regarding the implementation of investment projects in the private and public sector, contributes significantly to the assessment of this risk. This risk is considered low to moderate. As the existing generation assets near the end of their useful lives, and the uncertainty of future demand increases, this risk will increase.

4. The annual hurricane season between June and November remains a constant risk factor. As far as practicable the Company continues to design its systems to minimize the impact from hurricanes. The Company continues to maintain a robust disaster recovery plan in the event of extensive damage resulting from a weather system. The risk of Loss of T&D assets and resulting impact on the reliability of the power supply is increasing given the intensity of storms affecting the region. This risk is considered to be moderate but increasing.
5. Obtaining insurance coverage for the Transmission & Distribution (T&D) plant on the market at a cost-effective rate continues to be a challenge. As such, the Company established a Self- Insurance Fund as a vehicle to mitigate losses in the event of catastrophic events. As at December 31, 2018, the Fund balance was EC\$36.1M. The Company has access to a standby credit facility of EC\$10.0M to meet any emergency asset restoration costs should the need arise. The Net Book Value of the T&D assets was estimated at EC\$138.8M at the end of December 2018. Although the Company's contribution to the Self Insurance Fund is deemed to be adequate, the fund would not be sufficient to cover a total loss of its T&D infrastructure. This risk is considered high. The Company continues to explore options for mitigating against the impact of such a catastrophic event.
6. With a new regulatory framework, the threat of loss of sales due to the introduction of renewables and competition for generation is likely, however, at the current rate of growth of renewables this threat appears to be low. Although this risk is considered low, uncertain events, such as the price of fuel, the cost of renewable technology, and the tariff regime, can increase the risk within a short period.
7. Receivables management remained a priority for the Company. All accounts continue to be monitored on an on-going basis to keep delinquency at its minimum. Credit risk is considered to be low at this time.
8. The Company utilizes Return on Equity as one of the measures of its performance. As shareholders' equity increases and profit levels remain fairly constant, the Company is faced with the risk of diminishing Return on Equity. The Company will continue exploring cost optimization opportunities that are the output of a comprehensive process analysis, as a means of mitigating this risk. This risk is considered low.
9. System Losses, specifically due to electricity theft, continue to be a concern for the Company, given the implications for unrecognized revenues and ultimately reduced shareholder returns. This risk is stable and does not show any sign of worsening.

10. The fallout from industrial action can affect the Company's reputation and by extension that of the country, with regards to foreign direct investment. Employee engagement and staff relations continue to be a priority in the Company's annual work plan. Until all union negotiations and outstanding issues are satisfactorily concluded, the risk of industrial action continues to be high.

8. Changes in Securities and Use of Proceeds

(a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

NONE

(b) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:

- Offer opening date (provide explanation if different from date disclosed in the registration statement)

- Offer closing date (provide explanation if different from date disclosed in the registration statement)

- Name and address of underwriter(s)

- Amount of expenses incurred in connection with the offer _____

- Net proceeds of the issue and a schedule of its use

- Payments to associated persons and the purpose for such payments

- (c) Report any working capital restrictions and other limitations upon the payment of dividends.

Reserves have been set up for the Company's self insurance, distribution of which is not permitted.

9. Defaults upon Senior Securities

- (a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 per cent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

N/A

- (b) If any material arrears in the payment of dividends have occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

N/A

10. **Management's Discussion and Analysis of Financial Condition and Results of Operation.**

Discuss the reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations during the financial year of the filing. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated.

The Management's Discussion and Analysis should disclose sufficient information to enable investors to judge:

1. The quality of earnings;
2. The likelihood that past performance is indicative of future performance; and
3. The issuer's general financial condition and outlook.

It should disclose information over and above that which is provided in the management accounts and should not be merely a description of the movements in the financial statements in narrative form or an otherwise uninformative series of technical responses. It should provide management's perspective of the company that enables investors to view the business from the vantage point of management.

The discussion should focus on aspects such as liquidity; capital resources; changes in financial condition; results of operations; material trends and uncertainties and measures taken or to be taken to address unfavourable trends; key performance indicators; and non- financial indicators.

General Discussion and Analysis of Financial Condition

The Company registered a profit after tax above its budget for the year. This performance was primarily due to the delays in execution of certain initiatives resulting in lower than budgeted costs. Electricity sales for the year were less than budgeted and reduced the expected profit. Management was able to translate these profits into operating cash inflows through its aggressive working capital management. These operating cash flows were supplemented by additional loan financing for the funding of its capital programme.

The Company implemented International Financial Reporting Standard 9, Financial Instruments (IFRS 9) effective January 1, 2018. This standard replaced International Accounting Standard 39, Financial Instruments: Recognition and Measurement. The changes which have impacted the Company's Financial Statements deal with classification, measurement and impairment of financial assets.

Liquidity and Capital Resources

Provide a narrative explanation of the following (but not limited to):

- i) The reporting issuer's financial condition covering aspects such as liquidity, capital resources, changes in financial condition and results of operations.
- ii) Any known trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the issuer's liquidity increasing or decreasing in any material way. If a deficiency is identified, indicate the course of action that the reporting issuer has taken or proposes to take to remedy the deficiency.
- iii) The issuer's internal and external sources of liquidity and any material unused sources of liquid assets.
- iv) Provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation such as adverse changes in the issuer's financial ratios, earnings, cash flows or stock price or changes in the value of underlying, linked or indexed assets.
- v) Circumstances that could impair the issuer's ability to continue to engage in transactions that have been integral to historical operations or are financially or operationally essential or that could render that activity commercially impracticable such as the inability to maintain a specified level of earnings, earnings per share, financial ratios or collateral.
- vi) Factors specific to the issuer and its markets that the issuer expects will affect its ability to raise short-term and long-term financing, guarantees of debt or other commitment to third parties, and written options on non-financial assets.
- vii) The relevant maturity grouping of assets and liabilities based on the remaining period at the balance sheet date to the contractual maturity date. Commentary should provide information about effective periods and the way the risks associated with different maturity and interest profiles are managed and controlled.
- viii) The issuer's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the general purposes of such commitments and the anticipated source of funds needed to fulfil such commitments.
- ix) Any known material trends, favorable or unfavorable, in the issuer's capital resources, including any expected material changes in the mix and relative cost of capital resources, considering changes between debt, equity and any off-balance sheet financing arrangements.

Discussion of Liquidity and Capital Resources

(1) Liquidity

The main revenue source of the Company continued to be from the sale of electricity to customers in Saint Lucia.

Capital programmes for 2018 were funded from operational cash flows and a long-term bank loan.

Trends in economic activity and performance were continually monitored to gauge the effects on the Company's operations and where necessary corrective actions taken.

The Company's working capital ratio at December 31, 2018 was 2.3 compared to 1.9 in 2017 as a result of the loan funds received in the latter half of the year coupled with the increase in operating profits.

There are no provisions contained in financial guarantees or commitments, debt or lease agreements or other arrangements that could trigger a requirement for an early payment, additional collateral support, changes in terms, acceleration of maturity, or the creation of an additional financial obligation.

The Company has not identified factors specific to it and its markets that it expects will affect its ability to generate working capital, raise short-term and long-term financing, fulfil its debt servicing or other commitment to third parties, and written options on non-financial assets.

(1) Capital Resources

Capital expenditure for the year amounted to EC36.1M, which was primarily on the solar farm, engine overhauls, installation of control systems and improvements to the Transmission & Distribution network.

At the end of the year the Company had capital commitments of \$2.1M relating to its generation plant, control systems and upgrades to its Information Technology systems.

Off Balance Sheet Arrangements

Provide a narrative explanation of the following (but not limited to):

- i) Disclosures concerning transactions, arrangements and other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of, or requirements for capital resources.
- ii) The extent of the issuer's reliance on off-balance sheet arrangements should be described fully and clearly where those entities provide financing, liquidity, market or credit risk support, or expose the issuer to liability that is not reflected on the face of the financial statements.
- iii) Off-balance sheet arrangements such as their business purposes and

- activities, their economic substance, the key terms and conditions of any commitments, the initial on-going relationship with the issuer and its affiliates and the potential risk exposures resulting from its contractual or other commitments involving the off- balance sheet arrangements.
- iv) The effects on the issuer's business and financial condition of the entity's termination if it has a finite life or it is reasonably likely that the issuer's arrangements with the entity may be discontinued in the foreseeable future.

N/A

Results of Operations

In discussing results of operations, issuers should highlight the company's products and services, facilities and future direction. There should be a discussion of operating considerations and unusual events, which have influenced results for the reporting period. Additionally, any trends or uncertainties that might materially affect operating results in the future should be discussed.

Provide a narrative explanation of the following (but not limited to):

- i) Any unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from continuing operations and, in each case, the extent to which income was so affected.
- ii) Significant components of revenues or expenses that should, in the company's judgment, be described in order to understand the issuer's results of operations.
- iii) Known trends or uncertainties that have had or that the issuer reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.
- iv) Known events that will cause a material change in the relationship between costs and revenues (such as price increases, costs of labour or materials), and changes in relationships should be disclosed.
- v) The extent to which material increases in net sales or revenues are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
- vi) Matters that will have an impact on future operations and have not had an impact in the past.
- vii) Matters that have had an impact on reported operations and are not expected to have an impact upon future operations
- viii) Off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships that have or are reasonably likely to have a

current or future effect on the registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ix) Performance goals, systems and, controls,

Overview of Results of Operations

Results of Operations

The following is an analysis of the consolidated results of St. Lucia Electricity Services Limited (the Company) and its three subsidiaries - Energyze Holdings Inc., LUCELEC Cap-Ins. Inc. and LUCELEC Trust Company Inc.

On December 31, 2018, the LUCELEC Trust Company Inc. was wound up voluntarily and its operations were absorbed by the parent company.

Sales & Revenues

Electricity sales grew in 2018 by 0.5% compared to a 3.3% increase in 2017. Only the hotels sector exhibited growth, 7.1% in 2018. Sales declined in the Industrial (4.2%), Commercial (1.5%) and Domestic (0.6%) sectors, while there was no significant change in the Street Light sector. The increase in the hotel sector's consumption is primarily due to the full year's consumption of two major hotels, compared to a partial year's consumption in 2017. Declines in the industrial and commercial sector were as a result of reduced activity by some of the major customers in these sectors as well as implementation of efficiency measures. Domestic sales are believed to have decline due to the implement energy saving measures and a lower than anticipated growth in housing stock.

Further, self-generation in all sectors is likely to have an unfavourable effect on electricity sales and contribution to net profits.

Total revenue of EC\$310.7M exceeded 2017's EC\$283.1M by EC\$27.6M (9.8%) primarily due to the increase in tariffs and unit sales. The overall average tariff increased by 9.0% from EC\$0.78 in 2017 to EC\$0.85 in 2018, driven by higher fuel prices incurred during the year compared to the previous year.

Movements in the tariff reflect the effect of changes in the price of fuel including charges/gains associated with derivative financial instruments employed by the Company. Any future changes in oil prices will have a direct impact on electricity prices given the current mechanism whereby tariffs are adjusted for changes in fuel prices.

Generation costs of EC\$25.8M (excluding fuel costs) were higher than the previous year's costs of EC\$24.3M by EC\$1.5M (6.2%) mainly as a result of increases in depreciation of EC\$1.4M, maintenance costs on the generation engines of EC\$0.8M and building maintenance of EC\$0.7M. These increases were offset by a decrease of EC\$1.1M in payroll costs.

Transmission and distribution costs of EC\$41.9M decreased by EC\$1.7M (3.9%) compared to the prior year of EC\$43.6M due to a decrease in payroll costs of EC\$2.9M, offset by increases in disaster restoration costs of EC\$0.8M and maintenance costs of EC\$0.3M.

Administrative expenditure of EC\$33.0M decreased by EC\$1.3M (3.8%) from prior year of EC\$34.3M. This was due to decreases in employee costs of EC\$0.3M and bad debts provision of EC\$1.4M offset by increases in training, motor vehicle, depreciation and insurance expenses.

The most significant impact of the implementation of IFRS 9 was the recognition of fair value gains/losses of certain financial assets in profit and loss (\$1.8M) and the reduction in opening retained earnings (\$4.8M) as a result of the impairment of its trade receivables. The impact on retained earnings is a one-off event and occurred as a result of the recognition of expected credit losses of Accounts Receivable rather than incurred credit losses, as was done in the past.

Finance costs decreased by EC\$0.9M (14.8%) from EC\$6.1M in 2017 to EC\$5.2M in 2018 due to lower interest rates despite the increase in the loan balance. The weighted average interest rate in 2018 was 4.8% compared to 5.1% in 2017.

The Trustees of the Defined Benefit Pension Plan for the Company's senior staff agreed to wind up this Plan effective July 8, 2018 based on decisions made by the Company. As a result, the Company had to contribute \$3.1M to secure its employees' future benefits. The wind up had no significant impact on the Company's profit and loss.

The Group achieved a Profit before Tax of EC\$47.6M which was lower than the previous year's result of EC\$48.2M by 1.2%.

The Group's Profit after Tax of EC\$35.0M increased by 0.9% compared to the previous year's achievement of EC\$34.7M.

Earnings per share for the year was EC\$1.53 (2017 - \$1.51).

The interim dividend per share is EC\$0.45 (2017 - EC\$0.45). The Board of Directors will be make a recommendation to the shareholders on the 2018 final dividend at the Annual Meeting of Shareholders usually held in May of the following year.

The Company achieved a rate of Return on Equity of 12.0% (2017 – 12.3%).

11. Changes in and Disagreements with Auditors on Accounting and Financial Disclosure.

Describe any changes in auditors or disagreements with auditors, if any, on financial disclosure.

N/A

12. Directors and Executive Officers of the Reporting Issuer. (Complete Biographical Data Form attached in Appendix 1 and Appendix 1(a) for each director and executive officer)

Furnish biographical information on directors and executive officers indicating the nature of their expertise.

13. Other Information

The reporting issuer may, at its option, report under this item any information, not previously reported in a Form ECSRC – MC report provided that the material change occurred within seven days of the due date of the Form ECSRC – K report. If disclosure of such information is made under this item, it need not be repeated in a Form ECSRC – MC report which would otherwise be required to be filed with respect to such information.

14. List of Exhibits

List all exhibits, financial statements, and all other documents filed with this report.

Audited Financial Statements for the year ended December 31, 2018

Information concerning Non-executive Directors:

Name: Matthew Lincoln Mathurin

Age: 56 years

Position: Director

Mailing Address: C/o National Insurance Corporation

Francis Compton Building, Waterfront, Castries, St. Lucia

Telephone No.: (758) 452-2808

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

2007 – Present: Director/Chief Executive Officer – National Insurance Corporation – leading organization- Planning and ensuring realisation of organization’s goals, performing role of member of NIC’s Board, guiding the Board in matters of policy, managing 120 staff members.

Education (degrees or other academic qualifications, schools attended, and dates):

2001-2002 MBA –Specialization in Finance (with Distinction) Edinburgh Business School of Heriott Watt University

1983-1985 FCCA Emile Woolf College of Accountancy

Information concerning non-Executive Directors:

Name: Charles Serieux Position: Director

Age: 57

Mailing Address: P.O. Box CP 5775
Castries
St Lucia

Telephone No: (758) 285-2431

List jobs held during the past five years. Give brief description of responsibilities.
Include name of employers.

Managing Director – Ultramart Inc. 13Years

Education (degrees or other qualifications, schools attended, and dates):

Chartered Accountant - Association of Certified Chartered Accountants of UK

Information concerning non-Executive Directors:

Name: Leslie Prospere

Position: Attorney At Law

Age: 43

Mailing Address: P.O. Box 161
Castries, LC04 101
Saint Lucia

Telephone No: (758) 285 4122 (m) (758) 452 2311

List jobs held during the past five years. Give brief description of responsibilities. Include name of employers.

Gordon, Gordon & Co: Associate attorney (2010 to 2014) Partner (2014 to present)
Providing legal advice and representation to clients in all areas of the law
Appearing before all Courts in the judicial hierarchy in Saint Lucia including the Judicial Committee of the Privy Council

Education (degrees or other qualifications, schools attended, and dates):

Bachelor of Laws University of London (1997 to 2000)
Legal Education Certificate Hugh Wooding Law School (2000 to 2002)
Certified Country Assessor (Caribbean Financial Action Task Force (CFATF) (2010) Member of the CFATF team that undertook the country assessment for Belize in 2010
Attorney General's nominee on Engineers Registration Board (2006), Saint Lucia Road Transport Board (2007 to 2010) and Central Tenders Board (2006 to 2010)

Information concerning non-Executive Directors:

Name: Sharon L Christopher Age: 62 years

Position: CEO Sharon Christopher & Associates

Mailing Address: 31 Starboard Drive, Westmoorings, Trinidad

Telephone Nos.: (868-633-3669 (home) 868-678-7338 (mobile).

List jobs held during the past five years. Give brief description of responsibilities.

Include names of employers.

Chief Executive Officer - Sharon Christopher and Associates

First Citizens Bank Limited – Deputy Chief Executive Officer / Group Corporate Secretary. Holds Executive Management responsibility for the following areas:

Legal, Group Operational Risk & Compliance, Human Resources, Group Facilities Management Services, Security Services, Marketing and Information & Communication Technology

Education (degrees or other academic qualifications, schools attended, and dates):

London School of Economics & Political Science, University of London – 1980-1981.
Masters of Laws (LLM) Corporate Law

Hugh Wooding Law School – 1978 – 1980, Legal Education of Certificate (LEC)

University of the West Indies, Faculty of Law, Cave Hill, Barbados – 1975-1978

Bachelors of Law (LL.B) Upper Second Class Honours

Information concerning non-Executive Directors:

Name: Nicholas John Position: Attorney at Law

Age: 63

Mailing Address: P.O. Box 1209
Castries, LC04 101
Saint Lucia

Telephone No: (758) 451 9237 (Office)
(758) 451 7573 (Office)
(758) 452 9070 (Residence)

List jobs held during the past five years. Give brief description of responsibilities. Include name of employers.

Trainee Chartered Accountant	Peat Marwick Mitchell (UK)	1978-79
Partner	Deterville, John & Co.	1979-94
Principal	Nicholas John & Co.	1994-present
Managing Director	Hewanorra Fiduciary Services Group	1999 –present

Education (degrees or other qualifications, schools attended, and dates):

University	London School of Economics	1973-77
Law School	Council of Legal Education of England	1977-78

Information concerning non-Executive Directors:

Name: Karen Darbasie Position: Group Chief Executive Officer

Age: 54

Mailing Address: First Citizens Bank Limited
9 Queen's Park East
Port of Spain

Telephone No: (868) 621-5333 Mobile: (868) 680-9495

List jobs held during the past five years. Give brief description of responsibilities. Include name of employers.

Jan 2005 - March 2015 Country Treasurer and Local Markets Head; Citibank (Trinidad & Tobago) Limited
Managing Director; Citicorp Merchant Bank Limited

In addition to providing the executive leadership for Citicorp Merchant Bank Limited, in the role of Country Treasurer the position has responsibility for managing the asset and liability positions of the bank in Trinidad, Barbados and Bahamas for each currency in which the bank funds its operations.

Responsible for regulatory interaction, with both Central Bank of Trinidad & Tobago and Trinidad & Tobago Securities & Exchange Commission, to resolve queries and obtain guidance or approval as required.

Primarily responsible for the management and marketing of the following products to ensure structures are suitable and appropriate to client needs:-

- FX trading -including Spot and Forwards
- Derivatives -including local and foreign Structured Investments
- Local Debt Capital Markets

Education (degrees or other qualifications, schools attended, and dates):

1982-1985 UNIVERSITY OF THE WEST INDIES
B.Sc. (Hons) Electrical Engineering

1986-1987 UNIVERSITY OF ESSEX
MSc (Dist.) Telecommunications and Information Systems

1990-1991 UNIVERSITY OF WARWICK
MBA (Dist.)

SPECIAL ACADEMIC ACHIEVEMENTS:

TRINIDAD AND TOBAGO GOVERNMENT SCIENCE SCHOLARSHIP based on results of Cambridge GCE A' Level Examination (1982).

UNIVERSITY OF THE WEST INDIES SCHOLARSHIP based on results of U.W.I. Scholarship Examination (1982).

CHARLES D. MASSEY PRIZE for FIRST PLACE – FACULTY OF ENGINEERING based on results of final year examination (1985).

TEXTEL PRIZE for top mark Telecommunication Systems based on results of final year examinations (1985).

COMMONWEALTH SCHOLARSHIP awarded for postgraduate study at University of Essex (1986).

Information concerning Non-executive Directors:

Name: Carole Eleuthere-Jn Marie

Position: Director

Age: 51

Mailing address: P.O. Box 527, Castries, St. Lucia

Telephone No.: 758-450-2662 Ext. 4400, 758-285-4347

List jobs held during past five years. Give a brief description of responsibilities. Include name of employers

December 2016 to present – Interim Chief Executive Officer, First Citizens Bank (Barbados) Limited

December 2016 Regional Manager EC & Barbados – First Citizens Investment Services Limited

Responsibilities

- Lead and define a rapidly growing Caribbean Regional Investment Brokerage Operation which caters for the investment needs of a wide range of financial and non-bank financial institutions, large corporations and high net worth retail clients
- Lead and drive Capital Market transactions for Regional Caribbean Governments and Large corporations
- Coach and direct the Country Heads in Regional territories
- Lead and drive the execution of comprehensive business plans and strategies that create, develop, educate and nurture the Capital markets of the Eastern Caribbean and Barbados
- Maintain a highly driven, motivated and customer focused regional team with a customer centric and proactive sales culture
- Provide regional leadership and guidance with respect to HR, Brand and marketing policies, Compliance, etc.

Education (degrees or other academic qualifications, schools attended, and dates):

FCCA – Emile Woolf College 1992

BSC (Hons) – UWI Cavehill 1987 - 1990

Information concerning non-Executive Directors:

Name: Roger Blackman

Position: Managing Director - BLPC

Age: 48

Mailing Address: Barbados Light & Power Co Ltd
Garrison Hill, St Michael
Barbados, BB11000

Telephone No: (246) 626-4210

List jobs held during the past five years. Give brief description of responsibilities. Include name of employers.

2014: Senior Director Business Development - Emera Inc. Focused on clean energy and transmission development in the US Northeast.

2010: Business Development Manager - The Barbados Light & Power Co. Ltd. Responsible for providing leadership and oversight of the Company's power generation and transmission planning activities.

Education (degrees or other qualifications, schools attended, and dates):

2008: Master of Business Administration - Durham University, UK

1991: Bachelor of Science in Engineering - The University of the West Indies, St. Augustine

Information concerning non-Executive Directors

Name: Frank Vernon Myers

Position: Director

Age: 64

Mailing Address: P.O. Box 1101, Castries LC 04101, St. Lucia

Telephone No: (758) 453 1471 (work); (758) 285 9178 (cell)

List jobs held during the past five years. Give brief description of responsibilities. Include name of employers.

KPMG Eastern Caribbean – Partner 1994 to March 31, 2017.

- Audit & Tax Partner
- Risk Management Partner

BDO Eastern Caribbean – Partner April 2017 to September 30, 2017

- Audit & Tax Partner
- Risk Management Partner

Frank Myers Consulting – Principal October 2017 to date

Education (degrees or other qualifications, schools attended, and dates):

- BSc (Math) Edinburgh University 1975
- FCCA (Association of Chartered Certified Accountants)

APPENDIX 1(a) – BIOGRAPHICAL DATA FORMS

EXECUTIVE OFFICERS AND OTHER KEY PERSONNEL OF THE COMPANY

Position: Managing Director

Name: Trevor Louisy

Age: 56 years

Mailing Address: P.O. Box 230, Castries. St. Lucia

Telephone No.: (758) 457-4400

List of jobs held during past five years. Give brief description of responsibilities. Include names of employers.

St. Lucia Electricity Services Limited - Managing Director 2004 to present

Responsible of the management business operations and strategic positioning of LUCELEC

St. Lucia Electricity Services Ltd. - Chief Engineer - 1997- December 31, 2003

Responsible for all engineering functions.

Education (degrees, or other academic qualifications, schools attended, and dates)

B. Sc. Electrical Engineering, University of the West Indies_

Also a Director of the Company Yes No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

N/A

Position : Chief Financial Officer

Name: Ian Peter

Age: 50 years

Mailing Address: P.O. Box 230. Castries. St. Lucia

Telephone No.: (758) 457-4400

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

Education (degrees or other academic qualifications, schools attended, and dates):

Also a Director of the company Yes No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Use additional sheets if necessary.

Position: Business Development Manager

Name: Victor E. Emmanuel

Age: 57 years

Mailing Address: P.O. Box 230, Castries. St. Lucia

Telephone No.: (758) 457-4400

List of jobs held during past five years. Give brief description of responsibilities. Include names of employers.

St. Lucia Electricity Services Limited – Business Development Manager – September 2008 to present

Responsible for the identification and development of new business ventures for the Company

St. Lucia Electricity Services Limited - Chief Engineer – January 2004 to August 2008
Responsible for all engineering functions

St. Lucia Electricity Services Limited - Generation Engineer - 1994 – 2003 - Responsible for the generation of electricity within the Company

Education (degrees, or other academic qualifications, schools attended, and dates)

B. Eng. Electrical Engineering, Mc Gill University – 1981-1985

M.Sc. Information System Engineering – UMIST – 1994-1995

Also a Director of the Company Yes No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:

Position: Chief Engineer

Name: Goodwin d' Auvergne

Age: 59 years

Mailing Address: P.O. Box 230, Castries, St. Lucia

Telephone No.: (758) 457-4400

List jobs held during past five years. Give brief description of responsibilities. Include names of employers.

St. Lucia Electricity Services Limited: Chief Engineer 2008 - Present Responsible for coordinating the activities of the Engineering Division.

System Control Engineer (1997- 2008) Managed the department charged with ensuring delivery of a safe, efficient and reliable supply of electricity to LUCELEC's customers

Education (degrees, or other qualifications, schools attended and dates):

Bachelor of Science - Electrical Engineering - University of Hartford (1984-1988)

Associates in Applied Science - Electronic Technology - University of Hartford (1982-1984)

Also a Director of the Company Yes No

If retained on a part time basis, indicate amount of time to be spent dealing with company matters:



ST. LUCIA ELECTRICITY SERVICES LIMITED

Consolidated Financial Statements

December 31, 2018

(Expressed in Eastern Caribbean Dollars)

ST. LUCIA ELECTRICITY SERVICES LIMITED

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PKF St. Lucia

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



Accountants &
business advisers

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 consolidated financial statements of **St. Lucia Electricity Services Limited** (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 financial position of the Group as at December 31, 2018, and its financial performance and its cash flows 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 Company 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 the opinion.

Key Audit Matters

There were no key audit matters to communicate.

Other Information included in the Group's 2018 Annual Report

Other information consists of the information included in the Group's 2018 Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's 2018 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.

INDEPENDENT AUDITOR'S REPORT (CONT'D)**Responsibilities of Management and the Audit Committee 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.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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.



Accountants &
business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Cont'd)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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 provided the Audit Committee 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.

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

Chartered Accountants
Castries, Saint Lucia
March 8, 2019

ST. LUCIA ELECTRICITY SERVICES LIMITED

Consolidated Statement of Financial Position

As at December 31, 2018

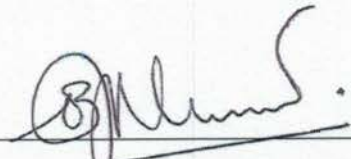
(Expressed In Eastern Caribbean Dollars)

	Notes	2018	2017
Assets			
Non-current			
Property, plant and equipment	6	\$ 348,084,988	348,357,260
Intangible assets	7	<u>11,227,902</u>	<u>12,436,257</u>
Total non-current assets		<u>359,312,890</u>	<u>360,793,517</u>
Current			
Inventories	8	12,182,758	13,719,898
Trade, other receivables and prepayments	9	67,795,691	52,536,122
Other financial assets	10	35,294,054	40,671,992
Derivative financial instruments	26	-	4,288,440
Income tax recoverable		2,800,364	428,722
Cash and cash equivalents	11	<u>17,659,161</u>	<u>22,644,177</u>
Total current assets		<u>135,732,028</u>	<u>134,289,351</u>
Total assets		<u>\$ 495,044,918</u>	<u>495,082,868</u>
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	12	\$ 80,162,792	80,162,792
Retained earnings		161,609,420	159,185,591
Fair value reserve	13	(1,520,567)	331,278
Revaluation reserve	14	15,350,707	15,350,707
Self-insurance reserve	15	36,616,586	33,972,285
Total shareholders' equity		<u>292,218,938</u>	<u>289,002,653</u>
Liabilities			
Non-current			
Borrowings	16	89,923,566	82,202,503
Consumer deposits	17	18,239,858	17,761,450
Provision for other liabilities	18	1,485,493	1,485,493
Deferred tax liabilities	19	32,571,998	33,596,207
Post-employment medical benefit liabilities	21(b)	<u>2,114,000</u>	<u>2,036,000</u>
Total non-current liabilities		<u>144,334,915</u>	<u>137,081,653</u>
Current			
Borrowings	16	12,278,938	18,562,878
Trade and other payables	22	33,211,688	49,995,490
Derivative financial instruments	26	11,284,711	-
Dividends payable		<u>1,715,728</u>	<u>440,194</u>
Total current liabilities		<u>58,491,065</u>	<u>68,998,562</u>
Total liabilities		<u>202,825,980</u>	<u>206,080,215</u>
Total shareholders' equity and liabilities		<u>\$ 495,044,918</u>	<u>495,082,868</u>

Approved on behalf of the Board of Directors:



Director



Director

The notes on pages 8 to 69 are an integral part of these consolidated financial statements

ST. LUCIA ELECTRICITY SERVICES LIMITED

Consolidated Statement of Comprehensive Income

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

	Notes	2018	2017
Revenue			
Energy sales		\$ 307,880,003	278,981,385
Other revenue		<u>2,795,053</u>	<u>4,083,657</u>
		<u>310,675,056</u>	<u>283,065,042</u>
Operating expenses			
Fuel costs	31	156,064,679	127,594,290
Transmission and distribution		41,901,348	43,552,010
Generation		<u>25,793,374</u>	<u>24,293,205</u>
	31	<u>223,759,401</u>	<u>195,439,505</u>
Gross income		86,915,655	87,625,537
Administrative expenses	31	<u>(32,990,307)</u>	<u>(34,257,466)</u>
Operating profit		53,925,348	53,368,071
Interest income		719,121	786,618
Fair value loss on FVTPL financial assets	13	(1,844,874)	-
Other gains, net	23	<u>60,764</u>	<u>66,610</u>
Profit before finance costs and taxation		52,860,359	54,221,299
Finance costs	24	<u>(5,233,170)</u>	<u>(6,063,545)</u>
Profit before taxation		47,627,189	48,157,754
Taxation	25	<u>(12,661,646)</u>	<u>(13,470,620)</u>
Net profit for the year		<u>34,965,543</u>	<u>34,687,134</u>
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss:			
Fair value (loss)/gain on FVTOCI financial assets	13	<u>(6,971)</u>	<u>882,672</u>
Items that will not be reclassified to profit or loss:			
Re-measurement (losses)/gains on defined benefit plans, net of tax	25	<u>(5,169,500)</u>	<u>385,000</u>
Total other comprehensive (loss)/income		<u>(5,176,471)</u>	<u>1,267,672</u>
Total comprehensive income for the year		\$ <u>29,789,072</u>	<u>35,954,806</u>
Basic and diluted earnings per share	27	\$ <u>1.53</u>	<u>1.51</u>

The notes on pages 8 to 69 are an integral part of these consolidated financial statements

ST. LUCIA ELECTRICITY SERVICES LIMITED

Consolidated Statement of Changes in Equity

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

	Notes	Share Capital	Retained Earnings	Fair Value Reserve	Revaluation Reserve	Self-insurance Reserve	Total
Balance at January 1, 2017		\$ 80,162,792	150,517,899	(551,394)	15,350,707	30,717,043	276,197,047
Net profit for the year		-	34,687,134	-	-	-	34,687,134
Other comprehensive income		-	385,000	882,672	-	-	1,267,672
Total comprehensive income for the year		-	35,072,134	882,672	-	-	35,954,806
Transfer to self-insurance reserve	15	-	(3,255,242)	-	-	3,255,242	-
Ordinary dividends	29	-	(23,149,200)	-	-	-	(23,149,200)
Balance at December 31, 2017		\$ 80,162,792	159,185,591	331,278	15,350,707	33,972,285	289,002,653
Effect of change in accounting policy for IFRS 9	3(p)	-	(4,798,787)	-	-	-	(4,798,787)
Balance at January 1, 2018		\$ 80,162,792	154,386,804	331,278	15,350,707	33,972,285	284,203,866
Net profit for the year		-	34,965,543	-	-	-	34,965,543
Other comprehensive loss		-	(5,169,500)	(6,971)	-	-	(5,176,471)
Total comprehensive income for the year		-	29,796,043	(6,971)	-	-	29,789,072
Transfer to reserves	13 & 15	-	(799,427)	(1,844,874)	-	2,644,301	-
Ordinary dividends	29	-	(21,774,000)	-	-	-	(21,774,000)
Balance at December 31, 2018		\$ 80,162,792	161,609,420	(1,520,567)	15,350,707	36,616,586	292,218,938

The notes on pages 8 to 69 are an integral part of these consolidated financial statements

ST. LUCIA ELECTRICITY SERVICES LIMITED

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

	Notes	2018	2017
Cash flows from operating activities			
Profit before taxation		\$ 47,627,189	48,157,754
Adjustments for:			
Depreciation of property, plant and equipment	6	35,541,639	34,291,418
Amortisation of intangible assets	7	1,983,755	1,914,935
Interest income		(719,121)	(786,618)
Finance cost	24	5,233,170	6,055,886
Impairment (gain)/loss on trade and other receivables		(32,485)	1,343,610
Net pension costs	20(h) & 21(d)	1,593,000	2,104,000
Fair value loss on FVTPL financial assets	13	1,844,874	-
Loss/(gain) on disposal of property, plant and equipment	23	23,755	(44,285)
Loss on disposal of other financial assets	24	-	7,659
Operating profit before working capital changes		<u>93,095,776</u>	<u>93,044,359</u>
Decrease /(increase) in inventories		1,537,140	(1,838,630)
(Increase)/decrease in trade, other receivables and prepayments		(8,741,160)	2,454,656
(Decrease)/ increase in trade and other payables		<u>(12,497,120)</u>	<u>20,154,053</u>
Cash generated from operations		<u>73,394,636</u>	<u>113,814,438</u>
Benefits paid on post-employment medical plan	21(f)	(50,000)	(48,000)
Interest received		702,443	783,018
Finance cost paid		(5,205,430)	(5,896,888)
Income tax paid		<u>(13,841,997)</u>	<u>(17,199,428)</u>
Net cash from operating activities		<u>54,999,652</u>	<u>91,453,140</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	(34,460,803)	(46,466,466)
Proceeds from disposal of property, plant and equipment		899	44,483
Acquisition of intangible assets	7	(1,608,618)	(2,578,363)
Pension funding contribution	20(e)	(8,850,000)	(5,291,000)
Acquisition of other financial assets		(6,620,018)	(4,816,971)
Proceeds from disposal of other financial assets		<u>10,162,790</u>	<u>1,692,594</u>
Net cash used in investing activities		<u>(41,375,750)</u>	<u>(57,415,723)</u>
Cash flows from financing activities			
Proceeds from borrowings		20,000,000	-
Repayment of borrowings		(18,472,224)	(19,042,074)
Dividends paid		(20,498,466)	(23,153,892)
Consumer deposits, net		<u>361,772</u>	<u>1,202,580</u>
Net cash used in financing activities		<u>(18,608,918)</u>	<u>(40,993,386)</u>
Net decrease in cash and cash equivalents		<u>(4,985,016)</u>	<u>(6,955,969)</u>
Cash and cash equivalents at beginning of year	11	<u>22,644,177</u>	<u>29,600,146</u>
Cash and cash equivalents at end of year	11	<u>\$ 17,659,161</u>	<u>22,644,177</u>

The notes on pages 8 to 69 are an integral part of these consolidated financial statements

ST. LUCIA ELECTRICITY SERVICES LIMITED

Noted to the Consolidated Financial Statements

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

1. Incorporation and Principal Activity

St. Lucia Electricity Services Limited (the “Company”) was incorporated under the laws of Saint Lucia on November 9, 1964 and re-registered as a public company on August 11, 1994. The Company was continued under the Companies Act 1996 of Saint Lucia on October 22, 1997 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. Basis of Preparation

(a) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved for issue by the Board of Directors on March 8, 2019.

(b) *Basis of measurement*

The consolidated financial statements have been prepared using the historical cost basis except for land, certain other financial assets and derivative financial instruments which are measured at fair value. The methods used to measure fair values are discussed further in Note 4.

(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 37. 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 Group 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 intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

2. 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 dollar.

(e) *Use of estimates and judgments*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are 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 3(b)(iii) : Estimated useful lives of property, plant and equipment
- Note 3(c)(iii) : Estimated useful lives of intangible assets
- Note 3(d) : Measurement of defined benefit obligations
- Note 3(k) : Estimation of unbilled sales and fuel surcharge
- Note 4 : Determination of fair values
- Note 33 : Valuation of financial instruments

3. Significant Accounting Policies

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

(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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. 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 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. Borrowing costs for long-term construction projects are recognised if the recognition criteria are met.

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

The gain or loss on the disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item and is 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.

(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. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. 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 and adjusted if appropriate.

The annual rates of depreciation are as follows:

	2018	2017
■ Buildings	2 ¹ / ₂ % - 12 ¹ / ₂ %	2 ¹ / ₂ % - 12 ¹ / ₂ %
■ Plant and machinery		
- Generator overhauls	33 ¹ / ₃ %	33 ¹ / ₃ %
- Other	4% - 10%	4% - 10%
■ Motor vehicles	20% - 33 ¹ / ₃ %	20% - 33 ¹ / ₃ %
■ Furniture and fittings		
- Computer hardware	20%	20%
- Other	10%	10%

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(c) *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 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.

(iii) *Amortisation*

Amortisation is calculated using 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 assets. The estimated useful lives of the assets that are amortised, that is, the information systems range from five (5) to eight (8) years.

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

(d) *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 benefits 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 obligation is reduced by the fair value of the respective plan's assets. 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 an independent and 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 plans 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(d) *Employee benefits (Cont'd)*

(ii) *Pension benefits assumptions*

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

The 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.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 20.

(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 expenses 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.

(e) *Financial instruments*

(i) *Non-derivative financial instruments*

Non-derivative financial instruments include financial assets measured at fair value through other comprehensive income ("FVOCI"), financial assets measured at fair value through profit or loss ("FVTPL"), trade and other receivables, other financial assets, 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 any directly attributable transaction costs, except for financial instruments at fair value through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(e) *Financial instruments (Cont'd)*

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

FVTOCI financial assets

The Group's investments in treasury bills are classified as financial assets measured at FVOCI. 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.

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.

Deposits held in banks

Deposits held at banks comprise deposits with maturities greater than three months but less than one year. Subsequent to initial recognition, deposits are measured at amortised cost using the effective interest method less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and demand deposits with maturities of 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 finance income and expense is discussed in Note 3(1).

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(e) *Financial instruments (Cont'd)*

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

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 – 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.

Consumer deposits

Given the long-term nature of the customer relationships and in accordance with the provisions of the Electricity Supply Act, 1994 (as amended), customer 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(f) *Impairment*

(i) *Financial assets*

The adoption of IFRS 9 has fundamentally changed the Group's financial assets impairment method by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach from January 01, 2018.

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 is permitted by IFRS 9, the Group has voluntarily elected to select an accounting policy which recognizes full lifetime expected 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 receivables is disclosed in Note 33.

For all other receivables and 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 recognized through profit or loss.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(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").

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

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

(g) *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.

(h) *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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(i) 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.

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 represent 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.

(j) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- Its assets, including its share of any assets held jointly;
- Its liabilities, including its share of any liabilities incurred jointly;
- Its revenue from the sale of its share of the output arising from the joint operation; and
- Its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(k) 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.

Rental income

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

(l) Interest income and costs

Interest income comprises interest income on funds invested and gains on 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 borrowings, consumer deposits and pole rental deposits, losses on disposal of other financial assets and impairment losses recognised on certain 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.

(m) Operating Leases

Leases in which significant portion of the risk and records of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of comprehensive income over the period of the lease. Renewal of operating lease is on mutual agreement between parties prior to the acquisition date.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(n) 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.

(o) 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(p) *New standards, amendments to standards and interpretations*

(i) *New standards, amendments and interpretations effective in the 2018 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, 2018 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, 2018 which do not affect the Group's consolidated financial statements have not been disclosed below.

- *IFRS 7, 'Financial Instruments: Disclosures'* was amended to require additional disclosures when an entity first applies IFRS 9, Financial Instruments, which include the changes in the categories and carrying amounts of financial instruments before and after the application of the new standard.

This reconciliation has been disclosed below.

- *IFRS 9, 'Financial Instruments'* replaces IAS 39 as at January 01, 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as at January 01, 2018 and are disclosed below.

Changes to classification and measurement

To determine classification and measurement categories, IFRS 9 requires all financial assets, except derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets of fair value through profit or loss ("FVTPL"), available for sale ("AFS"), held-to-maturity and loans and receivables have been replaced by:

- Debt securities at amortised cost;
- Debt securities at fair value through other comprehensive income ("FVTOCI"), with gains or losses recycled to profit or loss on derecognition;
- Equity securities at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition; and
- Financial assets at fair value through profit or loss ("FVTPL")

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

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

(i) *New standards, amendments and interpretations effective in the 2018 financial year are as follows (Cont'd):*

As at January 1, 2018, the Group has assessed its investments portfolio which had previously been classified as AFS instruments. The Group concluded that the investment funds portion of these instruments are not managed within business and cash flow models of collecting contractual principal and interest cash flows and selling financial assets. Accordingly, the Group has classified these investments as financial assets measured at FVTPL.

For treasury bills, the Group concluded that these instruments are managed within a business model of collecting contractual principal and interest cash flows, along with selling the financial assets. As such, the Company has classified these investments as debt instruments measured at FVTOCI.

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in OCI with no subsequent reclassification to the profit or loss.

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms, as explained above. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed. The Group's classification of its financial assets and liabilities is explained in the transition disclosures below.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***3. Significant Accounting Policies (Cont'd)***(p) New standards, amendments to standards and interpretations (Cont'd)**(i) New standards, amendments and interpretations effective in the 2018 financial year are as follows (Cont'd)::**Transitional disclosures*

There were no financial assets or financial liabilities which the Group had previously designated as FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as FVTPL at the date of initial application of IFRS 9.

The table below shows information relating to financial assets that have been reclassified as a result of transition to IFRS 9.

Financial Assets		Financial assets measured at FVTPL	Financial assets measured at FVTOCI
Available-for-sale:			
IAS 39 carrying amount as at December 31, 2017	\$ 34,209,425	-	-
<i>Reclassification to:</i>			
Financial assets measured at FVTPL	(33,159,425)	33,159,425	
Financial assets measured at FVTOCI	<u>(1,050,000)</u>	<u>-</u>	<u>1,050,000</u>
IFRS 9 carrying amount as at January 1, 2018	<u>\$ -</u>	<u>33,159,425</u>	<u>1,050,000</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***3. Significant Accounting Policies (Cont'd)***(p) New standards, amendments to standards and interpretations (Cont'd)**(i) New standards, amendments and interpretations effective in the 2018 financial year are as follows (Cont'd):**Changes to the impairment calculation*

The adoption of IFRS 9 has changed the Group's accounting for financial assets' impairments by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. IFRS 9 requires the Group to record an allowance for all financial assets not held at FVTPL. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case a lifetime ECL is determined. Details of the impairment method are described in Note 3(f) above.

Transitional disclosures:

The information below sets out the impact of adopting IFRS 9 on the consolidated statement of financial position and retained earnings due to the effect of replacing IAS 39's incurred credit loss approach with IFRS 9's ECLs.

A reconciliation between the carrying amounts of trade, other receivables and prepayments under IAS 39 to balances reported under IFRS 9 as at January 01, 2018 is as follows:

	IAS 39 carrying amount as at December 31, 2017	Recognition of IFRS 9 ECLs (Note 33)	IFRS 9 carrying amount as at January 01, 2018
Financial Asset:			
Trade, other receivables and prepayments	\$ 52,536,122	(4,798,787)	47,737,335

The impact of transition to IFRS 9 on retained earnings is as follows:

	Closing balance under IAS 39 as at December 31, 2017	Recognition of IFRS 9 ECLs (Note 33)	Opening balance under IFRS 9 as at January 01, 2018
Retained earnings	\$ 159,185,591	(4,798,787)	154,386,804

The above reclassifications have no impact on opening reserves.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

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

(i) *New standards, amendments and interpretations effective in the 2018 financial year are as follows (Cont'd):*

- *IFRS 15, 'Revenue from Contracts with Customers'* was issued in May 2014 and establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the revenue recognition guidance including IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and the related interpretations. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Under IFRS 15, an entity recognises revenue when or as a performance obligation is satisfied, that is, when control of the goods or services underlying the particular performance obligation is transferred to the customer.

In April 2016, IFRS 15 was amended to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

The application of this amendment did not have a material impact on the Group's consolidated financial statements

- *IFRIC 22, 'Foreign Currency Transactions and Advance Consideration'* was issued to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency.

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

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(p) 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:

- *IFRS 16, Leases* was issued in January 2016 and will supersede IAS 17, Leases. This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor.

This new standard is applicable for annual periods beginning on or after January 1, 2019. It is anticipated that the application of IFRS 16 in the future may have a material impact on amounts reported in respect to the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review is undertaken.

- *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'.

This interpretation is applicable for annual periods beginning on or after January 1, 2019. 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.

- *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.

This amendment is applicable for annual periods beginning on or after January 1, 2019. 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

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

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

- *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.

This amendment is applicable for annual periods beginning on or after January 1, 2019. 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.

- *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.

This amendment is applicable for annual periods beginning on or after January 1, 2019. 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.

- *IAS 23, 'Borrowing Costs'* was amended 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.

This amendment is applicable for annual periods beginning on or after January 1, 2019. 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

4. 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, other financial assets (term deposits), 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

4. 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, 2018	As at December 31, 2017	Level	Valuation techniques and key inputs
Non-Financial Assets Measured at Fair Value				
Land (Note 6)	\$ 28,477,147	28,394,803	2	Market comparable approach. Key inputs-Price per square foot
Financial Instruments Measured at Fair Value				
Financial Assets				
FVTOCI financial assets (Note 10)	\$ 1,620,000	-	2	Quoted prices in an inactive market
FVTPL financial assets (Note 10)	\$ 33,674,054	-	2	Quoted prices in an inactive market
AFS Financial assets	-	34,209,425	2	Quoted prices in an inactive market
Derivative financial instruments (Note 26)	\$ -	4,288,440	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)	\$ 11,284,711	-	2	Discounted cash flow. Future cash flows are estimated based on futures prices and discount rates (swap prices and LIBOR)
Financial Instruments Disclosed at Fair Value				
Financial Liabilities				
Borrowings (Note 33)	\$ 94,320,399	94,283,376	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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

5. 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

5. 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 receivables from customers, other financial assets, and cash and cash equivalents.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly 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, have less of an influence on credit risk.

The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the 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.

Other financial assets

The Group limits its exposure to credit risk by only investing in liquid securities. Credit risk is minimised by placing investments with reputable financial institutions.

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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

5. 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 million which is secured. Interest is payable at the rate of 3.95% (2017 – 3.95%) per annum.
- Customs bond valued at \$600,000.

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 financial assets and purchases denominated in currencies other than its functional currency. The Group's exposure to currency risk is minimal since most of these financial assets and purchases 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 and deposits. The Group is exposed to interest rate risk on its financial assets measured at FVTOCI as at December 31, 2018 and 2017. The Group's only interest-bearing financial liabilities are its borrowings and consumer deposits which have fixed rates of interest as disclosed in Notes 16 and 17, respectively.

Equity risk

The Group is not exposed to equity price risk as at December 31, 2018 and 2017.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

5. 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 3(i).

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

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

5. Financial Risk Management (Cont'd)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Group defines as net profit for the year divided by average shareholders' equity. The Board 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, 2018 and 2017.

There were no changes in the Group's approach to capital management in 2018 and 2017.

ST. LUCIA ELECTRICITY SERVICES LIMITED
Notes to Consolidated Financial Statements (Continued)
For the Year Ended December 31, 2018
(Expressed In Eastern Caribbean Dollars)

6. Property, Plant and Equipment

<u>Cost/Valuation</u>	<u>Land</u>	<u>Buildings</u>	<u>Plant and Machinery</u>	<u>Motor Vehicles</u>	<u>Furniture and Fittings</u>	<u>Work-in-Progress</u>	<u>Total</u>
Balance at January 1, 2017	\$ 22,138,928	84,587,339	756,608,435	3,881,300	18,034,065	14,901,132	900,151,199
Additions	6,255,875	56,276	107,760	4,246	97,900	39,944,409	46,466,466
Transfers	-	2,634,258	18,844,019	770,237	595,706	(22,844,220)	-
Disposals	-	-	-	(109,800)	(47,717)	-	(157,517)
Balance at December 31, 2017	28,394,803	87,277,873	775,560,214	4,545,983	18,679,954	32,001,321	946,460,148
Balance at January 1, 2018	28,394,803	87,277,873	775,560,214	4,545,983	18,679,954	32,001,321	946,460,148
Additions	950	10,473	12,862	-	25,009	34,411,509	34,460,803
Transfers	81,394	52,675	48,454,800	172,815	2,085,836	(50,847,520)	-
Reclassifications from/(to) intangible assets	-	-	-	-	841,439	(8,221)	833,218
Disposals	-	-	-	-	(227,029)	-	(227,029)
Balance at December 31, 2018	\$ 28,477,147	87,341,021	824,027,876	4,718,798	21,405,209	15,557,089	981,527,140
<u>Accumulated Depreciation</u>							
Balance at January 1, 2017	\$ -	43,201,059	503,699,257	3,217,276	13,851,197	-	563,968,789
Depreciation for the year (Note 31)	-	2,086,927	30,904,671	372,656	927,164	-	34,291,418
Eliminated on disposals	-	-	-	(109,800)	(47,519)	-	(157,319)
Balance at December 31, 2017	-	45,287,986	534,603,928	3,480,132	14,730,842	-	598,102,888
Balance at January 1, 2018	-	45,287,986	534,603,928	3,480,132	14,730,842	-	598,102,888
Depreciation for the year (Note 31)	-	2,113,254	31,902,384	370,502	1,155,499	-	35,541,639
Eliminated on disposals	-	-	-	-	(202,375)	-	(202,375)
Balance at December 31, 2018	\$ -	47,401,240	566,506,312	3,850,634	15,683,966	-	633,442,152
<u>Carrying Amounts</u>							
At December 31, 2018	\$ 28,477,147	39,939,781	257,521,564	868,164	5,721,243	15,557,089	348,084,988
At December 31, 2017	\$ 28,394,803	41,989,887	240,956,286	1,065,851	3,949,112	32,001,321	348,357,260
At January 1, 2017	\$ 22,138,928	41,386,280	252,909,178	664,024	4,182,868	14,901,132	336,182,410

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

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

Fair value measurement of the Group's land

The Group's land is 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 \$13,126,440 had they been measured at a historical cost basis as at December 31, 2018 (2017 - \$13,044,096).

Assets pledged as security

As stated in Note 16, 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 the assignment of insurance policies.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***7. Intangible Assets**

	<u>Information Systems</u>	<u>Wayleave Rights</u>	<u>Work-in- Progress</u>	<u>Total</u>
<u>Cost</u>				
Balance at January 1, 2017	\$ 21,260,453	4,399,435	250,519	25,910,407
Additions	106,856	1,027,563	1,443,944	2,578,363
Transfers	121,278	-	(121,278)	-
Balance at December 31, 2017	21,488,587	5,426,998	1,573,185	28,488,770
Balance at January 1, 2018	21,488,587	5,426,998	1,573,185	28,488,770
Additions	74,396	554,234	979,988	1,608,618
Transfers	566,912	-	(566,912)	-
Reclassification from/(to) PP&E	8,221	-	(841,439)	(833,218)
Balance at December 31, 2018	\$ 22,138,116	5,981,232	1,144,822	29,264,170
<u>Accumulated Amortisation</u>				
Balance at January 1, 2017	\$ 14,137,578	-	-	14,137,578
Amortisation for the year (Note 31)	1,914,935	-	-	1,914,935
Balance at December 31, 2017	16,052,513	-	-	16,052,513
Balance at January 1, 2018	16,052,513	-	-	16,052,513
Amortisation for the year (Note 31)	1,983,755	-	-	1,983,755
Balance at December 31, 2018	\$ 18,036,268	-	-	18,036,268
<u>Carrying Amounts</u>				
At December 31, 2018	\$ 4,101,848	5,981,232	1,144,822	11,227,902
At December 31, 2017	\$ 5,436,074	5,426,998	1,573,185	12,436,257
At January 1, 2017	\$ 7,122,875	4,399,435	250,519	11,772,829

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

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***8. Inventories**

	2018	2017
Fuel inventories	\$ 3,068,906	3,302,400
Generation spare parts	4,774,347	4,590,693
Transmission, distribution and other spares	6,009,407	7,499,676
Goods-in-transit	<u>389,258</u>	<u>422,764</u>
	14,241,918	15,815,533
Less: provision for inventory obsolescence	<u>(2,059,160)</u>	<u>(2,095,635)</u>
	<u>\$ 12,182,758</u>	<u>13,719,898</u>

9. Trade, Other Receivables and Prepayments

	2018	2017
Trade receivables due from related parties (Note 30)	\$ 7,785,545	6,421,732
Other trade receivables	<u>33,123,289</u>	<u>30,642,168</u>
Trade receivables, gross	40,908,834	37,063,900
Less: provision for impairment of trade receivables (Note 33)	<u>(12,756,886)</u>	<u>(8,071,974)</u>
Trade receivables, net	<u>28,151,948</u>	<u>28,991,926</u>
Other receivables due from related parties (Note 30)	880,257	858,672
Other receivables	<u>8,194,316</u>	<u>6,295,280</u>
Other receivables, gross	9,074,573	7,153,952
Less: provision for impairment of other receivables (Note 33)	<u>(1,364,327)</u>	<u>(1,290,349)</u>
Other receivables, net	<u>7,710,246</u>	<u>5,863,603</u>
Accrued income	<u>18,229,188</u>	<u>16,040,935</u>
	54,091,382	50,896,464
Deferred fuel costs (Note 26)	11,284,711	-
Prepayments	<u>2,419,598</u>	<u>1,639,658</u>
	<u>\$ 67,795,691</u>	<u>52,536,122</u>

The Group's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 33.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***10. Other Financial Assets**

	2018	2017
Available-for-sale (per IAS 39)		
Treasury bills	\$ -	1,050,000
Investment funds	-	33,159,425
	<u>-</u>	<u>34,209,425</u>
Financial assets measured at FVTOCI (per IFRS 9)		
Treasury bills	1,620,000	-
Financial assets measured at FVTPL (per IFRS 9)		
Investment funds	33,674,054	-
	<u>35,294,054</u>	<u>-</u>
Deposits		
Term deposits	-	6,462,567
	<u>\$ 35,294,054</u>	<u>40,671,992</u>

The term deposits earned interest of 1.75% (2017: 1.75%) per annum and matured between 6 to 11 months (2017: 6 to 11 months) after year end.

The Group's exposure to credit risks related to other financial assets is disclosed in Note 33.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***11. Cash and Cash Equivalents**

Cash and cash equivalents comprise:

	2018	2017
Cash in banks and on hand	\$ <u>17,659,161</u>	<u>22,644,177</u>

Included in cash and cash equivalents are \$826,502 (2017 - \$384,341) that are not available for the day-to-day operations of the Group (Note 15).

The Group's exposure to credit risks related to cash and cash equivalents is disclosed in Note 33.

Reconciliation of liabilities arising from financing activities:

	Non-current borrowings (Note 16)	Current borrowings (Note 16)	Consumer Deposits (Note 17)	Total
Balance at January 1, 2017	\$ 100,181,035	19,585,036	16,441,756	136,207,827
Cash flows during the year	-	(24,798,511)	1,062,130	(23,736,381)
Non-cash flows during the year:				
-Borrowings classified as non-current becoming current in 2017	(17,978,532)	17,978,532	-	-
-Interest accrued in 2017	-	5,797,821	257,564	6,055,385
Balance at December 31, 2017	\$ 82,202,503	18,562,878	17,761,450	118,526,831
Balance at January 1, 2018	\$ 82,202,503	18,562,878	17,761,450	118,526,831
Cash flows during the year	20,000,000	(23,486,769)	201,457	(3,285,312)
Non-cash flows during the year:				
-Borrowings classified as non-current becoming current in 2018	(12,278,937)	12,278,937	-	-
-Interest accrued in 2018	-	4,923,892	276,951	5,200,843
Balance at December 31, 2018	\$ <u>89,923,566</u>	<u>12,278,938</u>	<u>18,239,858</u>	<u>120,442,362</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***12. Share Capital**

	2018	2017
<i>Authorised:</i>		
Voting ordinary shares	<u>100,000,000</u>	<u>100,000,000</u>
Ordinary non-voting shares	<u>800,000</u>	<u>800,000</u>
Preference shares	<u>1,214,128</u>	<u>1,214,128</u>
	2018	2017
<i>Issued and fully paid</i>		
22,400,000 voting ordinary shares	\$ 77,562,792	77,562,792
520,000 ordinary non-voting shares	<u>2,600,000</u>	<u>2,600,000</u>
	<u>\$ 80,162,792</u>	<u>80,162,792</u>

13. Fair Value Reserve

	2018	2017
Balance at beginning of year	\$ 331,278	(551,394)
Fair value gain on AFS financial assets	-	882,672
Fair value loss on FVTOCI financial assets	(6,971)	-
Fair value loss on FVTPL financial assets	<u>(1,844,874)</u>	-
Balance at end of year	<u>\$ (1,520,567)</u>	<u>331,278</u>

The fair value reserve represents the cumulative fair value gains and losses arising on the revaluation of both financial assets measured at FVTPL and FVTOCI in accordance with IFRS 9. The 2017 balance represents the cumulative fair value gains and losses arising on the revaluation of AFS financial assets that have been recognised in other comprehensive income.

14. Revaluation Reserve

	2018	2017
Balance at December 31,	<u>\$ 15,350,707</u>	<u>15,350,707</u>

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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***15. 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.

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:

	2018	2017
Available-for-sale financial assets (Note 10)	\$ -	34,209,425
FVTOCI financial assets (Note 10)	1,620,000	-
FVTPL financial assets (Note 10)	33,674,054	-
Cash and cash equivalents (Note 11)	826,502	384,341
	<u>\$ 36,120,556</u>	<u>34,593,766</u>

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

	2018	2017
Balance at January 1,	\$ 33,972,285	30,717,043
Transferred from retained earnings	2,644,301	3,255,242
Balance at December 31,	<u>\$ 36,616,586</u>	<u>33,972,285</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***16. Borrowings**

	2018	2017
Current		
Bank borrowings	\$ 4,561,767	4,438,271
Related parties	<u>7,717,171</u>	<u>14,124,607</u>
	<u>12,278,938</u>	<u>18,562,878</u>
Non-current		
Bank borrowings	31,400,891	15,962,658
Related parties	<u>58,522,675</u>	<u>66,239,845</u>
	<u>89,923,566</u>	<u>82,202,503</u>
Total borrowings		
Bank borrowings	35,962,658	20,400,929
Related parties (Note 30)	<u>66,239,846</u>	<u>80,364,452</u>
	<u>\$ 102,202,504</u>	<u>100,765,381</u>

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 the assignment of insurance policies (Note 6).

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

	2018	2017
	%	%
Bank borrowings	3.76	4.02
Related parties	5.35	5.41

Maturity of non-current borrowings:

	2018	2017
Between 1 and 2 years	\$ 12,866,269	10,578,572
Between 2 and 5 years	42,431,904	35,012,297
Over 5 years	<u>34,625,393</u>	<u>36,611,634</u>
	<u>\$ 89,923,566</u>	<u>82,202,503</u>

The Group's exposure to liquidity risks related to borrowings is disclosed in Note 33.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***17. 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% (2017 - 2%) per annum.

	2018	2017
Consumer deposits	\$ 14,082,827	13,721,055
Interest accrual	<u>4,157,031</u>	<u>4,040,395</u>
	<u>\$ 18,239,858</u>	<u>17,761,450</u>

18. Provision for Other Liabilities

	2018	2017
Balance at beginning and end of year	\$ <u>1,485,493</u>	<u>1,485,493</u>

The provision for other liabilities represents the estimated decommissioning costs of the old power stations located at Union and Vieux Fort planned for 2019.

19. Deferred Tax Liabilities

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% (2017 - 30%). The movement in the deferred tax liabilities is as follows:

	2018	2017
Balance at beginning of year	\$ 33,596,207	33,364,975
Recognised in profit and loss (Note 25)	1,191,291	66,232
Recognised in other comprehensive income (Note 25)	<u>(2,215,500)</u>	<u>165,000</u>
Balance at end of year	<u>\$ 32,571,998</u>	<u>33,596,207</u>

Deferred tax liabilities are attributed to the following items:

	2018	2017
Property, plant and equipment	\$ 33,206,198	34,207,007
Post-employment medical benefit liabilities	<u>(634,200)</u>	<u>(610,800)</u>
	<u>\$ 32,571,998</u>	<u>33,596,207</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***20. 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 being administered by CLICO International Life Insurance Company Limited ("CLICO"). Subsequent funding to the Plan is currently administered by RBC Investments Management (Caribbean) Limited (Note 35).

The most recent actuarial valuations of these two plans were completed on 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 Plan with effect from July 8, 2018 and as a result, the Group has recognised the gain on the settlement of the Plan at July 8, 2018.

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

	Grade II		Grades I	
	2018	2017	2018	2017
	%	%	%	%
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.

20. Pension Benefit Liabilities (Cont'd)

(c) The amounts recognised in the Consolidated Statement of Financial Position are determined as follows:

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Present value of defined benefit obligations	\$ -	(28,268,000)	(17,034,000)	(15,026,000)	(13,101,000)	(12,773,000)	(30,135,000)	(56,067,000)
Fair value of plans' assets	-	31,562,000	21,803,000	17,900,000	16,248,000	16,664,000	38,051,000	66,126,000
Effect of asset ceiling	-	(3,294,000)	(4,769,000)	(2,874,000)	(3,147,000)	(3,891,000)	(7,916,000)	(10,059,000)
Defined benefit liabilities	\$ -	-	-	-	-	-	-	-

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

20. Pension 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	
	2018	2017	2018	2017	2018	2017	2018	2017
Defined benefit obligations as at January 1,	\$ 28,268,000	26,086,000	15,026,000	14,355,000	12,773,000	12,500,000	56,067,000	52,941,000
Service costs	580,000	1,082,000	716,000	398,000	101,000	108,000	1,397,000	1,588,000
Interest costs	1,121,000	2,024,000	1,102,000	1,049,000	934,000	925,000	3,157,000	3,998,000
Past service costs	-	-	-	-	-	-	-	-
Members' contributions	-	-	339,000	201,000	142,000	149,000	481,000	350,000
Benefits paid	(183,000)	(359,000)	(685,000)	(744,000)	(707,000)	(408,000)	(1,575,000)	(1,511,000)
Re-measurements: experience adjustments	2,765,000	(565,000)	536,000	(233,000)	(142,000)	(501,000)	3,159,000	(1,299,000)
Plan settlements	(32,551,000)	-	-	-	-	-	(32,551,000)	-
Defined benefit obligations as at December 31, \$	-	28,268,000	17,034,000	15,026,000	13,101,000	12,773,000	30,135,000	56,067,000

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

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Fair value of Plan's assets at January 1,	\$ 31,562,000	26,010,000	17,900,000	10,396,000	16,664,000	16,303,000	66,126,000	52,709,000
Contributions paid - employer	4,518,000	4,267,000	3,920,000	764,000	412,000	260,000	8,850,000	5,291,000
Contributions paid - members	-	-	339,000	201,000	142,000	149,000	481,000	350,000
Interest income	1,315,000	2,097,000	1,470,000	786,000	1,243,000	1,221,000	4,028,000	4,104,000
Return on plans' assets, excluding interest income	(4,639,000)	(431,000)	(1,040,000)	6,559,000	(1,461,000)	(814,000)	(7,140,000)	5,314,000
Benefits paid	(183,000)	(359,000)	(685,000)	(744,000)	(707,000)	(408,000)	(1,575,000)	(1,511,000)
Expense allowance	(22,000)	(22,000)	(101,000)	(62,000)	(45,000)	(47,000)	(168,000)	(131,000)
Plan settlements	(32,551,000)	-	-	-	-	-	(32,551,000)	-
Fair value of Plans' assets at December 31,	\$ -	31,562,000	21,803,000	17,900,000	16,248,000	16,664,000	38,051,000	66,126,000

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

20. Pension Benefit Liabilities (Cont'd)

(f) Plans' assets consist of the following:

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Overseas equities	\$ -	14,224,000	2,333,000	1,164,000	-	-	2,333,000	15,388,000
Government issued nominal bonds	-	10,016,000	14,097,000	8,379,000	-	-	14,097,000	18,395,000
Corporate bonds	-	4,671,000	974,000	811,000	-	-	974,000	5,482,000
Cash/money market	-	858,000	2,658,000	1,160,000	-	-	2,658,000	2,018,000
Immediate annuity policies	-	-	1,741,000	6,386,000	-	-	1,741,000	6,386,000
Deposit administration account	-	-	-	-	16,248,000	16,664,000	16,248,000	16,664,000
Other	-	1,793,000	-	-	-	-	-	1,793,000
Total	\$ -	31,562,000	21,803,000	17,900,000	16,248,000	16,664,000	38,051,000	66,126,000

Grade I

The asset value as at December 31, 2018 was estimated using the asset value as at October 31, 2018 provided by the Plan's Investment Manager - Sagcor. The value is reliant on Sagcor's financial strength.

The 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 Sagcor'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, 2018 were estimated using the asset value as at September 30, 2018 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

20. Pension Benefit Liabilities (Cont'd)

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

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Return on Plans' assets	\$ (3,324,000)	1,666,000	430,000	7,345,000	(218,000)	407,000	(3,112,000)	9,418,000

(h) The net pension cost recognised in the Consolidated Statement of Comprehensive Income were as follows:

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Current service cost	\$ 580,000	1,082,000	716,000	398,000	101,000	108,000	1,397,000	1,588,000
Past service cost	-	-	-	-	-	-	-	-
Administrative expenses	22,000	22,000	101,000	62,000	45,000	47,000	168,000	131,000
Net interest (income)/expense on defined benefit asset	(194,000)	(73,000)	-	263,000	-	-	(194,000)	190,000
Net pension costs	\$ 408,000	1,031,000	817,000	723,000	146,000	155,000	1,371,000	1,909,000

(i) Re-measurements losses/(gains) recognised in Other Comprehensive Income were as follows:

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Experience losses/(gains)	\$ 7,405,000	(134,000)	1,576,000	(6,792,000)	1,319,000	313,000	10,300,000	(6,613,000)
Effect of asset ceiling	(3,295,000)	3,294,000	1,527,000	2,874,000	(1,053,000)	(208,000)	(2,821,000)	5,960,000
Total amount recognised in Other Comprehensive Income	\$ 4,110,000	3,160,000	3,103,000	(3,918,000)	266,000	105,000	7,479,000	(653,000)

20. Pension Benefit Liabilities (Cont'd)

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

	Grade III		Grade II		Grade I		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Opening defined benefit liabilities	\$ -	(76,000)	-	(3,959,000)	-	-	-	(4,035,000)
Net pension costs	(408,000)	(1,031,000)	(817,000)	(723,000)	(146,000)	(155,000)	(1,371,000)	(1,909,000)
Re-measurement (losses)/gains recognised in Other Comprehensive Income	(4,110,000)	(3,160,000)	(3,103,000)	3,918,000	(266,000)	(105,000)	(7,479,000)	653,000
Employer contributions paid	<u>4,518,000</u>	<u>4,267,000</u>	<u>3,920,000</u>	<u>764,000</u>	<u>412,000</u>	<u>260,000</u>	<u>8,850,000</u>	<u>5,291,000</u>
Closing defined benefit liabilities	\$ -	-	-	-	-	-	-	-

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***20. Pension 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, 2018 would have changed as a result of a change in the assumptions used.

Grade I

		1% p.a. increase	1% p.a. decrease
Discount rate	\$	(1,159,000)	1,452,000
Future salary increases	\$	884,000	(700,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2018 by \$176,000.

Grade II

		1% p.a. increase	1% p.a. decrease
Discount rate	\$	(1,760,000)	2,119,000
Future salary increases	\$	609,000	(554,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2017 by \$344,000.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

20. Pension Benefit Liabilities (Cont'd)

(l) Duration

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

	2018	2017
Grade 1	10.6 years	10.2 years
Grade II	11.8 years	12.3 years

(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 \$293,000 to the Plan during 2019.

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 \$1,086,000 to the Plan during 2019.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***21. 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:

	2018	2017
	%	%
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:

	2018	2017
Present value of defined benefit obligations	\$ 2,114,000	2,036,000
Fair value of Plans' assets	<u>-</u>	<u>-</u>
Defined benefit liabilities	<u>2,114,000</u>	<u>2,036,000</u>

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

	2018	2017
Defined benefit obligations as at January 1,	\$ 2,036,000	1,786,000
Current service costs	71,000	63,000
Interest costs	151,000	132,000
Benefits paid	(50,000)	(48,000)
Re-measurements: experience adjustments	<u>(94,000)</u>	<u>103,000</u>
Defined benefit obligations as at December 31,	<u>\$ 2,114,000</u>	<u>2,036,000</u>

- (d) The amounts recognised in the Consolidated Statement of Comprehensive Income were as follows:

	2018	2017
Current service costs	\$ 71,000	63,000
Interest on defined benefit obligations	<u>151,000</u>	<u>132,000</u>
Net pension costs	<u>\$ 222,000</u>	<u>195,000</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***21. Post-employment Medical Benefit Liabilities (Cont'd)**

(e) Re-measurement (gains)/losses recognised in Other Comprehensive Income were as follows:

	2018	2017
Experience (gains)/losses	\$ <u>(94,000)</u>	<u>103,000</u>
Total amount recognised in Other Comprehensive Income	\$ <u>(94,000)</u>	<u>103,000</u>

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

	2018	2017
Opening defined benefit liabilities	\$ 2,036,000	1,786,000
Net pension costs	222,000	195,000
Re-measurements recognised in Other Comprehensive Income	(94,000)	103,000
Benefits paid	<u>(50,000)</u>	<u>(48,000)</u>
Closing defined benefit liabilities	<u>\$ 2,114,000</u>	<u>2,036,000</u>

(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, 2018 would have changed as a result of a change in the assumptions used.

	1% p.a. increase	1% p.a. decrease
Discount rate	\$ (314,000)	406,000
Medical expense increases	\$ 412,000	(324,000)

An increase of 1 year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2018 by \$70,000.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***21. Post-employment Medical Benefit Liabilities (Cont'd)****(h) Duration**

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

	2018	2017
	18.1 years	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 \$52,000 to the Plan in 2019.

22. Trade and Other Payables

	2018	2017
Trade payables	\$ 15,479,438	17,047,615
Accrued expenses	11,052,540	18,687,496
Other payables	<u>6,679,710</u>	<u>9,971,939</u>
	33,211,688	45,707,050
Deferred fuel costs (Note 26)	<u>-</u>	<u>4,288,440</u>
	\$ 33,211,688	49,995,490

Deferred fuel costs relate to fair value adjustments of derivative financial instruments as disclosed in Note 3(i) and Note 26.

The Group's exposure to liquidity risks related to trade and other payables is disclosed in Note 33.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***23. Other Gains, Net**

	2018	2017
(Loss)/gain on disposal of property, plant and equipment	\$ (23,755)	44,285
Foreign exchange gains	<u>84,519</u>	<u>22,325</u>
	<u>\$ 60,764</u>	<u>66,610</u>

24. Finance Costs

	2018	2017
Interest expense on:		
- borrowings	\$ 4,954,461	5,797,822
- consumer deposits	276,951	257,564
- pole rental deposits	<u>1,758</u>	<u>500</u>
	5,233,170	6,055,886
Loss on disposal of other financial assets	<u>-</u>	<u>7,659</u>
	<u>\$ 5,233,170</u>	<u>6,063,545</u>

25. Taxation

	2018	2017
Current tax	\$ 11,470,355	13,404,388
Deferred tax (Note 19)	<u>1,191,291</u>	<u>66,232</u>
	<u>\$ 12,661,646</u>	<u>13,470,620</u>

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

	2018	2017
Profit before taxation	\$ 47,627,189	48,157,754
Tax at the statutory rate of 30% (2017 - 30%)	14,288,157	14,447,326
Tax effect of non-deductible expenses	463,624	183,908
Tax effect of non-taxable income	(312,052)	(262,276)
Tax effect of self-insurance appropriation	(900,000)	(900,000)
Deferred tax asset unrecognised on tax loss	2,068	1,662
Tax effect of financial asset impairment	<u>(880,151)</u>	<u>-</u>
Actual tax charge	<u>\$ 12,661,646</u>	<u>13,470,620</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***25. Taxation (Cont'd)**

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

	2018			2017		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Re-measurement (losses)/gains on defined benefit plans	\$ <u>(7,385,000)</u>	<u>2,215,500</u>	<u>(5,169,500)</u>	<u>550,000</u>	<u>(165,000)</u>	<u>385,000</u>

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:

	2018	2017
Fixed price swaps	\$ <u>(11,284,711)</u>	<u>4,288,440</u>

27. Basic and Diluted Earnings per Share

Basic and diluted earnings per share of \$1.53 (2017 - \$1.51) is calculated by dividing the profit for the year of \$34,965,543 (2017 - \$34,687,134) by the weighted average number of shares outstanding during the year of 22,920,000 (2017 - 22,920,000).

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***28. 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 2018 (2017 - 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.

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.

29. Ordinary Dividends

	2018	2017
Interim 2018 - \$0.45 (2017 - \$0.45) per share	\$ 10,314,000	10,314,000
Final 2017 - \$0.50 (2016 - \$0.56) per share	<u>11,460,000</u>	<u>12,835,200</u>
	<u>\$ 21,774,000</u>	<u>23,149,200</u>

The final dividend for the year 2018 had not been declared as at December 31, 2018.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***30. 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.

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:

	2018	2017
Short-term employee benefits	\$ 5,018,393	4,176,949
Post-employment benefits	116,304	91,020
Directors' remuneration	<u>356,775</u>	<u>351,030</u>
	<u>\$ 5,491,472</u>	<u>4,618,999</u>

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

	2018	2017
Supply of services	\$ <u>153,224</u>	<u>124,341</u>

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

	2018	2017
Supply of services	\$ <u>9,130</u>	<u>10,601</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***30. Related Parties (Cont'd)****Transactions with key management personnel (Cont'd)**

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

Transactions with those entities during the year were as follows:

	2018	2017
Services rendered to the Group	\$ <u> -</u>	<u>29,232</u>

There were no balances outstanding in relation to those entities at the reporting date (2017 - Nil).

Transactions with shareholders

The Group is controlled by the following entities:

	2018	2017
	%	%
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
	<u>85.55</u>	<u>85.55</u>

The remaining 14.45% (2017 - 14.45%) of the shares is widely held.

Transactions with shareholders during the year were as follows:

Supply of Electricity Services

	2018	2017
National Insurance Corporation	\$ 1,563,999	2,601,993
Castries Constituency Council	1,966,340	1,460,812
Government of Saint Lucia	<u>26,900,679</u>	<u>23,847,348</u>
	<u>\$ 30,431,018</u>	<u>27,910,153</u>

The Government of Saint Lucia receives a 10% (2017 -10%) discount on electricity charges in respect of all accounts other than Street lighting, except where the minimum charges apply.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***30. Related Parties (Cont'd)****Transactions with shareholders (Cont'd)**Supply of Other Services

	2018	2017
Castries Constituency Council	-	26,723
Government of Saint Lucia	<u>239,403</u>	<u>114,695</u>
	<u>\$ 239,403</u>	<u>141,418</u>

Balances at the reporting date arising from supply of electricity services to related parties during the year (Note 9) were as follows:

	2018	2017
National Insurance Corporation	\$ 8,319	21,248
Castries Constituency Council	179,773	96,771
Government of Saint Lucia	<u>7,597,453</u>	<u>6,303,713</u>
	<u>\$ 7,785,545</u>	<u>6,421,732</u>

Balances at the reporting date arising from supply of other services to related parties during the year (Note 9) were as follows:

	2018	2017
Government of Saint Lucia	\$ <u>880,257</u>	<u>858,672</u>

Provision for impairment and impairment losses recognised against related party balances were as follows:

	2018	2017
Provision for impairment	\$ <u>2,601,706</u>	<u>1,106,833</u>
Impairment (gain)/loss	\$ <u>(783,263)</u>	<u>265,666</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***30. Related Parties (Cont'd)****Transactions with shareholders (Cont'd)***Loans from shareholders*

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

	2018	2017
National Insurance Corporation		
At beginning of year	\$ 73,564,817	80,517,523
Repayments during year	<u>(11,044,482)</u>	<u>(11,044,482)</u>
	62,520,335	69,473,041
Interest expense	<u>3,719,511</u>	<u>4,091,776</u>
At end of year	<u>\$ 66,239,846</u>	<u>73,564,817</u>
First Citizens Bank Limited		
At beginning of year	\$ 6,799,635	13,599,269
Repayments during year	<u>(6,978,796)</u>	<u>(7,597,209)</u>
	(179,161)	6,002,060
Interest expense	<u>179,161</u>	<u>797,575</u>
At end of year	<u>\$ -</u>	<u>6,799,635</u>
	<u>\$ 66,239,846</u>	<u>80,364,452</u>

The above loans are fully secured (Note 16).

Finance costs

Details of the related finance costs are as follows:

	2018	2017
National Insurance Corporation	\$ 3,719,510	4,091,776
First Citizens Bank Limited	<u>209,730</u>	<u>797,575</u>
	<u>\$ 3,929,240</u>	<u>4,889,351</u>

These charges are included in the finance costs of \$5,233,170 (2017 - \$6,063,545) disclosed in the Consolidated Statement of Comprehensive Income.

Joint Operation

During 2015, the Group entered into a joint arrangement with a company based in Texas, USA, to assess the feasibility of developing a wind farm in Saint Lucia. The terms of the arrangement are subject to change upon completion of this feasibility assessment. The Group has a 50% interest in the assets procured or developed and bears a proportionate share of the project's expenses.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***31. Expenses by Nature**

	2018	2017
Fuel costs	\$ 156,064,679	127,594,290
Depreciation on property, plant and equipment (Note 6)	35,541,639	34,291,418
Employee benefit expenses (Note 32)	32,057,886	36,972,161
Repairs and maintenance	12,829,757	11,610,678
Amortisation of intangible assets (Note 7)	1,983,755	1,914,935
Research costs	29,214	254,605
Other operating expenses	18,242,778	17,058,884
	<u>\$ 256,749,708</u>	<u>229,696,971</u>
Operating expenses	\$ 223,759,401	195,439,505
Administrative expenses	32,990,307	34,257,466
	<u>\$ 256,749,708</u>	<u>229,696,971</u>

32. Employee Benefit Expenses

	2018	2017
Wages and salaries	\$ 24,564,965	29,355,972
Pension contributions	2,465,158	2,383,954
Medical contributions	830,592	787,034
Other employee benefits	4,197,171	4,445,201
	<u>\$ 32,057,886</u>	<u>36,972,161</u>

The number of permanent employees at December 31, 2018 was 256 (2017 - 256).

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

*(Expressed In Eastern Caribbean Dollars)***33. Financial Instruments****Credit risk***Exposure to credit risk*

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

	Notes	Carrying Amounts	
		2018	2017
Trade and other receivables	9	\$ 54,091,382	50,896,464
Other financial assets	10	35,294,054	40,671,992
Derivative financial instruments	26	-	4,288,440
Cash and cash equivalents	11	17,659,161	22,644,177
		<u>\$ 107,044,597</u>	<u>118,501,073</u>

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

	Carrying Amounts	
	2018	2017
Business, before deducting provision	\$ 26,681,023	23,312,150
Residential, before deducting provision	14,227,811	13,751,750
	<u>\$ 40,908,834</u>	<u>37,063,900</u>

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

Balance at January 1, 2017	7,239,988
Impairment loss recognized per IAS 39	929,394
Amounts written off	(97,408)
Balance at December 31, 2017	8,071,974
Effect of change in accounting policy for IFRS 9 (Note 3(p))	4,800,231
Balance at January 1, 2018	<u>12,872,205</u>
Impairment gain recognised per IFRS 9	(107,907)
Amounts written off	(7,412)
Balance at December 31, 2018	<u>12,756,886</u>

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

33. Financial Instruments(Cont'd)

Credit risk (Cont'd)

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

Balance at January 1, 2017	\$	885,197
Impairment loss recognized per IAS 39		414,216
Amounts written off		<u>(9,064)</u>
Balance at December 31, 2017		1,290,349
Effect of change in accounting policy for IFRS 9 (Note 3(p))		<u>(1,444)</u>
Balance at January 1, 2018		1,288,905
Impairment loss recognized per IFRS 9		<u>75,422</u>
Balance at December 31, 2018	\$	<u>1,364,327</u>

The provision 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.

33. Financial Instruments (Cont'd)

Liquidity risk

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

December 31, 2018	Carrying amounts	Total Contractual cash flows	Contractual Cash Flow			
			Under 1 year	1-2 years	2-5 years	>5 years
Non-derivative financial liabilities						
Borrowings	\$ 102,202,504	121,467,481	16,858,094	16,858,094	50,574,283	37,177,010
Trade and other payables	33,211,688	33,211,688	33,211,688	-	-	-
Dividends payable	1,715,728	1,715,728	1,715,728	-	-	-
	<u>\$ 137,129,920</u>	<u>156,394,897</u>	<u>51,785,510</u>	<u>16,858,094</u>	<u>50,574,283</u>	<u>37,177,010</u>
December 31, 2017						
Non-derivative financial liabilities						
Borrowings	\$ 100,765,381	120,998,645	23,263,198	14,484,833	43,454,500	39,796,114
Trade and other payables	45,707,050	45,707,050	45,707,050	-	-	-
Dividends payable	440,194	440,194	440,194	-	-	-
	<u>\$ 146,912,625</u>	<u>167,145,889</u>	<u>69,410,442</u>	<u>14,484,833</u>	<u>43,454,500</u>	<u>39,796,114</u>

The Group also has liabilities totaling \$18,239,858 (2017: \$17,761,450) relating to customer deposits 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

33. 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:

	Note	Carrying amounts as at December 31, 2018	Fair values as at December 31, 2018	Carrying amounts as at December 31, 2017	Fair values as at December 31, 2017
Trade and other receivables	9	\$ 54,091,383	54,091,383	50,896,464	50,896,464
Other financial assets	10	35,294,054	35,294,054	40,671,992	40,671,992
Cash and cash equivalents	11	17,659,161	17,659,161	22,644,177	22,644,177
Borrowings	16	(102,202,504)	(94,320,399)	(100,765,381)	(94,283,376)
Trade and other payables	22	(33,211,688)	(33,211,688)	(45,707,050)	(45,707,050)
Dividends payable		(1,715,728)	(1,715,728)	(440,194)	(440,194)
Derivative financial instruments	26	(11,284,711)	(11,284,711)	4,288,440	4,288,440
		\$ (41,370,033)	(33,487,928)	(28,411,552)	(21,929,547)

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 are based on the market interest rates at the reporting date.

The Group also has liabilities totaling \$18,239,858 (2017: \$17,761,450) relating to customer deposits that are refundable upon the cessation of the supply of services. It is not practicable to determine the fair values of these liabilities.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

34. Commitments

Capital commitments

The Group had capital commitments at December 31, 2018 of \$2,069,312 (2017 - \$11,222,887).

Operating lease commitments

(i) *Motor vehicles and property*

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

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

	2018	2017
Not later than 1 year	\$ 541,752	657,924
Later than 1 year and not later than 5 years	<u>416,215</u>	<u>946,282</u>
	<u>\$ 957,967</u>	<u>1,604,206</u>

(i) *Pole rental*

The Group expects to earn annual income from pole rentals of \$941,492 (2017 - \$907,224) for the foreseeable future.

35. CLICO Investment - Grade II Pension Scheme

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

On January 30, 2009, in accordance with the terms of the deposit administration contract between CLICO and the scheme's trustees, the trustees with the consent of the Group served notice on CLICO to terminate the contract. Under the terms of the contract, CLICO is required to repay the value of the deposit administration contract in monthly instalments of \$250,000, and interest is accrued on the residual balance at a rate of 5% per annum. These monthly instalments were paid to the scheme's new investment manager (RBC Investment Management (Caribbean) Limited) up until October 2010 when payments stopped.

Contributions remitted to the scheme since 2008 have been paid to the scheme's new investment manager.

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

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

35. CLICO Investment-Grade II Pension Scheme (Cont'd)

During 2017, the scheme's trustees reached an agreement with CLICO's judicial manager to settle their claim relating to the residual value of the deposit administration contract in accordance with terms approved by the Court. As a result, the scheme received \$4.524 million in October 2017, which represented 65% of the principal value of the contract. Realisation of this asset was taken into consideration in the computation of the Group's retirement benefit liabilities and its annual net pension cost as required by IAS 19.

36. Contingent Liabilities

Claims

The Group has been named a defendant to a number of claims as at December 31, 2018. 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 their 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 Company'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.

Grade Structure

There is a matter before the Labour Tribunal concerning the implementation of a grade structure for the Company's Grade 1 employees. It is not practicable to reliably estimate the retroactive pay, if any, that would be due to these employees once the Tribunal has ruled.

Retirement Age

In 2018 the High Court issued a ruling declaring that the retirement age of employees who entered service prior to August 1, 2012 and who are members of the Company's Grade 1 Pension Scheme, is sixty years and that the Company 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 Company 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.

ST. LUCIA ELECTRICITY SERVICES LIMITED

Notes to Consolidated Financial Statements (Cont'd)

For the Year Ended December 31, 2018

(Expressed In Eastern Caribbean Dollars)

37. Subsidiary Companies

	Country of incorporation	Equity %
LUCELEC Cap-Ins. Inc.	Saint Lucia	100
LUCELEC Trust Company 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.

38. Comparatives

The comparative figures for 2017 were amended to reflect the reclassification of \$2,938,018 from trade receivable to accounts payable. The result is an increase in total assets and total liabilities of the same amount. The reclassification did not impact the Group's net profit for the year, net cash or net assets.

39. Events after the Reporting Period

No significant events occurred after the reporting period date affecting the financial performance, position or changes therein for the reporting period presented in these consolidated financial statements.