LUCELEC

ST. LUCIA ELECTRICITY SERVICES LIMITED

2017 Annual Report

RENEWAL

Vision, Mission, Values

VISION

To be the energy that powers our nation's success

MISSION

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

CORE VALUES

Accountability, Excellence, Caring, Ethics

Corporate Information

REGISTERED OFFICE

LUCELEC Building
Sans Soucis
John Compton Highway
Castries
Saint Lucia
Tel: 758-457-4400
Fax: 758-457-4409
Email: connected@lucelec.com
Website: www.lucelec.com

BANKERS

CIBC FirstCaribbean
International Bank
Bridge Street
P. O. Box 335/336
Castries
Saint Lucia

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

AUDITORS

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

ATTORNEYS-AT-LAW

McNamara & Company
20 Micoud Street
Castries
Saint Lucia

Theme Statement
Renewal

Renewal (noun) /rɪˈnjuːəl/ - the act or process of making changes to something in order to improve it so that it becomes more successful.

In many ways, LUCELEC has been in a process of renewal over the last couple of years. This was particularly so in 2017. The year started with the continuation of major improvements to the main administrative office which had served us well for more than 20 years.

The process of renewal included the upgrading of some of our major systems – SCADA, Information Technology (IT), Geographic Information System (GIS), and parts of the Transmission & Distribution network. And our business processes, human resources management, employee engagement, and customer care frameworks are also being redesigned.

All of this is happening alongside the actual commencement of construction of a 3 megawatt solar farm in the south of the island. Perhaps there is no more meaningful statement of LUCELEC's process of renewal than this - a major shift in energy generation towards utility scale renewable energy.

Certainly, LUCELEC has been extremely successful at providing a modern, cost effective, and reliable electricity supply to St. Lucia. But as regulatory frameworks, technology, and customer expectations change, our willingness to engage in a constant process of renewal is what helps us remain ahead of the curve, to be even more successful at what we do best!

Table of Contents

2017 Corporate Performance

INDICES	MEASURE OF SUCCESS	TARGET	PERFORMANCE
Improve Financial Performance	Profit After Tax/Net Income	**$28.0M**	**$31.4M**
	Improved Working Capital	Current Ratio of 1.6	**1.4**
Increase customer value and stakeholder satisfaction	Fuel Efficiency	**4.3** kWh/litre	**4.29** kWh/litre
	SAIDI (System Average Interruption Duration Index)	**7.18 hours**	**8.89 hours**
	Stakeholder (Customer) Satisfaction Score	Stakeholder satisfaction with various value items - **86%**	**86.74%**
Efficient & Aligned Core & Supporting Processes	Business Process	Completion of As-Is Maps for all Company Processes by June 30, 2017 + Analysis of all Company Processes by September 30, 2017	**Threshold Performance**
Proactive Risk Management Process	Risk Management	Rollout Enterprise Risk Management (ERM) policy statement. Development & Communication of the ERM framework. Understanding Risk ID & assessment & the use of the Risk Registers + Training of G9 in Risk ID & Use of Registers.	**Target Met**
	All Injury/Illness Frequency Rate	**1.54**	**0.72**
Reduction in System Losses	System Losses	**7.4%**	**6.86%**
Motivated, Skilled & Customer Centric Employees	Employee Engagement Levels	Development of Post Engagement Survey Action Plan (by February) + Implementation of Post Engagement Survey Action Plan	**Threshold Performance**

2018 Corporate Targets

INDICES	MEASURE OF SUCCESS	TARGET
Improve Financial Performance	Profit After Tax/Net Income	**$29.0M**
	Improved Working Capital	Current Ratio of **1.78**
Increase customer value and stakeholder satisfaction	Fuel Efficiency	**4.28** kWh/litre
	SAIDI (System Average Interruption Duration Index)	**8.15 hours**
	Stakeholder (Customer) Satisfaction Score	Stakeholder satisfaction with various value items - **87%**
Cost Management - Efficient & Aligned Core & Supporting Processes	MWh Sold/FTE[1]	**1,331**
	Total Operating Cost/KWh Sold	**$0.305**
	System Losses	**6.87 hours**
Proactive Risk Management Process	All Injury/Illness Frequency Rate	**0.36**
Strategic Human Resources Management - Demonstrate Effective Leadership & Management	Employee Engagement Levels (Implementation)	Implement 90% of Employee Engagement Plan by End of Year
	Employee Engagement Levels (Survey)	Achieve 62% on results of survey to assess Employee Engagement Levels

[1] Megawatt Hours Sold per Full Time Employee

5 Year Operational and Financial Performance

Fuel Efficiency (kWhs/litre)

SAIDI (hrs)

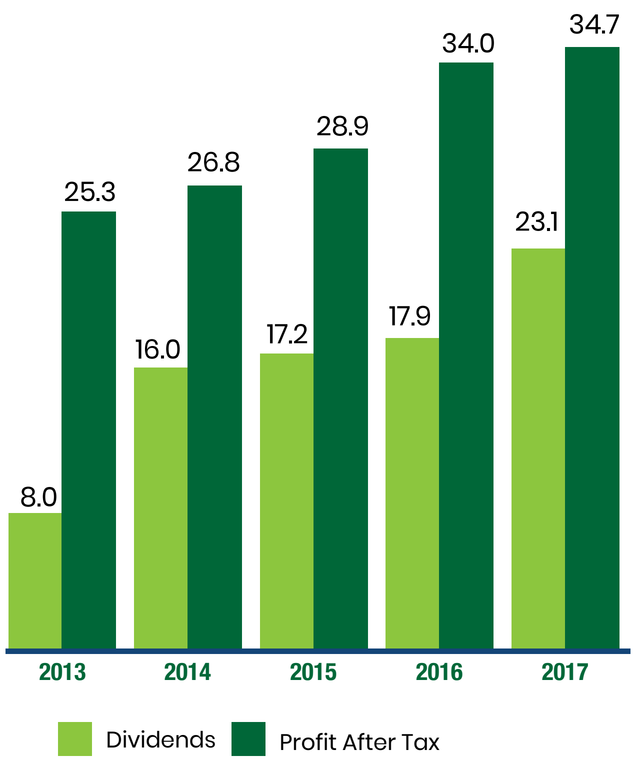
System Losses (%)

Return on Equity (%)

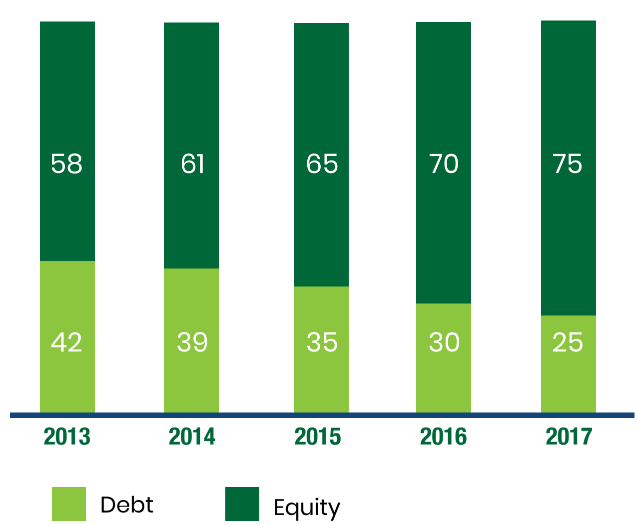
Cost Per Units Sold (EC Cents)

Earnings & Dividends Per Share

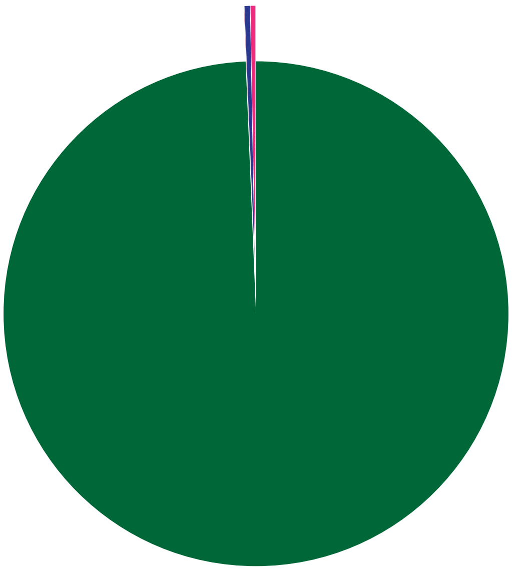
Dividends/Profit After Tax (EC$ Millions)



Debt/Equity Ratio



2017 Financial Highlights



Sale of Electricity
Investment Income
Sundry Sales
Proceeds from Disposal of Assets
Consumer Contributions and Deposits

Where the LUCELEC Dollar Came From

	EC$ ('000)	EC cents
Sale of Electricity	282,539	99.3
Proceeds from Disposal of Assets	44	0.0
Consumer Contributions and Deposits	985	0.3
Investment Income	783	0.3
Sundry Sales	49	0.0
	284,400	**100.0**

Payments To Government
Dividends
Debt Servicing
Purchase of Fixed Addets
Operations
Payroll Cost
Fuel and Lubricants

How the LUCELEC Dollar Was Spent

	EC$ ('000)	EC cents
Payroll Costs	29,757	10.3
Fuel and Lubricants	129,121	44.8
Purchase of Fixed Assets	49,045	17.0
Debt Servicing	24,686	8.6
Dividends	23,154	8.0
Payments to Government	22,408	7.8
Operations	10,061	3.5
	288,232	**100.0**

Chairman's Message

2017 will be remembered for its super storms. Although St. Lucia was spared any major impacts, the trail of devastation hurricanes Irma and Maria wreaked across the region was unprecedented. So too was the damage to electricity infrastructure in many of our sister utilities. The 2017 Atlantic Hurricane Season made its mark internationally too. Three major hurricanes made landfall in the United States and one post-tropical storm slammed into England and Ireland. One of the busiest and most destructive hurricane seasons on record, 2017 brought climate change, vulnerability, grid resilience, and insurance into sharp focus, especially for the electricity industry, transcending (albeit temporarily) the price and geopolitics of oil as the major issues facing the electricity sector.

Industry Overview - International

For the first time in nearly two and a half years, oil prices settled at just above US$60 per barrel at the end of 2017. The upward swing in prices began at the end of June, a combination of OPEC maintaining production cuts, US shale oil producers increasing production, and a slight increase in demand, contributing to the recovery. The outlook for 2018 is that oil prices will remain around that US$60 mark, approximately 10% higher than the average for 2017.

In the electric utility industry, the continued push to update aging infrastructure, develop smarter grids, improve disaster response, and to better integrate distributed energy resources into the grid, received fresh impetus following the record -breaking damage that accompanied several major natural disasters – hurricanes, flooding, landslides, earthquakes – across the globe.

Industry Overview – Local

At the local level, the changes in the price of oil were reflected in electricity rates showing marginal increases towards the end of the year, cushioned somewhat by LUCELEC's fuel price hedging programme.

The transition towards a new energy future away from almost 100% diesel generation to include indigenous renewable sources of energy such as solar, wind and geothermal, built around the National Energy Transition Strategy (NETS) roadmap, was slower than anticipated. Perhaps the brightest glint of things to come was the formal commencement of construction of a 3 megawatt solar farm which is scheduled to be completed in May 2018.

The major renovation of the Company's main administrative building was completed and staff returned to an improved working environment. There were also significant upgrades to a number of the Company's major technical systems, and several miles of the 66kV transmission lines on the West coast were rebuilt. With the roll out of the Advanced Metering Infrastructure (AMI) smart meters at 97% of the meter population, the renewal of the electricity infrastructure is well underway.

Challenges

Despite the declining prices of renewable energy technologies challenges with land acquisition remain. As a result, the Company has been unable to progress its plans for the development of a 12 MW wind farm. Nonetheless various options for moving forward with this initiative continue to be explored.

Thankfully, St. Lucia was spared the worst of the hurricane season, but our brush with the edges of Hurricane Maria resulted in some power outages that negatively affected our reliability performance, despite the excellent power restoration work for which the Company and its staff have a well-earned reputation. Of course, the Company joined other regional utilities in dispatching crews to assist with the renewal of the electricity infrastructure in neighbouring territories that endured the full brunt of Hurricanes Irma and Maria.

Unfortunately, the protracted negotiations between the Company and the two unions representing employees remained unresolved at the end of 2017. No doubt, resolution of these outstanding issues are a critical cog in the renewal process.

Company Performance

Notwithstanding, the Company's overall performance for 2017 is commendable. Electricity sales, positively impacted by the completion of two major hotels in the north of the island, increased by 3.3%.

The Group's Profit after Tax increased by 2.1% to EC$34.7M. Earnings per share for the year was EC$1.51, an increase of 2% over the prior year. The Group achieved a Return on Equity of 12.3% (2016 – 12.7%). And the Company achieved target or better on 5 of its 10 corporate performance indicators. Of particular note, is that System Losses (6.86%) fell below 7% for the first time.

Outlook for 2018

In 2018, for electric utilities the period of transformation will continue. The penetration of distributed energy resources (decentralized small power generation devices connected to the grid) will continue to increase, and together with energy storage, which is maturing as a power resource, will become a central part of utility planning[2]. These technological advances are transforming the business model for electric utilities.

I am proud to note that LUCELEC is already engaged in that transformation. Significant resources are being expended in modernizing the grid, adding renewable energy technologies, introducing energy storage, and upgrading the transmission and distribution system to improve efficiency, reliability and resilience. At the same time, the Company is laying the foundation for making the most of the opportunities that will arise therefrom.

Governance

Renewal has also come to the Executive Management and Board levels. During the latter part of 2017 a new Senior Human Resources Manager was added to the Executive Management Team to drive some of the Company's strategic HR initiatives.

There has also been a shift in the shareholding structure with the National Insurance Corporation increasing its shareholding to the maximum allowable 20%. This has given the NIC an additional seat on the Board and reduced the number of Directors representing minority shareholders from three to two.

I, too, am moving on. I have retired from the Board at the end of 2017 after the maximum term of 12 years and the Chairman's reins have been handed over to John Joseph. I am extremely grateful for the privilege of serving on LUCELEC's Board and for the changes that I've seen in the organisation over that time. Some of them have been nothing short of visionary, and have been borne out of an ongoing process of renewal, to not just respond to the trends in the industry, but to stay ahead of them in some instances. I am certain that the new Chairman, with the support of the other Directors, management and staff, will keep that process going.

Stephen McNamara
Chairman

2 The Wall Street Journal - Deloitte's 2018 Power and Utilities Outlook, Scott Smith.
http://deloitte.wsj.com/cio/2018/01/19/2018-power-and-utilities-industry-outlook/

“The transition towards a new energy future to include indigenous renewable sources of energy has begun.”

Board of Directors

Stephen Mc Namara CBE

Chairman (retired effective December 31, 2017)

Stephen Mc Namara was appointed to the Board of Directors of St. Lucia Electricity Services Limited on October 27, 2005, representing minority shareholders and was appointed Chairman of the Board of Directors on January 1, 2015.

Mr. Mc Namara is the senior partner of Mc Namara & Company, LUCELEC's external legal advisors. He was called to the Bar at Lincoln's Inn, and in Saint Lucia in 1972. Mr. Mc Namara was made a Commander of the Order of the British Empire (CBE) in the 2015 Queen's Birthday Honours for public service and services to the legal profession. Also in 2015 he was awarded an honorary doctorate from the University of the West Indies for his outstanding achievements and contribution to the region in the areas of business, sport and general philanthropy for more than forty years.

Mr. Mc Namara was also Chairman of the Board's Governance Committee and a member of the Human Resources Committee.

John Joseph

(appointed Chairman effective January 1, 2018)

John Joseph was appointed to the Board of Directors of St. Lucia Electricity Services Limited in January 2016 representing minority shareholders. Mr. Joseph is the Chairman of the Board's Strategic Planning & Investments Committee and a member of the Human Resources Committee. Following the retirement of Stephen Mc Namara as Chairman at the end of 2017, Mr. Joseph was appointed Chairman of the Board effective January 1, 2018.

Mr. Joseph is a consultant and regional associate consultant with Water and Waste Water Solutions of Canada (WWWS) specializing in the utilities sector. He has an MBA (Corporate Finance) from Fairleigh Dickinson University and a BSc degree in Economics (Upper Second Class Honours) from the University of the West Indies as well as over thirty (30) years' experience in the utilities sector.

Trevor M. Louisy, Acc. Dir.

Managing Director

Trevor Louisy was appointed to the Board of Directors of St. Lucia Electricity Services Limited on January 1, 2004 and is the Managing Director of St. Lucia Electricity Services Limited. He holds a BSc in Electrical Engineering and is a member of the Board's Human Resources and Strategic Planning & Investments committees.

Leslie Prospere

Leslie Prospere was appointed to the Board of Directors of St. Lucia Electricity Services Limited on September 9, 2016 by the Castries Constituencies Council (CCC). Mr. Prospere is an Attorney at Law by profession with almost sixteen (16) years' experience holding an LLB (Hons.) degree from the University of London. He is a Partner with the law firm of Gordon & Gordon Co., and is a member of the Board's Governance and Audit committees.

Sharon Christopher Acc. Dir.

Sharon Christopher was appointed to the Board of Directors of St. Lucia Electricity Services Limited by Emera (St. Lucia) Limited on May 13, 2016. Ms. Christopher is the CEO of Sharon Christopher and Associates, and is a leadership development coach and motivational speaker. She holds an LLB (Upper Second Class Honours), a Legal Education certificate (LEC), and an LLM in Corporate Law. In 2017, Ms. Christopher was the Chairman of the Board's Human Resource Committee and a member of the Governance Committee.

Nicholas John

Nicholas John was appointed to the Board of Directors of St. Lucia Electricity Services Limited on August 23, 2016 by the Government of Saint Lucia (GOSL). Mr. John is an Attorney at Law by profession with almost forty (40) years' experience, holding an LLB (Hons.) degree from the London School of Economics. He is the principal with the law firm of Nicholas John & Co., and the Managing Director of the Hewanorra Fiduciary Services Group. Mr. John is a member of the Board's Governance and Strategic Planning & Investments committees.

Frank V. Myers

(appointed effective January 1, 2018)

Frank Myers was appointed to the Board of Directors of St. Lucia Electricity Services Limited by the National Insurance Corporation (NIC) with effect from January 1, 2018. He is the Deputy Chairman of the NIC and Chairman of the NIC's Group Audit Committee. Mr. Myers is a Chartered Accountant (FCCA) by profession and recently retired from public practice after a career spanning some 30 years, most of which were spent with a global accounting firm. He now runs his own consulting firm, Frank Myers Consulting. He holds a BSc (Hons) in Mathematics and Statistics from Edinburgh University in Scotland, and is a former President of the Institute of Chartered Accountants of the Caribbean. Mr. Myers has also served as President of the Institute of Chartered Accountants of the Eastern Caribbean.

Charles Serieux

Charles Serieux was appointed to the Board of Directors of St. Lucia Electricity Services Limited on December 2, 2016 representing minority shareholders. Mr. Serieux is a Fellow of the Chartered Association of Certified Accountants and a member of the Institute of Chartered Accountants of the Eastern Caribbean. He has been the Managing Director of Ultramart Inc. chain of supermarkets since 2003. Mr. Serieux is a member of the Board's Governance and Audit committees, and the Board representative on the LUCELEC Staff (Grade II) Pension Scheme.

Carole Eleuthere-Jn. Marie

Carole Eleuthere-Jn. Marie was appointed to the Board of Directors of St. Lucia Electricity Services Limited on January 26, 2015 by First Citizens Bank Limited. She holds a BSc (Hons.) degree in Accounting from the University of the West Indies, is a Chartered Accountant (FCCA) by profession and from 1992, a member of the Institute of Chartered Accountants of Saint Lucia (now ICAEC). Mrs. Jn. Marie is currently the Interim Chief Executive Officer of First Citizens Bank (Barbados) Limited. Mrs Jn. Marie is the Chairman of the Board's Audit Committee and a member of the Human Resources Committee.

Matthew Lincoln Mathurin, Acc. Dir.

Matthew Mathurin was appointed to the Board of Directors of St. Lucia Electricity Services Limited by the National Insurance Corporation (NIC) on August 29, 2007. Mr. Mathurin is the Director/Chief Executive Officer of the NIC. He is a Fellow of the Chartered Association of Certified Accountants and holds an MBA (with Distinction) with Specialism in Finance from the Edinburgh Business School of Heriott Watt University. Mr. Mathurin is a member of the Board's Audit and Strategic Planning & Investments committees.

Karen Darbasie

Karen Darbasie was appointed to the Board of Directors of St. Lucia Electricity Services Limited on May 13, 2016 by First Citizens Bank Limited. Ms Darbasie is the Group Chief Executive Officer at First Citizens Bank. She holds a BSc (Hons.) degree in Electrical Engineering from the University of the West Indies, an MSc with distinction in Telecommunications and Information Systems from University of Essex, England and an MBA with distinction from University of Warwick, England. Ms. Darbasie is a member of the Board's Strategic Planning & Investments and Governance committees.

Roger Blackman

Roger Blackman was appointed to the Board of Directors of St. Lucia Electricity Services Limited on March 19, 2016 by Emera (St. Lucia) Limited. Mr. Blackman is a Mechanical Engineer by profession and holds a BSc in Engineering degree from the University of the West Indies, St. Augustine Campus and an MBA from Durham University, UK. He is also the Managing Director of Barbados Light & Power Company Limited. Mr. Blackman is a member of the Board's Strategic Planning & Investments and Audit committees.

Directors' Report

The Directors present their report for the year ended December 31, 2017.

Principal Activities

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

Directors

The Directors of the Company since the 52nd Annual Shareholders Meeting were:

Non-Executive Directors:

- Mr. Stephen Mc Namara (retired effective December 31, 2017)
- Mr. Matthew Lincoln Mathurin
- Mr. Frank Myers (appointed January 1, 2018)
- Ms. Sharon Christopher
- Mr. Roger Blackman
- Mr. Leslie Prospere
- Mr. Nicholas John
- Mr. John Joseph
- Mr. Charles Serieux
- Ms. Karen Darbasie
- Mrs. Carole Eleuthere -Jn. Marie

Executive Director:

- Mr. Trevor Louisy

Financial Results

The Company sold 359.7 million kWh of electricity, a 3.3% increase over the previous year, attributable to increased energy consumption in the domestic, commercial and hotel sectors. The industrial and street lighting sectors experienced reductions. Total revenues were EC$283.1M an 8.1% increase from the previous year due to the increase in unit sales and tariffs.

Net profit for the year was EC$34.7M an increase of 2.1% over the previous year. The Company achieved Earnings per Share of EC$1.51, an increase of 2.0% over 2016 (EC$1.48).

Assets acquired during the year amounted to EC$49.0M comprising mainly of Generation improvements and expansion, improvements to the Transmission & Distribution network and continuation of the Automated Metering Infrastructure Project.

Dividends

The Board of Directors declared a total dividend of EC$0.95 per ordinary share for 2016. The Company paid an interim dividend in December 2017 of EC$0.45 per ordinary share.

In 2018, the Board of Directors will make a recommendation to the shareholders on the total dividend for the 2017 financial year.

State of Affairs

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

Activities and Other Information

Board Orientation was held on March 9, 2017. The Senior Management Team presented on Company operations and policies.

On August 10, 2017, Directors attended the annual Strategic Planning Session with Executive Management to discuss the strategic positioning of the Company to meet future financial, technical and regulatory challenges.

The Board conducts biennial formal Board Evaluations with the intervening year being used to discuss the progress made on agreed action items. 2017 was an intervening year and the Board held its retreat to conduct a review on progress made.

Two Directors attended the ECSE Director Education Accreditation Programme held in St. Kitts and Nevis from November 27 – 30, 2017.

Events Subsequent to Balance Sheet Date

Apart from this and other matters discussed elsewhere in the Annual Report, the Directors are not aware of any other matters or circumstances which have arisen since December 31, 2017 that have significant effect or may significantly affect the operations of the entity in subsequent financial years, the results of those operations, or the state of affairs of the entity in future years.

By order of the Board of Directors

Gillian S. French
Company Secretary

"Renewal of the transmission & distribution infrastructure included relocation and undergrounding of sections of the 66kV lines along the West Coast Road."

Management Team

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

Victor Emmanuel
Business Development Manager
MSc (Information Systems Engineering), BEng (Electrical Engineering)

Goodwin d'Auvergne
Chief Engineer
MBA (Finance), BSc (Electrical Engineering),

Ian Peter
Chief Financial Officer
BSc (Management Studies), FCCA

Sharon Narcisse
(appointed September 11, 2017)
Senior Human Resource Manager
MSc Management (Human Resource Management), PGDip (Human Resource Management), BA (Business Administration), AS (Computer Information Systems)

Francis Daniel
Manager Strategy Development and Implementation
MPM (Project Management), BSc (Electrical Engineering)

Gary Eugene
System Control Engineer
MEng (Electronics Engineering), Registered Professional Engineer

Gilroy Pultie
Business Process Support Manager
MBA (Finance), BSc (Electrical & Computer Engineering)

Jevon Nathaniel
Generation Engineer
MSc (Computer Science),
BSc (Electrical Engineering)

Wynn Alexander
Information Systems Manager
M. Eng. Internetworking,
BSc (Computer Science),
Dip. Financial Management,
Dip. Business Administration, PMP, CISM

Jennifa Flood-George
Customer Service Manager
BSc (Management Studies/
Psychology)

Roger Joseph
Corporate Communications Manager
MA (International Communication & Development), Dip. Mass Communication

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

Bridget Ziva Phillips
Finance and Accounts Manager
Bsc (Economics & Accounting) FCCA, Acc. Dir.

Callixta Branford
Internal Audit Manager
CPA, CGA

Miguelle James
(resigned, effective May 31, 2017)
Human Resource Manager Designate
MSc (Human Resources),
BSc (Psychology/Social Policy Administration)

Michael Thomas
Transmission and Distribution Manager (Ag)
BSc Electrical & Electronics Engineering, Cert. Electricity Distribution, ABCP

Cornelius Edmund
Planning Manager (Ag)
MSc (Electrical Engineering - Systems and Networks); Fellow of the Association of Professional Engineers of Saint Lucia, Registered Professional Engineer, Saint Lucia

Operations Review

Corporate Performance

The St. Lucia Electricity Services Limited (LUCELEC) continued to pursue the overall objectives of its 2020 strategic vision aimed at improving operational excellence and diversifying revenue streams. The strategic themes of System Enhancement, Corporate Diversification, Human Resource Development, Cost Optimisation and Management, and Customer Care all remained relevant and were fundamental to the work programmes executed by the various business units.

At the end of December 2017 the company had met or exceeded five (5) of the ten (10) targets set at the beginning of the year and achieved the threshold performance in three (3) others. The overall corporate performance score of 92.01% was 36.81 percentage points below 2016 (128.82%).

Targets were met or exceeded in Profit After Tax, Customer Satisfaction, Risk Management, System Losses, and All Injury/ Illness Frequency Rate.

The Company achieved threshold performance for Improved Working Capital, Fuel Efficiency and Business Process Review. The performance for Employee Engagement and for Reliability (SAIDI) fell below threshold.

Details on the performance in the individual measures and targets are captured elsewhere in this report.

Operational Performance

In many ways, the operating environment for the Company remained similar to the previous year. The closure of the Company's main administrative office for major maintenance continued through the first half of the year. Progress towards the new regulatory framework remained slow. Economic activity was not much improved, except for two major hotels coming on stream in the latter part of the year which gave a lift to electricity sales. Fuel prices also trended upwards in the second half of the year. And of course, the almost inevitable storm which cut off power to some customers. So 2017 was a demanding but not unsurprising year for the Company.

Technical Operations

In many ways the Technical Division is at the forefront of LUCELEC's efforts to meet the expectations of its stakeholders. Perhaps no more so than when bouts with severe weather cause power outages. Although St. Lucia was spared the widespread devastation of several of our Caribbean neighbours, our system reliability performance (SAIDI – System Average Interruption Duration Index) of 8.89 hours fell short of the target (7.18 hours), largely due to the passage of Hurricane Maria in September. Fuel efficiency of 4.29 kWh/litre achieved threshold performance vs the target of 4.30 kWh/litre, mainly due to increased average on generators associated with rising sales figures.

On a more positive note, System Losses performance of 6.86% was excellent, falling below 7% for the first time, even in the face of increased T&D System loading. Similarly, the measure of performance in the area of Health and Safety (AIFR – All Injury Frequency Rate) was at stretch performance level.

The reoccupation of the newly refurbished main Administrative building in July and strong technical performance despite various challenges contributed to a sense of renewal and cause for optimism in 2018.

Generation Department

During 2017, the Generation Department renewed its focus on ensuring the generators were operated efficiently and all defects rectified at the earliest possible time.

Two (2) overhauls were undertaken during the year with one successfully completed and the other nearing completion at year end. These overhauls ensure that plant efficiency is maintained and in conjunction with the standard Preventative Maintenance Programme also serve to reduce forced outages of the generation plant. A Variable Frequency Drive (VFD) was commissioned on engine CDSPS #6 to reduce electricity usage in the cooling of the engine which improved overall energy efficiency at the Cul de Sac Facility.

Two projects to upgrade computerized systems in the Generation Department were planned for the year. Both projects were started, but due to unavoidable delays were extended into 2018. The first project was the upgrade of the Machine Management (MAMA) software used for the planning, scheduling, execution and recording of maintenance at the plant. This project was delayed because the software vendor was based in Puerto Rico which was badly affected by Hurricane Maria. The second project was the upgrade of the Distributed Control System (DCS) for control and monitoring of the engines. This project required the upgrade of both hardware and software systems and was delayed due to unavailability of equipment and resources for implementation.

In 2018, both the MAMA and DCS upgrades will be completed and efforts will also be made to ensure greater engine efficiency through additional overhauls on two generators (CDSPS #8 and #10). The engine manufacturer (Wärtsilä) will also undertake an audit of all the engines and alternators at the Cul de Sac Facility to ensure the plant efficiency is maximised.

Transmission & Distribution Department

In 2017, renewal work was undertaken in most of the sections within the T&D Department. In the substations, some of the Inter Bus Transformers have been in service for nearly 30 years. Specialised equipment was employed to renew the mineral oil contained within these transformers to return their operating parameters within acceptable limits and to further extend their service lives.

Similarly, equipment was procured to facilitate remote operation of some 11kV switchgear to address potential safety concerns arising from their operation.

Work was undertaken on some sections of the 66kV West Transmission Line that had collapsed and other parts that had been under threat of collapse due to land slippage caused by Hurricane Tomas in 2010. This aspect of work involved relocation of the transmission line along sections of the West Coast road using a special insulated 66,000 Volt conductor. LUCELEC is the first electric utility in the region to use this approach.

In the Metering Section, the deployment of Advanced Metering Infrastructure (AMI) smart meters to facilitate remote meter

reading and the replacement of bottom-connected smart meters continued. To date, 97% of the meters on the distribution network are smart meters. As a result of this, meter reading costs and system losses have been significantly reduced. In an effort to reduce the cost of disconnection and reconnection, meters with integral switches were utilized to facilitate these actions remotely.

The Distribution Maintenance Section continued the replacement of degraded poles on the distribution network in order to maintain a safe and reliable energy supply. In areas with heavy vegetation, insulated conductor was used to reduce deforestation while improving reliability. The replacement of porcelain insulators with polymer insulators (which are more resistant to sea blast) also continued along the East Coast.

Transmission and Distribution staff and contractors responded purposefully to the outages caused by Hurricanes Irma and Maria. In conjunction with contracted staff, the T&D Department also assisted sister utilities in St. Kitts, Anguilla, Tortola and Dominica in the restoration of power in the aftermath of the aforementioned hurricanes at the expense of its own work programmes. In spite of the disruption, the collaborative efforts of all the sections within the Department ensured that its targets were met.

System Control Department

The SCADA replacement project continued to be rolled out in 2017. The main highlight was a successful Factory Acceptance Test (FAT) which took place in August 2017. Following post-FAT corrections the hardware for the new smart grid platform will be shipped to LUCELEC in the first quarter of 2018 from the vendor's test facility in Minnesota. The new system is scheduled to be commissioned in April 2018.

The new smart grid platform will enhance LUCELEC's ability to improve the efficiency, reliability and economics of the production and distribution of electricity. These improvements will be realized over time via the integration and leveraging of information from a slew of supporting systems such as GIS (Geographic Information System) that will facilitate inter alia: real time outage detection; improved data collection, monitoring and alert capabilities; operator simulator training; wireless fault location detection; distributed energy resource management; and micro grid management. In effect, the Company is laying the foundation for managing the energy environment of the future.

In 2017, the department successfully extended the travelling wave fault location system to the northern 66kV transmission ring. The entire transmission system is now equipped with a fault location system that enables precise fault locating for all types of faults on the 66kV transmission lines to within 50 metres, thereby enabling more rapid fault location and repair.

During the year, relay replacement was completed at Vieux Fort substation. This exercise involved replacement of outdated solid state relays with modern microprocessor relays with communication capabilities that facilitate, among other things, remote relay programming that obviates the need for staff to drive to Vieux Fort to programme the relays.

Since 2015, LUCELEC has been executing major changes to its GIS system in order to ensure that the system is capable of meeting the rigorous requirements of a fast-growing list of present and impending uses of the technology. In 2017, the GIS database was upgraded and a new server was ordered for commissioning early in 2018. The database upgrade will allow multiple users to update data simultaneously to reduce delays in updating data, and improve the quantity and quality of services provided to internal users.

The protection relay replacement programme will continue in 2018 with upgrades to the Castries and Union substations.

Company-wide GIS data capture will begin in 2018. The project seeks to improve data currency and streamline the activities of the GIS Section by facilitating immediate tracking or reflection of all system modifications in the GIS.

A number of auto reclosers will also be upgraded with the most up-to-date control boxes and software and additional reclosers will be installed to further improve system reliability.

Building Services Section & Health Safety and Environment Issues

Following difficulties experienced at the location during 2017, extensive work was done on the Main Administrative Building at Sans Soucis. The refurbishing and repair project included replacement of the air conditioning system, complete remodelling of some offices and repair of a number of building defects.

Toward the end of 2017 a Civil Engineer was recruited which improved the capacity within the Section and its ability to deliver on its mandate of maintaining Company facilities to the highest standards.

During 2018 a number of projects will be undertaken including construction of a 200,000 gallon water tank at the Cul de Sac Facility and improvements to drainage at that location as well as improvements to the Vieux Fort Administrative Office.

Update on Strategic Initiatives

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

For 2017, the emphasis was on five of these themes and the updates on the initiatives associated with those are summarised below. The Company's efforts in these areas are led by various cross functional teams who co-opt additional assistance as required.

System Improvements and Enhancements (including renewable energy)

During the course of 2017 the System Enhancement Team worked with its local and overseas partners to develop and execute the project plans for a 3 MW solar PV farm in Vieux Fort.

The Team also continued work on its energy efficiency (EE) and smart grid infrastructure projects.

The 3 MW utility scale solar PV project experienced several hurdles in the permitting process impacting the project timelines. LUCELEC and Grupotec, the highest evaluated bidder, commenced negotiating the EPC (Engineering, Procurement and Construction) contract during the first week of September 2016. The parties concluded negotiations with the signing of the EPC contract on June 19, 2017. The project is expected to be completed by middle of May 2018.

During the year LUCELEC negotiated and signed a fibre network contract for the construction of a backbone fibre optic network on its distribution network poles. When completed this fibre network will provide significant improvement in information management and data acquisition in the company's operations.

The company has also been planning for the introduction of charging stations at key locations around the island to facilitate the charging of electric vehicles.

In 2018 LUCELEC will be working to bring these projects to commercial operation. The company will also be developing a project to harness the waste heat from its diesel-based operations for cooling the buildings at the Cul De Sac Power facility. A study will be conducted in collaboration with one of our overseas partners to determine the optimum location for interconnecting a large storage battery on the grid.

Business Process Review & Cost Optimisation and Management

The Business Process Review Exercise (BPRE) continued in 2017. By year end, 100% of the Company's processes were mapped, and 55% of the opportunities to improve the meter to cash processes were implemented, with another 20% nearing completion. The benefits of these will be fully realized during the first quarter of 2018 and include improved efficiency in ensuring billing accuracy, effectiveness of collections, and reducing the associated costs.

The analysis of all the other company processes was postponed to 2018. Communications with customers in relation to their accounts will be improved through text messaging, prior to which a campaign to get customers to update their account information will be undertaken.

For the Cost Optimization and Management Exercise (COME), a separate but related exercise to the Business Process Review Exercise, high level analysis of the Company's operations was completed by external consultants. The report identified some areas for improvement and these will be pursued in 2018 using internal resources and seeking external support in shaping solutions only where necessary.

It is expected that implementation of the remaining meter to cash opportunities and the analysis of the remaining processes will be completed in 2018.

Regulatory Reform

Whilst the primary legislation to give the National Utilities Regulatory Commission (NURC) the requisite authority as regulator over the Company's electricity business was introduced in 2016, to date the supporting regulations and similar legislation to replace the Electricity Supply Act and related regulations remain outstanding.

The company is working closely with the government, USAID and the Caribbean Clean Energy Programme (CARCEP) to review the various pieces of legislation that will define the new regulatory environment. Company officials continue to dialogue with the Ministry of Sustainable Energy on the new framework and how the process should work.

Customer Care

As the Company continues to face current and emerging challenges in the regulatory environment, aging infrastructure, and the need to cut costs whilst increasing operational efficiency, the focus remains sharply on delivering the highest quality of service and care to customers. In order to achieve this customer service imperative, commitment to the processes of renewal and rejuvenation of business processes, leveraging information technology (IT) systems and cultivating the right attitudes and behaviours across the Company is critical.

Whilst customers continue to become more technologically savvy, their demands for more diverse communication and contact channels increase, and LUCELEC continues to improve its systems in response to these demands. Increased use of the Company's social media platforms and in particular the MyAccount online customer self-service facility suggests that customers value this service which provides a reliable platform for the viewing of electricity bills electronically, review of payments and transactions history, and for accessing other services.

Customer Care initiatives pursued in 2017 included a review of call management operations in preparation for the implementation of a company-wide call management system. This system is intended to improve the Company's call handling performance and customer satisfaction in the future. Arrangements for the engagement of suitable external resources were pursued to assist with the identification of an optimum solution for the Company. The desired system will provide a unified and highly personalized customer experience, utilising multi-skilled staff who will be able to effectively address a variety of customer requests and issues on a 24-hour basis.

The roll out of a Customer Care Transition Plan initiated in late 2016 continued with staff sensitization for the first phase of this culture change plan in the Customer Service Department through the year. The goal of this initiative is to develop a culture of care throughout the organisation, which will be manifested in all areas of the Company's operations. The various components of this programme, expected to be implemented in 2018, should boost staff morale, increase productivity and enhance customer satisfaction levels in the future.

The Customer Service Department continued to critically review its core business processes with a view to improving efficiency, reducing cost and enhancing customer satisfaction. Some of the changes implemented in the areas of billing and customer requests processing have yielded favourable results, to the benefit of both employees and customers.

In 2017, the Company continued to maintain high performance in its customer satisfaction ratings, by once again exceeding its target. Against the target of 86%, a performance score of 86.74% was achieved, which by utility standards is an excellent rating.

Corporate Diversification

There has not been much progress on this initiative but the operationalization of the Subsidiary Holding Company commenced in 2017 and the intention is to staff the company appropriately to identify and pursue business opportunities, locally, regionally and internationally that can achieve the strategic objectives.

Human Resources Strategic Plan

Notwithstanding the setbacks experienced in 2017, the Department developed and rolled out an Employee Engagement Plan in response to the feedback received from staff in the 2016 Employee Engagement Survey. Initiatives such as the MD's Breakfast meetings with a cross section of staff and Dwivé Kwéyòl as part of Creole heritage month celebrations were implemented to foster team spirit amongst staff and to strengthen relationships between Management and staff.

External consultants were engaged to conduct a compensation and benefits survey. The main objective of this consultancy is the development of a competitive and comprehensive compensation policy for the Company that is based upon an appropriate position in the local and regional marketplace. It is expected that the complete report on the findings and recommendations will be submitted by the end of February 2018.

Major changes in senior staff within the HR Department during 2017 hampered the department's ability to meet some of its deliverables. However, the Human Resources Team is enthusiastic about 2018! New approaches to employee engagement and staff development are planned to foster stronger relationships with management and staff at all levels and provide the support needed for the achievement of the Company's corporate strategy through its people.

Industrial Relations

Despite continuing efforts to find a negotiated settlement for the 2011-2013 triennium with the St. Lucia Civil Service Association (CSA) for Grades 1 to 3 employees, the matter remained unresolved and with the Labour Tribunal at the end of 2017. The Labour Tribunal was being reconstituted by the Government of Saint Lucia and the Company is hopeful that a decision of the dispute will be prioritised as soon as the new Labour Tribunal begins functioning.

Negotiations between the Company and the National Workers Union (NWU) on behalf of the Grades 4-9 employees have been on-going since August 2013. Significant progress was made during 2017. However, the parties were unable to sign off on the collective agreements for the two trienniums (2012 – 2015 and 2015 – 2018), due to differences on three main issues – vehicle allowance rates, retroactive payments on overtime to Grade 9s, and red circling. The parties have initiated the dispute resolution process and the matter has been referred to the Labour Commissioner.

Financial 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.

Sales & Revenues

Electricity sales grew in 2017 by 3.3% compared to a 3.2% increase in 2016. Increases were recorded in the Domestic (3.1%), Commercial (0.9%) and Hotel (9.6%) sectors while sales declined to the Industrial (1.4%) and Street Lights (0.1%) sectors. The increase in the hotel sector's consumption is primarily due to the connection of the Royalton Hotel. Sales in the Domestic and Commercial sectors grew because of increased use of cooling equipment.

Total revenue of EC$283.1M exceeded 2016's EC$261.9M by EC$21.2M (8.1%) primarily due to the increase in unit sales and tariffs. The overall average tariff increased by 4% from EC$0.75 in 2016 to EC$0.78 in 2017, driven by higher fuel prices compared to the previous year. Note that fuel costs are passed through to customers with no mark up.

The average fuel price per gallon for the year was EC$6.23, an increase of 8.2% compared to fuel cost of EC$5.76 per gallon in 2016.

Generation costs of EC$24.3M (excluding fuel costs) were higher than the previous year's costs of EC$21.4M by EC$2.9M (13.6%) mainly as a result of increases in payroll costs of EC$1.8M, maintenance costs on the generation engines of EC$0.5M and depreciation of EC$0.7M.

Transmission and distribution costs of EC$43.6M grew by EC$4.4M (11.2%) compared to the prior year of EC$39.2M mainly due to increases in payroll costs of EC$3.4M, depreciation costs of EC$0.7M and maintenance costs of EC$0.1M.

Administrative expenditure of EC$34.3M increased by EC$2.9M (9.2%) over the prior year (EC$31.4M) primarily due to increases in employee costs of EC$2.2M, bad debts provision of EC$0.8M and repairs and maintenance of EC$0.3M, which were greater than the reductions in meter reading costs of EC$0.3M and depreciation and amortisation of EC$0.3M.

Finance costs decreased by EC$2.3M (27.4%) from EC$8.4M in 2016 to EC$6.1M in 2017 due to lower interest rates negotiated during the second half of 2016 in addition to the reducing balance of the existing loans. The weighted average interest rate incurred for 2017 was 5.1% compared to 5.2% in 2016.

Profit

The Group achieved a Profit before Tax of EC$48.2M which was higher than the previous year's result of EC$47.4M by 1.7%.

The Group's Profit after Tax of EC$34.7M increased by 2.1% over the previous year's achievement of EC$34.0M.

Earnings per share for the year for the Group was EC$1.51 (2016 – EC$1.48), an increase of 2.0% over the prior year.

The Group achieved a Return on Equity of 12.3% (2016 – 12.7%). The Company achieved a Return on Contributed Capital (Rate of Return) of 13.4% as compared to 13.6% in 2016. Note that the Rate of Return achieved is within the allowable range of 10% to 14.5% as stipulated by the existing legislation.

The Return on Fixed Assets for the Group based on historical costs was 9.6% (2016 – 9.8%) and Return on Total Assets was 7.0% (2016 – 7.1%).

Retained Earnings for the Group increased from EC$150.5M to EC$159.2M while the Debt to Equity ratio was 25:75 (2016 – 30:70).

Capital Expenditure

Total expenditure for the year amounted to EC$49.0M (2016 – EC$28.8M) comprising mainly of the Solar Farm Project costs, engine overhauls, improvements to the Transmission & Distribution network and continuation of the Automated Metering Infrastructure Project.

Working Capital Management

The Company recorded Days Sales Outstanding (DSO) of 45 days, compared to last year's 56 days. Total trade receivables reduced from EC$40.7M at the end of 2016 to EC$34.1M at the end of 2017. Consistent payments from major customers on long outstanding debt as well as more aggressive debt collection activities have resulted in this improvement.

Capital Financing

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

Credit Rating

A credit rating exercise was conducted by CariCRIS, the Caribbean credit rating agency at the end of 2017. CariCRIS reaffirmed the Company's credit rating of CariBBB (Adequate).

Risk Management

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

Fuel Price Hedging

During the year, the Company utilised Fixed Price Swaps and Options as part of its fuel price hedging programme. On December 31, 2017, swap contracts existed for the hedging of 25% of the fuel expected to be purchased in the first half of 2018.

Shareholders' Equity

The Company's shares closed at EC$20 (2016 – EC$24) resulting in a price earnings (P/E) ratio of 13.2 times (2016 – 16.2 times). The Company has issued share capital of 22,920,000 ordinary shares.

Energyze Holdings Inc.

During the year, St. Lucia Electricity Services Limited purchased 100% shares in Energyze Holdings Inc., a company incorporated in January 2016. There have been no material transactions undertaken by Energyze Holdings Inc. since its incorporation.

LUCELEC Cap-Ins. Inc.

LUCELEC Cap-Ins. Inc., a wholly owned subsidiary of St. Lucia Electricity Services Limited, was incorporated on December 29, 2014 as a vehicle for managing the self-insurance of the Company's transmission and distribution assets. At December 31, 2017 LUCELEC Cap-Ins Inc. had net assets of EC$34.3M (2016 – EC$30.2M). The fund's investment portfolio comprised regional investment grade securities.

LUCELEC Trust Company Inc.

LUCELEC Trust Company Inc. was established on October 14, 2005 as a non-profit company, funded through a Deed of Covenant between LUCELEC, as the donor and the Trust. The Fund was set up for the purpose of providing financial assistance or purchasing items and/or property to aid any legitimate non-political entity, religious, charitable, medical, educational and sporting body by way of donations. At December 31, 2017, the Trust Company held net assets of EC$0.2M (2016 – EC$0.2M).

Outlook

Electricity sales for 2018 for the Company are forecasted at 374 million kWh, 4% higher than the 2017 results. The domestic sector is expected to grow due to increased housing activity and increased usage rates among existing customers. The commercial sector is forecasted to grow due mainly to new office space being occupied and the upsurge of other commercial entities mainly in the north and south of the island. Growth is also expected in the hotel sector due to the construction of new hotels, guesthouses, condominiums and the upgrading of existing properties.

Achievement of the 2018 targets is deemed to be feasible, despite the new regulatory framework. The Group will continue to invest in areas that will allow it to become more efficient, maintaining an acceptable rate of return for its shareholders.

Financial imperatives for 2018 include:-

- Expand revenue opportunities through corporate diversification by providing the appropriate resources to the subsidiary holding company to facilitate seeking and exploiting new business opportunities.
- Enterprise-Wide Risk Management

The Company will continue to focus on driving efficiencies in operations, meeting customers' needs and ensuring the Company remains a viable entity for the foreseeable future.

Conclusion

The Group's future performance is dependent on the renewal of its modus operandi while maintaining an acceptable level of reliability, power quality, safety and customer care.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is defined as a company's sense of responsibility towards the community and environment in which it operates. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with not just the letter of the law, but spirit of the law, ethical standards and national or international norms.

LUCELEC is guided by the above in the execution of its CSR policy. And even through a process of renewal, we remain true to our Core Values - Accountability, Excellence, Caring and Ethics - and this commitment to social responsibility in our operations. For us that means embracing all the components of the standard for social responsibility - organizational governance, respect for human rights, labour practices, care for the environment and consumer issues, fair operating practices, and community involvement and development.

The Company seeks to contribute to every aspect of Saint Lucian life, such that through our operations, services and various philanthropic and sponsorship initiatives, we're contributing to renewal and revitalisation in business, sports, arts, culture, health care, charitable institutions, faith-based and non-profit organisations, and of communities.

Some of our operating practices, consumer or customer care, respect for human rights and labour practices have been covered in previous sections of this Annual Report. This section focuses on the Company's governance, environmental sustainability and corporate philanthropy executed under its Power of Caring brand, and details how, through its various interventions, even as it confronts and responds to its own challenges, this thrust is sustained and renewed.

Governance

The Company makes every effort to ensure its Directors are fully cognisant of the Company's operations. Each new appointee to the Board of LUCELEC receives an orientation package comprising Company literature which includes a copy of the Company's Code of Ethics, Board policies and legislation impacting the Company's operations. In addition to this package, a formal orientation session is convened periodically with Directors. Noting the significant changes to the Board composition in 2016, the Board resolved that formal Board Orientation sessions would be held every three (3) years as this would provide refresher training to existing Directors and an introduction to Company operations and policy to new appointees. The 2017 formal orientation session was presented by the Senior Managers of the Company.

The Board's remains committed to its mission statement "Rooted in the Caribbean, world class in governance". This is evident in its dedication, through its Governance Committee, to finalising the request for proposals document to invite bids for the preparation of a Corporate Governance Manual. The Manual is expected to be prepared and completed in 2018. When completed the Manual will enhance the existing good governance practices which already exist within the Company.

The Board policy of continued Director training, whether conducted locally or overseas, to ensure that Directors' knowledge on the technical operations of the Company, and that governance practices are modern and relevant, saw two Directors of the Company and two Directors from the subsidiary holding company LUCELEC Cap-Ins. Inc., attending the ECSE Director Education Accreditation Programme held in St. Kitts and Nevis from November 27–30, 2017.

Environmental Responsibility

The Company takes active steps within its operations to minimise impact on the environment. In 2017, the Company achieved its target of zero oil spills, following on a similar

performance in 2016 and 2015. The Company also expanded use of shielded conductors in wooded areas to minimise tree trimming. Where such vegetation management is critical for an uninterrupted supply of electricity to customers, it is done utilising proper methods of trimming and cutting trees along the transmission and distribution network in a manner that minimises negative impacts on the environment.

The Company also harvests rain water for use at its Cul De Sac facility as well as recycles its used oil so it can be repurposed by commercial entities. Through our timely transformer refurbishment programme, we ensured that oil filled transformers were adequately maintained to avoid spillage at the substations and on the distribution network due to excessive corrosion.

And of course, the Company's energy efficiency and renewable energy efforts in its transition to LED street lighting and development of the 3 MW utility scale solar farm described in detail earlier in this report, all have at their core minimising its carbon footprint.

The Group, through the LUCELEC Trust Company Inc. also contributes to helping with education and training in the management of the environment through support for initiatives like the Caribbean Student Environmental Alliance's Rainforest to Reef Camps that teach young people how to clean up and protect watersheds and coral reefs within their respective communities.

The Company also continued to undertake tree planting exercises in collaboration with the Forestry Department to reinforce and stabilise river banks and mangroves at various locations across the island.

Corporate Philanthropy

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

As always the Company provided assistance to a myriad of organisations targeted at increasing economic activity, improving education and educational facilities, and supporting the more vulnerable in the society. Information on of some of the sponsorships and donations made during 2017 are provided below.

Tourism

Tourism continues to be the main driver of economic activity in the country. It is for that reason LUCELEC continues its longstanding support for the sector and its related events including sponsorship of Team Saint Lucia at the Taste of the Caribbean Culinary Competition as well as the Atlantic Rally for Cruisers and the Soleil Summer Festival, major components of the island's marketing efforts. LUCELEC also continued its support for developmental initiatives such as the National Tourism Public Speaking Competition organized by the Ministry of Tourism.

The company subsequently sponsored the attendance of competition winner Francis Alexander at the Youth Congress, where the student from the Choiseul Secondary School wowed the judges and was named Junior Minister of Tourism for the Caribbean and the 2018 Youth Congress.

Business

LUCELEC sees the business community, not as only customers, but partners in the country's development. The Company supported the Saint Lucia Trade Export Promotion Agency (TEPA) in hosting the inaugural Specialty Caribbean Expo where exporters from around the region and the world were invited to Saint Lucia to experience first-hand the myriad of excellent locally produced goods and services and establish trading relationships with Saint Lucian businesses. Such efforts seek to renew and revitalise the St. Lucian economy.

In addition the Company participated in both the North and South Energy Fairs organized by the Department of Sustainable Development where it showcased its renewable energy efforts and how customers can connect renewable energy systems to LUCELEC's grid.

Sponsorship of the Saint Lucia Business Awards organized by the St. Lucia Chamber of Commerce, and the St. Lucia Manufacturers' Association's Quality Awards Programme continued.

Education

Education is a major tool for renewal as the country seeks to develop its future workforce and leaders. Therefore, the Company's Power of Caring is most evident in our support of education and schools. This includes improving educational infrastructure through the provision of equipment to various schools and libraries, supporting educational programmes and campaigns that seek to provide diverse experiences to students, and helping to ensure that as many students as possible are recognized for their work and have the opportunity to benefit from a full and well-rounded education.

In 2017 LUCELEC assisted with the National Awards for Excellence that rewards academic performance, the National Schools' Science and Technology Fair, annual graduation ceremonies, calypso competitions and sports meets at schools at all levels of the education system, the Francophonie Spelling Bee competition in celebration of the International Francophonie Day, the OneWorld Schoolhouse Foundation's 4th Annual Rainforest of Reading Festival, educational immersion programmes for students studying French and Spanish at the Sir Arthur Lewis Community College, provided uniforms for the Soufriere Primary School's Sports team, scholarships for children attending secondary school and the payment of examination fees through the Sir John Compton Memorial Fund, and transportation for at risk youth to attend school.

The Company continued to fully fund the participation of a St. Lucian student in the annual Student Programme for Innovation in Science & Engineering (SPISE) – a 4 week resident programme at the Caribbean Science Foundation that opens up the world of advanced science and technology to the region's gifted students with the opportunity for hands-on laboratory project work in electronics and robotics.

LUCELEC also continued its support of the Junior Achievement Programme of the Choiseul Secondary School where in 2017 the team copped five awards including National Achiever of the Year, the Governor-General's Award for Innovation, Originality and Creativity and the Spirit of Junior Achievement Award. The team also came second in the coveted Company of the Year race.

The Company also hosted 50 students from universities, the Sir Arthur Lewis Community College and various secondary schools in its annual Summer Employment Programme, from June 1 - August 31.

Arts & Culture

With an eye on renewal of the creative, artistic and cultural talents, LUCELEC continued its partnership with Kiddicrew (renamed Youth In Arts) which in 2017 continued to breathe life into the work of renowned St. Lucian playwright Roddy Walcott with their youth led production of "Papa Diable". And the Company assisted in raising the curtain on the National Arts Festival play "Requiem for a Bad John".

Young people in film were also given the opportunity to learn and practice their craft through the Company's support of the Caribbean Youth Film Festival. Support for budding filmmakers extended to "The Knot" by Davina Lee. The film was shot and produced in Saint Lucia and continues to do well on the film festival circuit having been chosen for screens in Trinidad and the United States.

Similarly, dancers from the AVAD Dance Academy were able to benefit from regional exposure and training through LUCELEC support in part.

LUCELEC supported long standing cultural festivals and artists as well, such as Saint Lucia's preeminent musical ensemble, the Saint Lucia Police Band which celebrated its 70 years of existence with a major concert. Jounen Kwéyòl, Carnival bands, Calypso Tents, the Pantime Steel Orchestra, and the Babonneau Steel Orchestra which emerged Panorama Champions received support as well.

Sports

LUCELEC pays great attention to support for sports. The Company assists clubs and associations with participation in and the hosting of local, regional and international tournaments. It assists individual schools and the education districts with putting on their respective annual meets as well. The overall aim is to contribute meaningfully to the development of sport on the island and to provide avenues for young people to develop their respective talents and to excel.

At the club level in 2017 the Company assisted the Rockets Athletics Club, Elite Track and Field Club, Seajays Swim Club, Vide Boutielle Cultural Club, and the Mon Repos Youth and Sports Council to host events locally, participate in regional championships, and host awards ceremonies. The Company provided uniforms for the male and female teams of the B1 Football Club from Marchand, assisted the Gros Islet Football

League with its Youth Development Camp, the Young Achievers with its 11th Annual Golden Mile event, and the Morne Stars with its regional 5K Road Relay.

Similar assistance was provided to national associations such as the St. Lucia Amateur Building & Fitness Association with its National Bodybuilding Championships, the Saint Lucia Amateur Swimming Association with sending the national team to the CARIFTA Championships, the St. Lucia Rugby Football Union with the Michael Mathurin Challenge (named after a deceased employee who was very active in the sport), the Saint Lucia Basketball Federation with its national league championships, and the Saint Lucia Volleyball Association with the 2018 World Championships ECVA Zonal World Championship Qualification Tournament.

LUCELEC also supported the Regional Police Cricket T20, teamed up with the St Lucia Zouks team to support the Caribbean Premier League (CPL) T20 tournament, as well as provided sponsorship to the inaugural St. Lucia Premier League (SPL) T20.

The Company also assisted the St. Lucia Olympic Committee and the St. Lucia Amateur Boxing Association with the refurbishment of the Boxing Gym at Vigie, as well as the Free Kick Foundation with its football clinic that identifies young football talent to provide opportunities for scholarships at universities in the United States.

Youth at Risk/Youth Development

Several interventions to assist youth at risk were supported during 2017. Many of these were youth camps during the Easter and summer vacations in an effort to keep these youth occupied with productive activity and to provide opportunities that they may not otherwise have had. Sports Academy St. Lucia was also assisted to meet the costs of at-risk-children attending Sports for All sessions. The various homes for youth at risk also received assistance from LUCELEC including the Dunnotar School, the Holy Family Children's Home, and the Upton Gardens Girls' Centre.

In addition, the Company teamed up with the Faux-a-Chaud Dance Academy in their hosting of a production called "Dance With Me" which showcased the talent of young people in that inner city community.

Health & Wellness

Consistent with LUCELEC's own focus on safety, health and wellness for its employees, the Company extended its support to the wider community through its annual $25,000 donation to the National Community Foundation towards persons seeking assistance with medical interventions. The Company also supported various health and wellness organisations and support groups such as the St. Lucia Diabetes & Hypertensive Association, Faces of Cancer, St. Lucia Glaucoma Association, and the St. Lucia Renal Association, with various activities to create awareness of health issues and provide services and support to vulnerable groups and individuals. Assistance was also provided to the Kiwanis Club of Amazona for a prenatal exposition in the community of Babonneau, and to Partners of Victoria Hospital towards a World Paediatric Project in Saint Lucia.

The Company also teamed up with other corporate entities to raise awareness of health issues such as cancer awareness walks organised by CIBC First Caribbean International Bank and Massy Supermarkets, and HTS/Radio 100's Strut For A Cause.

LUCELEC also teamed up with Club Gar in its Walk 4 a Cause which raised awareness of and funds for a campaign against domestic violence.

Charitable Contributions

Several agencies with a charitable mandate continue to get assistance from LUCELEC in meeting the needs of their respective clientele. The Salvation Army, the Ex-Service Men and Women's League, the Lions, Rotary and Rotaract Clubs, Friends of the Mentally Challenged Inc., and some of the homes for the elderly - the Marian Home and the St. Lucy's Home, all received LUCELEC assistance in 2017.

The Company also continued its support for the National Council of and for Persons with Disabilities annual Camp Lajwa where for a few days it takes some of the persons with disabilities, particularly those who are generally house-bound, on various outings to experience the outdoors and other aspects of St. Lucian life.

The Company also supports various feeding programmes within the community with regular contributions to agencies like Feed the Poor Ministry Inc. And at Christmas time, LUCELEC supports various agencies, organisations and groups in their Christmas outreach to assist day-care and pre-schools, the unemployed, senior homes, hospitals and underprivileged children with subsidies, food hampers and Christmas parties.

Community

LUCELEC supports community initiatives and festivals, large and small, around the island. Some of these include activities celebrating St. Lucia's Independence Day such as the Mon Repos Youth & Sports Council's Independence Road Relay. Community talent shows and cultural groups, such as the Dennery La Marguerite Group, receive varying levels of funding too. The Company also assisted with lights for the Agard Playing Field, and provided support to the Micoud Brethren Assembly with its annual vacation bible school for under privileged children in the community.

Staff Volunteerism

The Company continued its "Operation Shoebox" initiative where staff members contribute school supplies that are donated to underprivileged children around the island. Led by Team Lighthouse from the Company's southern offices, staff also continued their Breakfast Always Matters (BAM) and Give Lunch A Day (GLAD) programmes to fund and deliver breakfast and lunch to needy school children and hampers to schools across the island.

The HR Department also engaged the LUCELEC Club in hosting a Christmas party for the Des Barras School in December 2017. The children were treated with party favours, snacks, face painting, games and gifts handed out by 'Santa Claus'. The commitment of staff to these volunteer activities is a truly inspiring demonstration of the Power of Caring at work!

Conclusion

LUCELEC's corporate social responsibility thrust is driven by the Company's deep commitment to what we do and who we are, and to making changes to improve it so that it becomes more successful. We know that our country depends on us to meet its demand for electricity, day in, day out, and to contribute meaningfully to our communities. And we care deeply about that. That's what drives us, and our willingness to engage in a constant process of renewal is what helps us remain ahead of the curve, to be even more successful at what we do best!

The Year
In Pictures

Annual Thanksgiving Service & Brunch organised by the LUCELEC Sports Club, with support from the Company, was held at the Mount of Prayer in Coubaril

Quarterly Health Screenings for Staff include Diabetes & Hypertension Screening and Eye Examinations

Section of the Shareholders attending the AGM

Moving Back to the Renovated Administration Building

Staff turned up in support of National Sneaker Day to promote walking and exercise for good health

LUCELEC Scholarship holders receive their supplies at the Company's Annual Scholarship Social

2016 Safety Award went to Stephen Eugene, Ian Charles, Giland Mathurin, Ignatius Mathurin, Ryan Mingo, Clayton Morgan of the Generation Department for their quick work in containing a fire at the Cul De Sac facility. Below, Stephen Eugene(C) and Ignatius Mathurin (R) receive the award on behalf of the team from the Managing Director Trevor Louisy (L).

LUCELEC's Power Dancers performed at various Company activities. Here they entertain the Retirees at the Annual Retirees' Luncheon.

The Annual Retirees' Luncheon to celebrate those who laid the foundation for the Company's success was held at the Royalton Hotel in August

Staff Christmas Luncheon

The LUCELEC Sports Club spread the Christmas cheer in hosting a Christmas party for the students of the Des Barras Primary School. This was just one of the many staff outreach events throughout the year to assist those in need.

Jounen Kwéyòl celebrations included a staff bonding event at Fond Latisab Creole Park in Babonneau and on site activites at the Company's various locations

Financial Statements

Table of Contents

PKF St. Lucia

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

PKF
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, 2017, 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, 2017, 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 consolidated 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.

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.

PKF Professional Services Inc., P.O. Choc 8245, Meridian Place, Choc Estate, Castries, LC02 801, St. Lucia
PKF International is a network of Legally Independent Member Firms

PKF Accountants & business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

PKF
Accountants &
business advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)

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

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 9, 2018

St. Lucia Electricity Services Limited
Consolidated Statement of Financial Position
As at December 31, 2017

(Expressed in Eastern Caribbean Dollars)

	Notes		2017	2016
Assets				
Non-current				
Property, plant and equipment	6	$	**348,357,260**	336,182,410
Intangible assets	7		**12,436,257**	11,772,829
Total non-current assets			**360,793,517**	347,955,239
Current				
Inventories	8		**13,719,898**	11,881,268
Trade, other receivables and prepayments	9		**49,598,104**	53,396,370
Other financial assets	10		**40,671,992**	36,669,002
Derivative financial instruments	11		**4,288,440**	-
Income tax recoverable			**428,722**	-
Cash and cash equivalents	12		**22,644,177**	29,600,146
Total current assets			**131,351,333**	131,546,786
Total assets		$	**492,144,850**	479,502,025
Shareholders' equity and liabilities				
Shareholders' equity				
Share capital	13	$	**80,162,792**	80,162,792
Retained earnings			**159,185,591**	150,517,899
Fair value reserve	14		**331,278**	(551,394)
Revaluation reserve	15		**15,350,707**	15,350,707
Self-insurance reserve	16		**33,972,285**	30,717,043
Total shareholders' equity			**289,002,653**	276,197,047
Liabilities				
Non-current				
Borrowings	17		**82,202,503**	100,181,035
Consumer deposits	18		**17,761,450**	16,441,756
Deferred tax liability	19		**33,596,207**	33,364,975
Pension benefit liabilities	20(c)		**-**	4,035,000
Post-employment medical benefit liabilities	21(b)		**2,036,000**	1,786,000
Total non-current liabilities			**135,596,160**	155,808,766
Current				
Borrowings	17		**18,562,878**	19,585,036
Trade and other payables	22		**47,057,472**	22,614,479
Provision for other liabilities	23		**1,485,493**	1,485,493
Dividends payable			**440,194**	444,886
Income tax payable			**-**	3,366,318
Total current liabilities			**67,546,037**	47,496,212
Total liabilities			**203,142,197**	203,304,978
Total shareholders' equity and liabilities		$	**492,144,850**	479,502,025

Approved on behalf of the Board of Directors:

Director

Director

The notes on pages 43 to 98 are an integral part of these financial statements.

St. Lucia Electricity Services Limited
Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

	Notes		2017	2016
Revenue				
Energy sales		$	**278,981,385**	259,885,129
Other revenue			**4,083,657**	1,984,207
			283,065,042	261,869,336
Operating expenses				
Fuel costs	31		**127,594,290**	114,854,090
Transmission and distribution			**43,552,010**	39,245,421
Generation			**24,293,205**	21,364,047
	31		**195,439,505**	175,463,558
Gross income			**87,625,537**	86,405,778
Administrative expenses	31		**(34,257,466)**	(31,389,207)
Operating profit			**53,368,071**	55,016,571
Interest income			**786,618**	727,339
Other gains, net	24		**66,610**	44,925
Profit before finance costs and taxation			**54,221,299**	55,788,835
Finance costs	25		**(6,063,545)**	(8,352,870)
Profit before taxation			**48,157,754**	47,435,965
Taxation	26		**(13,470,620)**	(13,468,323)
Net profit for the year			**34,687,134**	33,967,642
Other comprehensive income:				
Items that may be reclassified to profit or loss:				
Fair value gain/(loss) on available-for sale financial assets	14		**882,672**	(551,394)
Items that will not be reclassified to profit or loss:				
Re-measurements of defined benefit plans, net of tax	26		**385,000**	1,566,600
Total other comprehensive income			**1,267,672**	1,015,206
Total comprehensive income for the year		$	**35,954,806**	34,982,848
Basic and diluted earnings per share	27	$	**1.51**	1.48

The notes on pages 43 to 98 are an integral part of these financial statements.

St. Lucia Electricity Services Limited

Consolidated Statement of Changes in Equity
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

	Notes	Share Capital	Retained Earnings	Fair Value Reserve	Revaluation Reserve	Self-insurance Reserve	Total
Balance at January 1, 2016		$ 80,162,792	135,373,798	-	15,350,707	28,204,502	259,091,799
Net profit for the year		-	33,967,642	-	-	-	33,967,642
Fair value loss on available-for sale financial assets	14	-	-	(551,394)	-	-	(551,394)
Re-measurements of defined benefit plans, net of tax	26	-	1,566,600	-	-	-	1,566,600
Total comprehensive income for the year		-	35,534,242	(551,394)	-	-	34,982,848
Transfer to self-insurance reserve	16	-	(2,512,541)	-	-	2,512,541	-
Ordinary dividends	29	-	(17,877,600)	-	-	-	(17,877,600)
Balance at December 31, 2016		$ 80,162,792	150,517,899	(551,394)	15,350,707	30,717,043	276,197,047
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**
Fair value gain on available-for sale financial assets	14	**-**	**-**	**882,672**	**-**	**-**	**882,672**
Re-measurements of defined benefit plans, net of tax	26	**-**	**385,000**	**-**	**-**	**-**	**385,000**
Total comprehensive income for the year		**-**	**35,072,134**	**882,672**	**-**	**-**	**35,954,806**
Transfer to self-insurance reserve	16	**-**	**(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**

The notes on pages 43 to 98 are an integral part of these financial statements.

St. Lucia Electricity Services Limited
Consolidated Statement of Cash Flows
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

	Notes	2017	2016
Cash flows from operating activities			
Profit before taxation		$ **48,157,754**	47,435,965
Adjustments for:			
Depreciation	6	**34,291,418**	33,110,236
Amortisation of intangible assets	7	**1,914,935**	2,278,547
Interest income		**(786,618)**	(727,339)
Interest expense	25	**6,055,886**	8,352,870
Movement in allowance for impairment		**1,343,610**	538,231
Gain on disposal of property, plant and equipment	24	**(44,285)**	(12,929)
Loss on disposal of other financial assets	25	**7,659**	-
Post-retirement benefits		**(3,235,000)**	60,000
Operating profit before working capital changes		**87,705,359**	91,035,581
(Increase)/decrease in inventories		**(1,838,630)**	2,499,884
Decrease in trade, other receivables and prepayments		**2,454,656**	3,685,549
Increase/(decrease) in trade and other payables		**20,154,053**	(3,214,209)
Cash generated from operations		**108,475,438**	94,006,805
Interest income received		**783,018**	893,610
Interest expense paid		**(5,896,888)**	(8,298,868)
Income tax paid		**(17,199,428**	(13,492,640)
Net cash from operating activities		**86,162,140**	73,108,907
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	**(46,466,466)**	(27,800,940)
Proceeds from disposal of property, plant and equipment		**44,483**	13,217
Acquisition of intangible assets	7	**(2,578,363)**	(969,667)
Acquisition of other financial assets		**(4,816,971)**	(33,625,294)
Proceeds from disposal of other financial assets		**1,692,594**	15,402,661
Net cash used in investing activities		**(52,124,723)**	(46,980,023)
Cash flows from financing activities			
Repayment of borrowings		**(19,042,074)**	(18,008,714)
Dividends paid		**(23,153,892)**	(17,856,485)
Consumer deposits, net		**1,202,580**	237,566
Net cash used in financing activities		**(40,993,386)**	(35,627,633)
Net decrease in cash and cash equivalents		**(6,955,969)**	(9,498,749)
Cash and cash equivalents at beginning of year	12	**29,600,146**	39,098,895
Cash and cash equivalents at end of year	12	$ **22,644,177**	29,600,146

The notes on pages 43 to 98 are an integral part of these financial statements.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements
For the Year Ended December 31, 2017

(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, 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 ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were approved for issue by the Board of Directors on March 9, 2018.

(b) *Basis of measurement*

The consolidated financial statements have been prepared using the historical cost basis except for land, available-for-sale 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 statement of financial position and 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, 2017

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the 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, 2017

(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, except for land which is measured at fair value.

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as 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 profit or loss.

(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 profit or loss 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:

	2017	2016
■ Buildings	**$2^1/_2$ % - $12^1/_2$% per annum**	$2^1/_2$ % -$12^1/_2$% per annum
■ Plant and machinery		
- Generator overhauls	**$33^1/_3$% per annum**	$33^1/_3$% per annum
- Other	**4% - 10% per annum**	4% - 10% per annum
■ Motor vehicles	**20% - $33^1/_3$% per annum**	20% - $33^1/_3$% per annum
■ Furniture and fittings		
- Computer hardware	**20% per annum**	20% per annum
- Other	**10% per annum**	10% per annum

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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.

(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 profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, other than way leave rights, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives of the assets that are amortised, that is, computer software 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 plan or reductions in future contributions to the plan.

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

The 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, 2017

(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.

(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 profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, other than way leave rights, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The estimated useful lives of the assets that are amortised, that is, computer software 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 plan or reductions in future contributions to the plan.

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

The 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, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(e) Financial instruments (Cont'd)

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

Available-for-sale financial assets

The Group's investments in treasury bills and equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value. Changes in the carrying amount of available-for-sale 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include trade and other receivables, deposits held in banks and cash and cash equivalents.

(i) Trade and other receivables

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

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

(ii) Deposits held in banks

Deposits held in 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.

(iii) Cash and cash equivalents

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

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

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.

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(e) Financial instruments (Cont'd)

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

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).

(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.

(f) Impairment

(i) *Financial assets*

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

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

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

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

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(f) Impairment (Cont'd)

(i) *Financial assets (Cont'd)*

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

(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.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(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.

(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 11.

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, 2017

(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.

(l) *Finance income and costs*

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

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

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

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(m) Income tax

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

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

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

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

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

(n) 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 period. 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, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(o) New standards, amendments to standards and interpretations

(i) New standards, amendments and interpretations effective in the 2017 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, 2017 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, 2017 which do not affect the Group's consolidated financial statements have not been disclosed below.

- *IAS 7, Statement of Cash Flows* was amended to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. One way is to provide a reconciliation of the opening and closing carrying amounts for each item for which cash flows have been classified as financial activities. The reconciliation should include (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

  This reconciliation has been disclosed in Note 12.

- *IAS 12, Income Taxes* was amended to clarify the following aspects:

  (a) Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
  (b) The carrying amount of an asset does not limit the estimation of probable future taxable profits.
  (c) Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
  (d) An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

  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, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(o) 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:

Note: Those new standards, amendments and interpretations that are issued but not effective 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. These amendments apply when an entity applies IFRS 9.

- *IFRS 9, Financial Instruments* issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 to mainly include the impairment requirements for financial assets and limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

  It is anticipated that the application of IFRS 9 in the future may have a material impact on amounts reported in respect to the Group's consolidated financial assets and liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review is undertaken.

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

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

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

- *IFRS 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 will supersede the current 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.

  This new standard is applicable for annual periods beginning on or after January 1, 2018. It is anticipated that the application of IFRS 15 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 15 until a detailed review is undertaken.

- *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.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

3. Significant Accounting Policies (Cont'd)

(o) 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)

- *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.

  This interpretation is applicable for annual periods beginning on or after January 1, 2018. 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.

- *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.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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 loans and receivables and trade and other payables 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, 2017

(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, 2017	As at December 31, 2016	Level	Valuation techniques and key inputs
Financial Instruments Measured at Fair Value					
Non-Financial Assets					
Land (Note 6)	$	**28,394,803**	22,138,928	2	Market comparable approach. Key inputs-Price per square foot
Financial Assets					
Available-for-sale (Note 10)	$	**34,209,425**	30,694,784	2	Quoted prices in an inactive market
Derivative financial instruments (Note 11)	$	**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 Instruments Disclosed at Fair Value					
Financial Liabilities					
Borrowings (Note 17)	$	**94,283,376**	109,987,131	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, 2017

(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 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 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, 2017

(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 and investment securities.

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.

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

Investments
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, 2017

(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% (2016 - 5.00%) 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 purchases and borrowings denominated in currencies other than its functional currency. The Group's exposure to currency risk is minimal since most of its obligations are denominated in United States Dollars and the United States dollar has been formally pegged to the Eastern Caribbean Dollar at EC$2.70 = US$1.00 since 1976.

Interest rate risk
There is no significant interest rate risk arising on the Group's cash and cash equivalents and deposits. The Group is exposed to interest rate risk on its available-for-sale financial assets as at December 31, 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 17 and 18, respectively.

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

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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, 2017

(Expressed in Eastern Caribbean Dollars)

5. Financial Risk Management (Cont'd)

Capital management

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

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

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

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

6. Property, Plant and Equipment

	Land	Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fittings	Work-in-Progress	Total
Cost/Valuation							
Balance at January 1, 2016	$ 22,138,928	84,539,981	729,415,712	3,810,019	17,063,902	15,501,650	872,470,192
Additions	-	5,913	1,357,059	7,629	562,482	25,867,857	27,800,940
Transfers	-	41,445	25,835,664	168,652	422,614	(26,468,375)	-
Disposals	-	-	-	(105,000)	(14,933)	-	(119,933)
Balance at December 31, 2016	22,138,928	84,587,339	756,608,435	3,881,300	18,034,065	14,901,132	900,151,199
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**
Accumulated Depreciation							
Balance at January 1, 2016	$ -	41,149,144	473,790,249	3,074,206	12,964,599	-	530,978,198
Charge for the year	-	2,051,915	29,909,008	248,070	901,243	-	33,110,236
Eliminated on disposals	-	-	-	(105,000)	(14,645)	-	(119,645)
Balance at December 31, 2016	-	43,201,059	503,699,257	3,217,276	13,851,197	-	563,968,789
Balance at January 1, 2017	**-**	**43,201,059**	**503,699,257**	**3,217,276**	**13,851,197**	**-**	**563,968,789**
Charge for the year	**-**	**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**
Carrying Amounts							
At January 1, 2016	$ 22,138,928	43,390,837	255,625,463	735,813	4,099,303	15,501,650	341,491,994
At December 31, 2016	$ 22,138,928	41,386,280	252,909,178	664,024	4,182,868	14,901,132	336,182,410
At January 1, 2017	**$ 22,138,928**	**41,386,280**	**252,909,178**	**664,024**	**4,182,868**	**14,901,132**	**336,182,410**
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**

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

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

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

The carrying amounts of the Group's lands would have been $13,044,096 had they been measured at a historical cost basis as at December 31, 2017 (2016 - $6,788,221).

Assets pledged as security
As stated in Note 17, 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, 2017

(Expressed in Eastern Caribbean Dollars)

7. Intangible Assets

		Information Systems	Wayleave Rights	Work-in-Progress	Total
Cost					
Balance at January 1, 2016	$	20,887,129	3,819,946	233,665	24,940,740
Additions		338,995	579,489	51,183	969,667
Transfers		34,329	-	(34,329)	-
Balance at December 31, 2016		21,260,453	4,399,435	250,519	25,910,407
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**
Accumulated Amortisation					
Balance at January 1, 2016	$	11,859,031	-	-	11,859,031
Amortised for the year		2,278,547	-	-	2,278,547
Balance at December 31, 2016		14,137,578	-	-	14,137,578
Balance at January 1, 2017		**14,137,578**	**-**	**-**	**14,137,578**
Amortised for the year		**1,914,935**	**-**	**-**	**1,914,935**
Balance at December 31, 2017	**$**	**16,052,513**	**-**	**-**	**16,052,513**
Carrying Amounts					
At January 1, 2016	$	9,028,098	3,819,946	233,665	13,081,709
At December 31, 2016	$	7,122,875	4,399,435	250,519	11,772,829
At January 1, 2017	**$**	**7,122,875**	**4,399,435**	**250,519**	**11,772,829**
At December 31, 2017	**$**	**5,436,074**	**5,426,998**	**1,573,185**	**12,436,257**

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

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

8. Inventories

		2017	2016
Fuel inventories	$	**3,302,400**	3,015,114
Generation spare parts		**4,590,693**	4,476,768
Transmission, distribution and other spares		**7,499,676**	6,140,946
Goods-in-transit		**422,764**	436,617
		15,815,533	14,069,445
Less: provision for inventory obsolescence		**(2,095,635)**	(2,188,177)
	$	**13,719,898**	11,881,268

9. Trade, Other Receivables and Prepayments

		2017	2016
Trade receivables due from related parties (Note 30)	$	**6,421,732**	8,591,897
Other trade receivables		**27,704,150**	32,078,671
Trade receivables, gross		**34,125,882**	40,670,568
Less: allowance for impairment of trade receivables (Note 33)		**(8,071,974)**	(7,239,988)
Trade receivables, net		**26,053,908**	33,430,580
Other receivables due from related parties (Note 30)		**858,672**	858,073
Other receivables		**6,295,280**	5,554,004
Other receivables, gross		**7,153,952**	6,412,077
Less: allowance for impairment of other receivables (Note 33)		**(1,290,349)**	(885,197)
Other receivables, net		**5,863,603**	5,526,880
Accrued income		**16,040,935**	12,615,904
		47,958,446	51,573,364
Prepayments		**1,639,658**	1,823,006
	$	**49,598,104**	53,396,370

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, 2017

(Expressed in Eastern Caribbean Dollars)

10. Other Financial Assets

		2017	2016
Available-for-sale			
Treasury bills	$	**1,050,000**	-
Equity investments		**33,159,425**	30,694,784
		34,209,425	30,694,784
Deposits			
Term deposits		**6,462,567**	5,974,218
	$	**40,671,992**	36,669,002

The available-for-sale financial assets are not available for the day-to-day operations of the Group.

The term deposits earn interest of 1.75% (2016 - 1.75% to 2.00%) per annum and mature between 6 to 11 months (2016 - 6 to 11 months) after year end.

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

11. 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 follows:

		2017	2016
Fixed price swaps	$	**4,288,440**	-

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

12. Cash and Cash Equivalents

Cash and cash equivalents comprise:

		2017	2016
Cash at bank and in hand	$	**22,644,177**	29,600,146

Included in cash and cash equivalents are $384,341 (2016 - $262,258) that are not available for the day-to-day operations of the Group.

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 17)	Current borrowings (Note 17)	Consumer Deposits (Note 18)	Total
Balance at January 1, 2016	$	121,712,672	16,101,653	16,111,107	153,925,432
Cash Flows		-	(26,122,775)	52,759	(26,070,016)
Non-cash flows					
-Borrowings classified as non-current becoming current in 2016		(21,531,637)	21,531,637	-	-
-Interest accruing in 2016		-	8,074,521	277,890	8,352,411
Balance at December 31, 2016	$	100,181,035	19,585,036	16,441,756	136,207,827
Balance at January 1, 2017	$	**100,181,035**	**19,585,036**	**16,441,756**	**136,207,827**
Cash Flows		**-**	**(24,798,511)**	**1,062,130**	**(23,736,381)**
Non-cash flows					
-Borrowings classified as non-current becoming current in 2017		**(17,978,532)**	**17,978,532**	**-**	**-**
-Interest accruing 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**

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

13. Share Capital

		2017	2016
Authorised:			
Voting ordinary shares		**100,000,000**	100,000,000
Ordinary non-voting shares		**800,000**	800,000
Preference shares		**1,214,128**	1,214,128

		2017	2016
Issued and fully paid			
22,400,000 voting ordinary shares	$	**77,562,792**	77,562,792
520,000 non-voting ordinary shares		**2,600,000**	2,600,000
	$	**80,162,792**	80,162,792

14. Fair Value Reserve

		2017	2016
Balance at beginning of year	$	**(551,394)**	-
Fair value gain/(loss) on available-for-sale financial assets		**882,672**	(551,394)
Balance at end of year	$	**331,278**	(551,394)

The fair value reserve represents the cumulative gains and losses arising on the revaluation of available-for-sale financial assets that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those assets have been disposed.

15. Revaluation Reserve

		2017	2016
Balance at beginning and end of year	$	**15,350,707**	15,350,707

The revaluation reserve represents the gain 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.

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

16. 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 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:

		2017	2016
Other financial assets: available-for-sale (Note 10)	$	**34,209,425**	30,694,784
Cash and cash equivalents (Note 12)		**384,341**	262,258
	$	**34,593,766**	30,957,042

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

		2017	2016
Balance at January 1,	$	**30,717,043**	28,204,502
Transferred from retained earnings		**3,255,242**	2,512,541
Balance at December 31,	$	**33,972,285**	30,717,043

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

17. Borrowings

		2017	2016
Current			
Bank borrowings	$	**4,438,271**	5,808,061
Related parties		**14,124,607**	13,776,975
		18,562,878	19,585,036
Non-current			
Bank borrowings		**15,962,658**	19,841,218
Related parties		**66,239,845**	80,339,817
		82,202,503	100,181,035
Total borrowings			
Bank borrowings		**20,400,929**	25,649,279
Related parties (Note 30)		**80,364,452**	94,116,792
	$	**100,765,381**	119,766,071

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.

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

	2017	2016
	%	%
Bank borrowings	**4.02**	4.02
Related parties	**5.41**	5.45

Maturity of non-current borrowings:

		2017	2016
Between 1 and 2 years	$	**10,578,572**	17,978,532
Between 2 and 5 years		**35,012,297**	33,345,851
Over 5 years		**36,611,634**	48,856,652
	$	**82,202,503**	100,181,035

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, 2017

(Expressed in Eastern Caribbean Dollars)

18. 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% (2016 - 2%) per annum.

		2017	2016
Consumer deposits	$	**13,721,055**	12,518,475
Interest accrual		**4,040,395**	3,923,281
	$	**17,761,450**	16,441,756

19. Deferred Tax Liability

Deferred tax liability is calculated in full on temporary differences under the balance sheet liability method using a principal tax rate of 30% (2016 - 30%). The movement on the deferred tax liability account is as follows:

		2017	2016
Balance at beginning of year	$	**33,364,975**	33,942,511
Recognised in profit and loss (Note 26)		**66,232**	(1,248,936)
Recognised in other comprehensive income (Note 26)		**165,000**	671,400
Balance at end of year	$	**33,596,207**	33,364,975

Deferred tax liability is attributed to the following items:

		2017	2016
Property, plant and equipment	$	**34,207,007**	35,111,275
Pension benefit liabilities		**-**	(1,210,500)
Post-employment medical benefit liabilities		**(610,800)**	(535,800)
	$	**33,596,207**	33,364,975

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

20. Pension 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 by Sagicor Life Inc.

Grade II Employees

The Group contributes to a defined benefit pension scheme for Grade II employees who were employed prior to January 1, 2008 which, up to December 31, 2008, was administered by CLICO International Life Insurance 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 contributes 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 most recent actuarial valuation of the plan was completed on December 31, 2015 using the "Projected Unit Credit" method of valuation.

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

	Grade III		**Grade II**		**Grades I**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	%	**%**	**%**	**%**	**%**	**%**
Discount rates	**7.5**	7.5	**7.5**	7.5	**7.5**	7.5
Future salary increases	**4.5**	4.5	**4.0**	4.0	**4.0**	4.0
Future pension increases	**3.0**	3.0	**-**	-	**-**	-
Future promotional increases	**2.0**	2.0	**-**	-	**-**	-
Future NIS earnings increases	**-**	-	**-**	-	**2.0**	2.0

Assumptions regarding future mortality are based on standard mortality tables.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

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	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Present value of defined benefit obligations	$	**(28,268,000)**	(26,086,000)	**(15,026,000)**	(14,355,000)	**(12,773,000)**	(12,500,000)	**(56,067,000)**	(52,941,000)
Fair value of plans' assets		**31,562,000**	26,010,000	**17,900,000**	10,396,000	**16,664,000**	16,303,000	**66,126,000**	52,709,000
Effect of asset ceiling		**(3,294,000)**	-	**(2,874,000)**	-	**(3,891,000)**	(3,803,000)	**(10,059,000)**	(3,803,000)
Defined benefit liabilities	$	**-**	(76,000)	**-**	(3,959,000)	**-**	-	**-**	(4,035,000)

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

20. Pension Benefit Liabilities (Cont'd)

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

		Grade III		Grade II		Grade I		Total	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Defined benefit obligations as at January 1,	$	**26,086,000**	23,275,000	**14,355,000**	15,183,000	**12,500,000**	14,379,000	**52,941,000**	52,837,000
Service costs		**1,082,000**	989,000	**398,000**	519,000	**108,000**	181,000	**1,588,000**	1,689,000
Interest costs		**2,024,000**	1,807,000	**1,049,000**	1,045,000	**925,000**	993,000	**3,998,000**	3,845,000
Past service costs		**-**	-	**-**	92,000	**-**	-	**-**	92,000
Members' contributions		**-**	-	**201,000**	213,000	**149,000**	162,000	**350,000**	375,000
Benefits paid		**(359,000)**	(348,000)	**(744,00)**	(703,00)	**(408,000)**	(468,000)	**(1,511,000)**	(1,519,000)
Re-measurements: experience adjustments		**(565,000)**	363,000	**(233,000)**	(1,994,000)	**(501,000)**	(2,747,000)	**(1,299,000)**	(4,378,000)
Defined benefit obligations as at December 31,	$	**28,268,000**	26,086,000	**15,026,000**	14,355,000	**12,773,000**	12,500,000	**56,067,000**	52,941,000

(e) The movements in the plans' assets were as follows:

		Grade III		Grade II		Grade I		Total	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Fair value of plan's assets at January 1,	$	**26,010,000**	22,878,000	**10,396,000**	9,516,000	**16,303,000**	15,796,000	**52,709,000**	48,190,000
Contributions paid - employer		**4,267,000**	1,304,000	**764,000**	875,000	**260,000**	322,000	**5,291,000**	2,501,000
Contributions paid - members		**-**	-	**201,000**	213,000	**149,000**	162,000	**350,000**	375,000
Interest income		**2,097,000**	1,749,000	**786,000**	677,000	**1,221,000**	1,105,000	**4,104,000**	3,531,000
Return on plans' assets, excluding interest income		**(431,000)**	501,000	**6,559,000**	(120,000)	**(814,000)**	(565,000)	**5,314,000**	(184,000)
Benefits paid		**(359,000)**	(348,000)	**(744,000)**	(703,000)	**(408,000)**	(468,000)	**(1,511,000)**	(1,519,000)
Expense allowance		**(22,000)**	(74,000)	**(62,000)**	(62,000)	**(47,000)**	(49,000)	**(131,000)**	(185,000)
Fair value of plans' assets at December 31,	$	**31,562,000**	26,010,000	**17,900,000**	10,396,000	**16,664,000**	16,303,000	**66,126,000**	52,709,000

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Overseas equities	$ **14,224,000**	12,239,000	**1,164,000**	384,000	**-**	-	**15,388,000**	12,623,000
Government issued nominal bonds	**10,016,000**	6,417,000	**8,379,000**	7,978,000	**-**	-	**18,395,000**	14,395,000
Corporate bonds	**4,671,000**	4,812,000	**811,000**	817,000	**-**	-	**5,482,000**	5,629,000
Cash/money market	**858,000**	524,000	**1,160,000**	1,217,000	**-**	-	**2,018,000**	1,741,000
Immediate annuity policies	**-**	-	**6,386,000**	-	**-**	-	**6,386,000**	-
Deposit administration account	**-**	-	**-**	-	**16,664,000**	16,303,000	**16,664,000**	16,303,000
Other	**1,793,000**	2,018,000	**-**	-	**-**	-	**1,793,000**	2,018,000
Total	$ **31,562,000**	26,010,000	**17,900,000**	10,396,000	**16,664,000**	16,303,000	**66,126,000**	52,709,000

Grade I
The value of the Grade I plan assets as at December 31, 2017 was estimated using the face value of the deposit administration contract as at September 30, 2017 provided by the Investment Manager, Sagicor Life Inc. These assets are not quoted on an open market and therefore the value is reliant on Sagicor's financial strength. There are no asset-liability matching strategies used by the Scheme.

Grade II
The values of the Grade II plan assets as at December 31, 2017 were estimated using the assets' values as at September 30, 2017 provided by the Scheme's Investment Manager, RBC. The Investment Manager calculates the fair value of Government bonds by discounting expected future proceeds using a constructed yield curve. All of the Scheme's government bonds were issued by the governments of countries within Caricom.

The plan assets for the Grade II Pension Scheme are invested in a strategy agreed with the Schemes' Trustees which is largely driven by statutory constraints and asset availability. A strategic asset allocation comprising regional long-term fixed income, foreign equities and money markets was determined that would best suit the long-term needs of the Scheme.

Grade III
The value of the Grade III plan assets as at December 31, 2017 were estimated using the assets' values as at September 30, 2017 provided by the Scheme's Investment Managers, Deutsche Bank and Sagicor Life Inc. The assets held by Deutsche Bank are all quoted in a formal market. The Scheme uses a number of techniques to help manage duration and inflation risk (use of corporate bonds, long-term bonds, equities and high yield bonds) and de-correlates portfolio risk with the use of alternative investments such as Market Neutral and Commodities investments.

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Return on plans' assets	$ **1,666,000**	2,250,000	**7,345,000**	557,000	**407,000**	540,000	**9,418,000**	3,347,000

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

	Grade III		Grade II		Grade I		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Current service cost	$ **1,082,000**	989,000	**398,000**	519,000	**108,000**	181,000	**1,588,000**	1,689,000
Past service cost	**-**	-	**-**	92,000	**-**	-	**-**	92,000
Administrative expenses	**22,000**	74,000	**62,000**	62,000	**47,000**	49,000	**131,000**	185,000
Net interest on defined benefit asset	**(73,000)**	58,000	**263,000**	368,000	**-**	-	**190,000**	426,000
Net pension costs	$ **1,031,000**	1,121,000	**723,000**	1,041,000	**155,000**	230,000	**1,909,000**	2,392,000

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

	Grade III		Grade II		Grade I		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Experience losses/(gains)	$ **(134,000)**	(138,000)	**(6,792,000)**	(1,874,000)	**313,000**	(2,182,000)	**(6,613,000)**	(4,306,000)
Effect of asset ceiling	**3,294,000**	-	**2,874,000**	-	**(208,000)**	2,274,000	**5,960,000**	2,386,000
Total amount recognised in Other Comprehensive Income	$ **3,160,000**	(138,000)	**(3,918,000)**	(1,874,000)	**105,000**	92,000	**(653,000)**	(1,920,000)

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

20. Pension Benefit Liabilities (Cont'd)

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

		Grade III		Grade II		Grade I		Total	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Opening defined benefit liabilities	$	**(76,000)**	(397,000)	**(3,959,000)**	(5,667,000)	**-**	-	**(4,035,000)**	(6,064,000)
Net pension costs		**(1,031,000)**	(1,121,000)	**(723,000)**	(1,041,000)	**(155,000)**	(230,000)	**(1,909,000)**	(2,392,000)
Re-measurements recognised in Other Comprehensive Income		**(3,160,000)**	138,000)	**3,918,000**	1,874,000	**(105,000)**	(92,000)	**653,000**	1,920,000
Employer contributions paid		**4,267,000**	1,304,000	**764,000**	875,000	**260,000**	322,000	**5,291,000**	2,501,000
Closing defined benefit liabilities	$	**-**	(76,000)	**-**	(3,959,000)	**-**	-	**-**	(4,035,000)

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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 III is sensitive to the assumptions used. The following tables summarise how the defined benefit obligations as at December 31, 2017 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	$	(1,075,000)	1,350,000
Future salary increases	$	843,000	(657,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2017 by $163,000.

Grade II

		1% p.a. increase	1% p.a. decrease
Discount rate	$	(1,563,000)	1,885,000
Future salary increases	$	556,000	(505,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2017 by $306,000.

Grade III

		1% p.a. increase	1% p.a. decrease
Discount rate	$	(4,193,000)	5,306,000
		0.5% p.a. increase	0.5% p.a. decrease
Future salary increases	$	698,000	(668,000)

An increase of one year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2017 by $560,000.

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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:

	2017	**2016**
Grade 1	10.2 years	10.2 years
Grade II	12.3 years	12.6 years
Grade III	16.8 years	17.3 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 $325,000 to the pension plan during 2018.

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 $1,000,000 to the pension plan during 2018.

Grade III

The Group meets the cost of funding the defined benefit pension plan for the Group's employees only and is not liable for outstanding contributions from other employers who contribute to the multi-employer plan. 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 $2,792,000 to the pension plan during 2018.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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:

	Grade III		Grades I and II	
	2017	**2016**	**2017**	**2016**
	%	**%**	**%**	**%**
Discount rate	**7.5**	7.5	**7.5**	7.0
Medical expense increase	**5.0**	5.0	**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:

	Grade III		Grades II & I		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Present value of defined benefit obligations	$ **339,000**	289,000	**1,697,000**	1,497,000	**2,036,000**	1,786,000
Fair value of plans' assets	**-**	-	**-**	-	**-**	-
Defined benefit liabilities	$ **339,000**	289,000	**1,697,000**	1,497,000	**2,036,000**	1,786,000

(c) The movements in the post-employment medical benefit obligations were as follows:

	Grade III		Grades II & I		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Defined benefit obligations as at January 1,	$ **289,000**	464,000	**1,497,000**	1,471,000	**1,786,000**	1,935,000
Current service costs	**17,000**	27,000	**46,000**	47,000	**63,000**	74,000
Interest costs	**22,000**	37,000	**110,000**	102,000	**132,000**	139,000
Benefits paid	**(3,000)**	(3,000)	**(45,000)**	(41,000)	**(48,000)**	(44,000)
Re-measurements: experience adjustments	**14,000**	(236,000)	**89,000**	(82,000)	**103,000**	(318,000)
Defined benefit obligations as at December 31,	$ **339,000**	289,000	**1,697,000**	1,497,000	**2,036,000**	1,786,000

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

	Grade III		Grades II & I		Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Current service cost	$ **17,000**	27,000	**46,000**	47,000	**63,000**	74,000
Interest on defined benefit obligations	**22,000**	37,000	**110,000**	102,000	**132,000**	139,000
Net pension costs	$ **39,000**	64,000	**156,000**	149,000	**195,000**	213,000

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

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

(e) Re-measurements recognised in Other Comprehensive Income were as follows:

		Grade III		Grades II & I		Total	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**
Experience (gains)/losses	$	**14,000**	(236,000)	**89,000**	(82,000)	**103,000**	(318,000)
Total amount recognised in Other Comprehensive Income	$	**14,000**	(236,000)	**89,000**	(82,000)	**103,000**	(318,000)

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

		Grade III		Grades II & I		Total	
		2017	**2016**	**2017**	**2016**	**2017**	**2016**
Opening defined benefit liabilities	$	**289,000**	464,000	**1,497,000**	1,471,000	**1,786,000**	1,935,000
Net pension costs		**39,000**	64,000	**156,000**	149,000	**195,000**	213,000
Re-measurements recognised in Other Comprehensive Income		**14,000**	(236,000)	**89,000**	(82,000)	**103,000**	(318,000)
Benefits paid		**(3,000)**	(3,000)	**(45,000)**	(41,000)	**(48,000)**	(44,000)
Closing defined benefit liabilities	$	**339,000**	289,000	**1,697,000**	1,497,000	**2,036,000**	1,786,000

(g) Sensitivity Analysis

The calculation of the defined benefit obligations for Grades I to III is sensitive to the assumptions used. The following tables summarise how the defined benefit obligations as at December 31, 2017 would have changed as a result of a change in the assumptions used.

Grade I & II

		1% p.a. increase	1% p.a. decrease
Discount rate	$	**(250,000)**	**323,000**
Medical expense increases	$	**328,000**	**(228,000)**

An increase of 1 year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2017 by $57,000.

Grade III

		1% p.a. increase	1% p.a. decrease
Discount rate	$	**(53,000)**	**68,000**
Medical expense increases	$	**69,000**	**(55,000)**

An increase of 1 year in the assumed life expectancies would increase the defined benefit obligations at December 31, 2017 by $11,000.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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 for each of the plans was as follows:

	2017	2016
Grades 1 and II	18.0 years	18.0 years
Grade III	19.8 years	19.5 years

(i) Funding Policy

Grades I and II

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 $48,000 to the plan in 2018.

Grade III

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 $3,000 to the plan in 2018.

22. Trade and Other Payables

		2017	2016
Trade payables	$	**17,047,615**	14,474,461
Accrued expenses		**18,687,496**	2,929,693
Other payables		**7,033,921**	5,210,325
		42,769,032	22,614,479
Deferred fuel costs		**4,288,440**	-
	$	**47,057,472**	22,614,479

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

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, 2017

(Expressed in Eastern Caribbean Dollars)

23. Provision for Other Liabilities

		2017	2016
Balance at beginning and end of year	$	1,485,493	1,485,493

The provision for other liabilities represents the estimated decommissioning costs of the old power stations located at Union and Vieux Fort planned for 2018.

24. Other Gains, Net

		2017	2016
Gain on disposal of property, plant and equipment	$	44,285	12,929
Foreign exchange gains		22,325	31,996
	$	66,610	44,925

25. Finance Costs

		2017	2016
Interest expense on:			
- borrowings	$	5,797,822	8,074,521
- consumer deposits		257,564	277,890
- pole rental deposits		500	459
		6,055,886	8,352,870
Loss on disposal of other financial assets		7,659	-
	$	6,063,545	8,352,870

26. Taxation

		2017	2016
Current tax	$	13,404,388	14,717,259
Deferred tax (Note 19)		66,232	(1,248,936)
	$	13,470,620	13,468,323

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

		2017	2016
Profit before taxation	$	48,157,754	47,435,965
Tax at the statutory rate of 30% (2016 - 30%)		14,447,326	14,230,789
Tax effect of non-deductible expenses		183,908	314,097
Tax effect of non-taxable income		(262,276)	(102,304)
Tax effect of self-insurance appropriation		(900,000)	(974,258)
Deferred tax asset unrecognised on tax loss		1,662	-
Actual tax charge	$	13,470,620	13,468,323

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

26. Taxation (Cont'd)

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

		2017			2016		
		Before tax	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Re-measurement of defined benefit plans	$	**550,000**	**(165,000)**	**385,000**	2,238,000	(671,400)	1,566,600

27. Basic and Diluted Earnings per Share

Basic and diluted earnings per share of $1.51 (2016 - $1.48) is calculated by dividing the profit for the year of $34,687,134 (2016 - $33,967,642) by the weighted average number of shares outstanding during the year of 22,920,000 (2016 - 22,920,000).

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 2017 (2016 - 10% to 14.5%).

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

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

As the actual Rate of Return fell within the Allowable Rate of Return range for the year ended December 31, 2017, no appropriation will be made.

29. Ordinary Dividends

		2017	2016
Interim 2017 - $0.45 (2016 - $0.39) per share	$	**10,314,000**	8,938,800
Final 2016 - $0.56 (2015 - $0.39) per share		**12,835,200**	8,938,800
	$	**23,149,200**	17,877,600

The final dividend for the year 2017 had not been declared as at December 31, 2017.

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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 a post-employment defined benefit plan on their behalf. The key management personnel compensations are as follows:

		2017	2016
Short-term employee benefits	$	**4,176,949**	4,475,202
Post-employment benefits		**2,812,165**	930,365
Directors' remuneration		**351,030**	282,784
	$	**7,340,144**	5,688,351

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

		2017	2016
Supply of services	$	**124,341**	101,066

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

		2017	2016
Supply of services	$	**10,601**	6,774

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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:

		2017	2016
Services rendered to the Group	$	**29,232**	24,866

There were no balances outstanding in relation to those entities at the reporting date (2016 - Nil).

Transactions with shareholders

The Group is controlled by the following entities:

	2017	2016
	%	%
Emera St. Lucia Ltd.	**20.00**	20.00
First Citizens Bank Limited	**20.00**	20.00
National Insurance Corporation	**20.00**	16.79
Castries City Council	**15.50**	16.32
Government of Saint Lucia	**10.05**	12.44
	85.55	85.55

The remaining 14.45% (2016 - 14.45%) of the shares is widely held.

Transactions with shareholders during the year were as follows:

<u>Supply of Electricity Services</u>

		2017	2016
National Insurance Corporation	$	**2,601,993**	2,396,133
Castries City Council		**1,460,812**	1,485,952
Government of Saint Lucia		**23,847,348**	25,442,117
	$	**27,910,153**	29,324,202

The Government of Saint Lucia receives a 10% (2016 -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, 2017

(Expressed in Eastern Caribbean Dollars)

30. Related Parties (Cont'd)

Transactions with shareholders (Cont'd)

Supply of Other Services

		2017	2016
Castries City Council		**26,723**	-
Government of Saint Lucia		**114,695**	380,176
	$	**141,418**	380,176

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

		2017	2016
National Insurance Corporation	$	**21,248**	-
Castries City Council		**96,771**	229,184
Government of Saint Lucia		**6,303,713**	8,362,713
	$	**6,421,732**	8,591,897

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

		2017	2016
Government of Saint Lucia	$	**858,672**	858,073

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

		2017	2016
Allowance for impairment	$	**1,106,833**	841,168
Impairment loss	$	**265,666**	801,390

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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:

		2017	2016
National Insurance Corporation			
At beginning of year	$	**80,517,523**	86,664,603
Repayments during year		**(11,044,482)**	(11,073,755)
		69,473,041	75,590,848
Interest expense		**4,091,776**	4,926,675
At end of year	$	**73,564,817**	80,517,523
First Citizens Bank Limited			
At beginning of year	$	**13,599,269**	20,413,809
Repayments during year		**(7,597,209)**	(8,129,337)
		6,002,060	12,284,472
Interest expense		**797,575**	1,314,797
At end of year	$	**6,799,635**	13,599,269
	$	**80,364,452**	94,116,792

The above loans are fully secured (Note 17).

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

		2017	2016
National Insurance Corporation	$	**4,091,776**	4,926,675
First Citizens Bank Limited		**797,575**	1,314,797
	$	**4,889,351**	6,241,472

These charges are included in the finance costs of $6,063,545 (2016 - $8,352,870) 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, 2017

(Expressed in Eastern Caribbean Dollars)

31. Expenses by Nature

		2017	2016
Fuel costs	$	**127,594,290**	114,854,090
Depreciation on property, plant and equipment (Note 6)		**34,291,418**	33,110,236
Amortisation of intangible assets (Note 7)		**1,914,935**	2,278,547
Repairs and maintenance		**11,610,678**	10,508,590
Research costs		**254,605**	652,407
Employee benefit expenses (Note 32)		**36,972,161**	29,399,935
Other operating expenses		**17,058,884**	16,048,960
	$	**229,696,971**	206,852,765
Operating expenses	$	**195,439,505**	175,463,558
Administrative expenses		**34,257,466**	31,389,207
	$	**229,696,971**	206,852,765

32. Employee Benefit Expenses

		2017	2016
Wages and salaries	$	**29,355,972**	21,669,231
Pension contributions		**5,765,954**	2,865,359
Medical contributions		**640,034**	633,593
Other employee benefits		**1,210,201**	4,231,752
	$	**36,972,161**	29,399,935

The number of permanent employees at December 31, 2017 was 256 (2016 - 253).

St. Lucia Electricity Services Limited

Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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 2017	2016
Trade and other receivables	9	$	**47,958,446**	51,573,364
Other financial assets	10		**40,671,992**	36,669,002
Derivative financial instruments	11		**4,288,440**	-
Cash and cash equivalents	12		**22,644,177**	29,600,146
		$	**115,563,055**	117,842,512

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

		Carrying Amounts 2017	2016
Business, before deducting provision	$	**22,214,499**	29,043,273
Residential, before deducting provision		**11,911,383**	11,627,295
	$	**34,125,882**	40,670,568

Analysis of trade receivables
An analysis of trade receivables at the reporting date is as follows:

		2017	2016
Not past due	$	**19,050,939**	19,696,001
Past due but not impaired		**5,468,249**	12,191,638
Past due and impaired		**9,606,694**	8,782,929
	$	**34,125,882**	40,670,568

The aging of trade receivables at the reporting date that are past due but not impaired is as follows:

		2017	2016
Past due 31-60 days	$	**2,789,201**	6,217,519
Past due 61-90 days		**762,028**	2,371,911
Past due >90 days		**1,917,020**	3,602,208
	$	**5,468,249**	12,191,638

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

33. Financial Instruments (Cont'd)

Credit risk (Cont'd)

Impairment losses
The aging of trade receivables at the reporting date that are past due and impaired is as follows:

		2017	2016
Past due 0-30 days	$	**64,925**	8,122
Past due 31-60 days		**56,746**	34,788
Past due 61-90 days		**24,897**	19,828
Past due >90 days		**9,460,126**	8,720,191
	$	**9,606,694**	8,782,929

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

		2017	2016
Balance at January 1,	$	**7,239,988**	8,428,060
Impairment loss recognised		**929,394**	151,627
Amounts written off		**(97,408)**	(1,339,699)
Balance at December 31,	$	**8,071,974**	7,239,988

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

		2017	2016
Balance at January 1,	$	**885,197**	498,594
Impairment loss recognised		**414,216**	386,603
Amounts written off		**(9,064)**	-
Balance at December 31,	$	**1,290,349**	885,197

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

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

33. Financial Instruments (Cont'd)

Liquidity risk

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

December 31, 2017

	Carrying amounts	Contractual cash flows	Under 1 year	1-2 years	2-5 years	>5 years
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	**42,769,032**	**42,769,032**	**42,769,032**	**-**	**-**	**-**
	$ 143,534,413	**163,767,677**	**66,032,230**	**14,484,833**	**43,454,500**	**39,796,114**

December 31, 2016

	Carrying amounts	Contractual cash flows	Under 1 year	1-2 years	2-5 years	>5 years
Non-derivative financial liabilities						
Borrowings	$ 119,766,071	145,689,913	25,250,978	22,703,487	43,454,500	54,280,948
Trade and other payables	22,614,479	22,614,479	22,614,479	-	-	-
	$ 142,380,550	**168,304,392**	**47,865,457**	**22,703,487**	**43,454,500**	**54,280,948**

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(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:

		Carrying amounts as at December 31, 2017	Fair values as at December 31, 2017	Carrying amounts as at December 31, 2016	Fair values as at December 31, 2016
Trade and other receivables	$	**47,958,446**	**47,958,446**	51,573,364	51,573,364
Other financial assets		**40,671,992**	**40,671,992**	36,669,002	36,669,002
Derivative financial instruments		**4,288,440**	**4,288,440**	-	-
Cash and cash equivalents		**22,644,177**	**22,644,177**	29,600,146	29,600,146
Borrowings		**(100,765,381)**	**(94,283,376)**	(119,766,071)	(109,987,131)
Trade and other payables		**(42,769,032)**	**(42,769,032)**	(22,614,479)	(22,614,479)
	$	**(27,971,358)**	**(21,489,353)**	(24,538,038)	(14,759,098)

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.

St. Lucia Electricity Services Limited
Notes to Consolidated Financial Statements (Cont'd)
For the Year Ended December 31, 2017

(Expressed in Eastern Caribbean Dollars)

34. Commitments

Capital commitments

The Group had capital commitments at December 31, 2017 of $11,222,887 (2016 - $3,953,308).

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:

		2017	2016
Not later than 1 year	$	657,924	764,704
Later than 1 year and not later than 5 years		946,282	1,745,298
	$	1,604,206	2,510,002

(i) Pole rental

The Group expects to earn annual income from pole rentals of $907,224 (2016 - $896,000) 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 Company served notice on CLICO to terminate the contract. Under the terms of the contract, CLICO is required to repay the value of the deposit administration contract in monthly instalments of $250,000, and interest is accrued on the residual balance at a rate of 5% per annum. These monthly instalments were paid to the scheme's new investment manager (RBC Investment Management (Caribbean) Limited) up until October 2010 when payments stopped.

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

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, 2017

(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 Company has been named a defendant to a number of claims as at December 31, 2017. While it is impossible to be certain of the outcome of any particular case or of the amount of any possible adverse verdict, the Company believes that their defences to all these various claims are meritorious on both the law and the facts. Having regard to the foregoing, the Company (i) does not consider it appropriate to make any provision in respect of any pending 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
Line staff
The Company 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.

Supervisory and middle management staff
The Company is currently negotiating certain benefits with the trade union representing the supervisory and middle management staff for the two triennia which ends March 22, 2018. It is not practicable to reliably estimate the retroactive pay that would be due to staff once the union agreements are signed.

Retirement Age
The Company is currently seeking clarification on the interpretation of the legislation which stipulates the retirement age for employees. The matter is currently before the Labour Tribunal for determination. It is not practicable to reliably estimate the amount that might become payable to past employees upon settlement of the matter.

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

Financial Statistics 2008 - 2017

	2017	2016	Restated 2015	2014	Restated 2013	Restated 2012	2011	2010	2009	2008
Units Sold (kWh x 1000)	359,653	348,229	337,540	331,939	334,479	333,324	333,378	330,729	315,082	301,975
Tariff Sales (Cents per kWh)	74.9	91.6	97.7	98.7	98.3	95.5	84.0	75.0	75.1	80.7
Fuel Charge (Cents per kWh)	2.7	(17.0)	(6.1)	(1.1)	0.4	6.6	11.8	8.1	0.0	19.0
Operating costs (Cents per kWh)	63.9	59.4	77.4	84.1	85.2	88.8	82.8	69.1	61.4	86.1
Summarised Balance Sheet (EC$000's)										
Fixed Assets (Net)	327,219	332,804	338,838	334,388	336,395	328,030	250,154	273,400	292,279	292,916
Retirement Benefit Asset	-	-	-	4,765	2,448	3,650	9,135	9,017	8,828	8,749
Other Financial Assets	-	-	172	171	170	168	166	163	8,504	5,643
Capital Work in Progress	33,574	15,151	15,736	17,594	21,080	33,891	50,846	16,477	9,659	9,582
Current Assets	131,351	131,547	135,680	161,683	130,558	142,353	124,642	99,651	85,080	68,527
Current Liabilities	-67,546	-47,496	-51,569	-84,853	-55,418	-75,535	-68,511	-68,796	-67,635	-52,483
Total	424,598	432,006	438,857	433,748	435,233	432,557	366,432	329,913	336,714	332,934
Share Capital	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163
Retained Earnings	159,186	150,518	135,374	130,137	123,614	109,375	84,267	76,970	69,338	63,789
Other Reserves & Consumer Contributions	49,654	45,516	43,555	29,460	23,604	21,421	40,670	38,893	37,913	37,177
Long Term Debt	82,202	100,181	121,713	137,726	153,072	167,797	123,396	94,709	107,848	110,754
Other Long Term Liabilities	53,393	55,628	58,052	56,262	56,780	53,801	37,937	39,178	41,452	41,051
Total	424,598	432,006	438,857	433,748	437,233	432,557	366,432	329,913	336,714	332,934
Summarised Income Statement (EC$000's)										
Operating Revenues										
Electricity	269,308	319,001	329,767	327,570	328,735	318,265	280,177	247,945	236,745	243,691
Fuel Surcharge	9,673	-59,115	-20,618	-3,671	1,172	22,083	39,185	26,908	20	57,448
Other	4,084	1,984	2,624	3,662	3,207	3,677	1,657	1,417	1,926	1,082
Total	283,065	261,870	311,773	327,561	333,114	344,025	321,019	276,271	238,691	302,221
Operating Costs										
Fuel	127,594	114,854	172,061	190,235	195,798	209,310	185,733	142,471	108,998	182,738
Generation	12,437	9,989	10,943	9,948	10,708	10,918	10,587	9,404	8,793	9,119
Transmission & Distribution	21,835	18,180	15,379	15,418	16,530	15,778	19,318	17,618	20,557	16,601
Administrative & Selling	31,624	28,441	28,654	30,509	29,426	27,286	26,148	24,784	23,266	22,167
Depreciation and amortisation	36,206	35,389	34,301	33,150	32,656	32,625	34,264	34,314	31,832	29,468
Total	229,696	206,853	261,338	279,260	285,118	295,917	276,050	228,591	193,446	260,093
Operating Income	53,369	55,017	50,435	48,301	47,996	48,108	44,969	47,679	45,245	42,127
Interest Expense (net)	-5,277	-7,626	-10,789	-11,368	-13,163	-9,389	-8,761	-7,618	-6,915	-8,997
Other Gains (net)	67	45	307	67	66	67	66	296	636	462
Net Income before Tax	48,159	47,436	39,953	37,000	34,899	38,786	36,274	40,357	38,966	33,592
Taxation	13,471	13,468	11,044	10,192	9,584	9,972	10,003	11,138	11,151	11,049
Net Income after Tax	34,688	33,968	28,909	26,808	25,315	28,814	26,271	29,219	27,815	22,543
Other Comprehensive income	385	1,567	-6,719	1,615	-872	856	(192)	(178)	-239	48
Dividend Declared	-23,149	-17,878	-17,190	-16,044	-8,022	-17,648	-18,107	-18,666	-17,228	-15,705
Retained Earnings for Year	11,924	17,657	5,000	12,379	16,421	12,022	7,972	10,376	10,348	6,886
Retained Earnings beginning of Year	150,518	135,374	130,137	123,614	109,375	84,267	76,970	69,338	62,282	57,061
Transfer from/(to) Reserves	-3,255	-2,513	197	-5,856	-2,182	-5,039	-118	-189	-79	-981
Tariff Reduction Reserve	-	-	-	-	-	-	-557	-2,555	-3,213	-1,953
Prior Year Adjustment	-	-	40	-	-	18,125	-	-	-	1,269
Retained Earnings end of Year	159,187	150,518	135,374	130,137	123,614	109,375	84,267	76,970	69,338	62,282
Rate of Return	13.41%	13.56%	11.64%	10.02%	13.42%	14.20%	15.12%	17.41%	18.32%	17.77%
Earnings per share (EC$)	1.51	1.48	1.26	1.17	1.10	1.26	1.15	1.27	2.36	1.92
Dividend per share (EC$)	1.01	0.78	0.75	0.70	0.35	0.77	0.79	1.59	1.47	1.34
Debt/Equity Ratio	25/75	30/70	35/65	39/61	43/57	47/53	40/60	36/64	39/61	41/59
Capital expenditure (EC$000's)	49,044	28,771	21,545	27,658	28,211	97,243	45,390	22,262	31,281	28,344

Operating Statistics 2008 - 2017

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Generating Plant (kW)										
Available Capacity	88,400	88,400	88,400	88,400	88,400	88,400	76,000	76,000	76,000	76,000
Firm Capacity	68,000	68,000	68,000	68,000	68,000	68,000	55,600	55,600	55,600	55,600
Peak Demand	61,700	60,300	59,000	58,900	59,700	59,800	60,300	59,200	55,900	54,100
Percentage growth in peak demand	2.3%	2.2%	0.2%	-1.3%	-0.2%	-0.8%	1.9%	5.9%	3.3%	2.7%
Sales (kWh x 1000)										
Domestic	127,732	123,839	116,133	111,922	112,743	112,272	113,505	113,757	107,820	103,214
Commercial (including Hotels)	202,770	194,966	192,442	191,294	193,199	192,847	190,846	188,640	178,518	170,624
Industrial	18,256	18,519	17,999	17,673	17,624	17,679	18,761	18,373	19,002	18,626
Street Lighting	10,896	10,905	10,966	11,050	10,913	10,526	10,263	9,959	9,741	9,510
Total Sales	359,654	348,229	337,540	331,939	334,479	333,324	333,375	330,729	315,081	301,975
Power Station and Office Use (kWh x 1000)	13,196	13,770	13,715	13,918	14,706	14,511	14,599	14,127	14,312	14,256
Losses (kWh x 1000)	27,450	29,432	30,013	33,574	33,791	36,948	37,234	36,033	33,597	36,105
Units Generated/Purchased (kWh x 1000)	400,300	391,431	381,268	379,431	382,976	384,783	385,208	380,889	362,990	352,335
Percentage growth in units generated	2.3%	2.7%	0.5%	-0.9%	-0.5%	-0.1%	1.1%	4.9%	3.0%	1.9%
Percentage growth in sales	3.3%	3.2%	1.7%	-0.8%	0.3%	0.0%	0.8%	5.0%	4.3%	1.4%
Percentage Losses (excl. prior year sales adjs.)	6.9%	7.5%	7.9%	8.8%	8.8%	9.6%	9.7%	9.5%	9.3%	10.2%
Number of Consumers at Year End										
Domestic	59,620	58,867	59,766	59,790	58,648	55,110	54,415	53,566	52,986	51,444
Commercial (Including Hotels)	7,052	6,994	7,128	7,193	7,096	6,629	6,641	6,557	6,479	6,169
Industrial	93	94	98	98	98	100	101	100	100	98
Street Lighting (accounts)	19	19	19	19	20	10	9	9	7	7
	66,784	65,974	67,011	67,100	65,862	61,849	61,166	60,232	59,572	57,718
Percentage growth	1.2%	-1.5%	-0.1%	1.9%	6.5%	1.1%	1.6%	1.1%	3.2%	2.7%
Average Annual Consumption Per Customer (kWh)										
Domestic	2,142	2,104	1,943	1,872	1,922	2,037	2,086	2,124	2,035	2,006
Commercial (including Hotels)	28,754	27,876	26,998	26,594	27,226	29,091	28,738	28,769	27,553	27,658
Industrial	196,301	197,011	183,663	180,337	179,837	176,790	185,752	183,730	190,024	190,065
Diesel fuel consumed (Imp. Gall.)	20,491,272	19,938,352	19,612,984	19,402,934	19,448,764	19,541,743	19,712,324	19,561,441	18,256,739	17,870,149

ST. LUCIA ELECTRICITY SERVICES LIMITED

St. Lucia Electricity Services Limited

P. O. Box 230
Sans Soucis, Castries,
Saint Lucia, West Indies

Castries

+1 758 452 2165
+1 758 457 4760

Vieux Fort

+1 758 454 6617