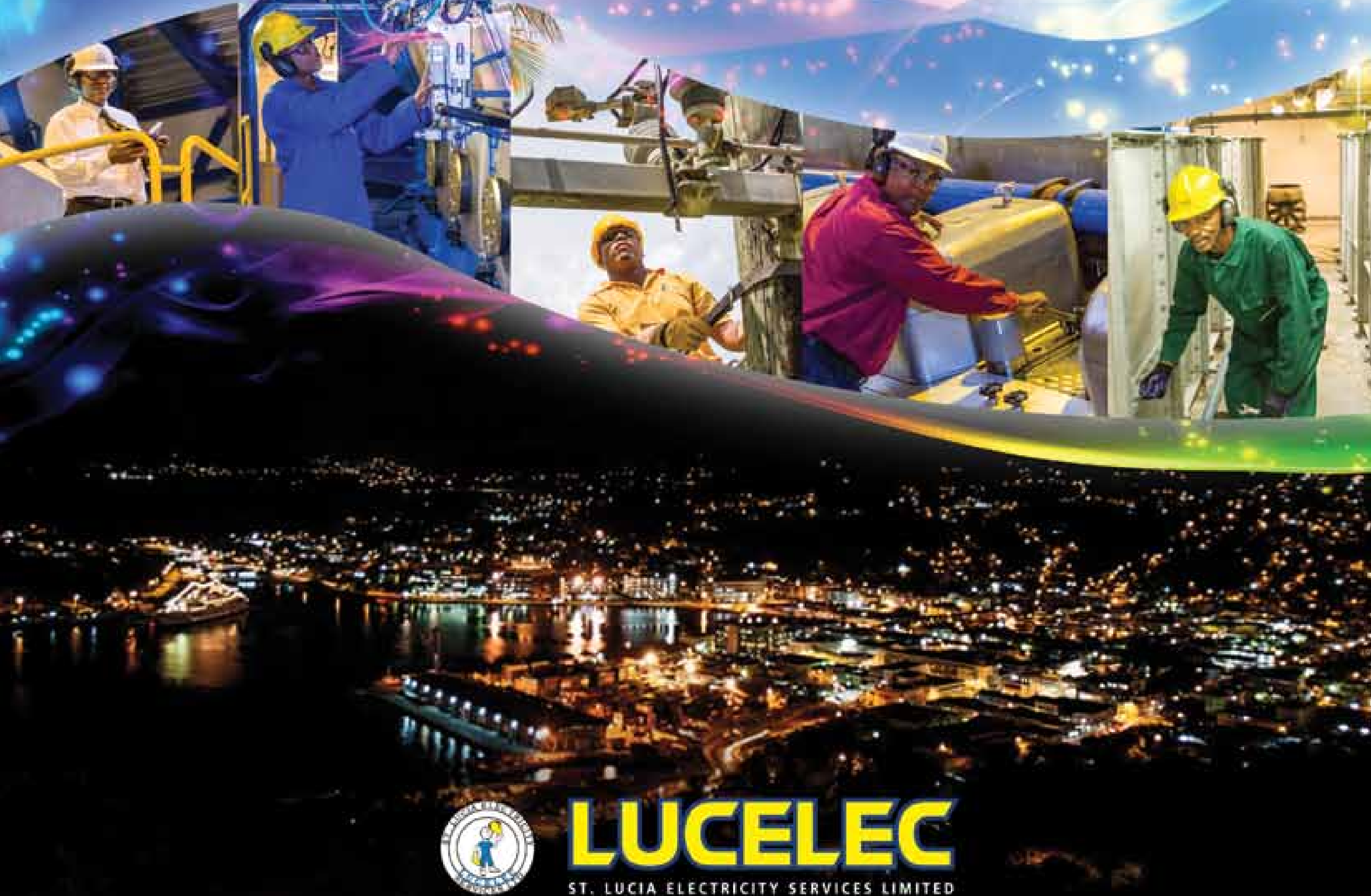
THE ENERGY THAT POWERS THE NATION'S SUCCESS



LUCELEC
ST. LUCIA ELECTRICITY SERVICES LIMITED

ST. LUCIA ELECTRICITY SERVICES LIMITED ANNUAL REPORT 2012

THE ENERGY THAT POWERS THE NATION'S SUCCESS

The nation runs on energy – 24 hours a day, every day. Literally. And LUCELEC is responsible for meeting that need. It's an awesome responsibility. We know that and we embrace it.

That's why we're the Company that never sleeps. Literally. We are proud of the efforts of our employees who are on the job, day and night, every day, energetic and alert, so St. Lucia can sleep easy knowing that LUCELEC is providing the energy to power the nation.

That's why we're constantly finding new levels of efficiency to provide an optimum service at the best possible price. And that's why we continue to explore renewable and alternative energy options to ensure energy security and sustainability.

But our abundant energies are targeted at more than just keeping the lights on. We're also energizing lives in education, sports, health care, safety and security, arts, culture, and communities, and business. And as we energise these nation-building blocks, we're truly powering St. Lucia's success, now and for the future.

CORPORATE INFORMATION

VISION

To be the energy that powers our nation's success.

CORE VALUES

Accountability, Excellence, Caring, Ethics

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 St. Lucia.

REGISTERED OFFICE

LUCELEC Building
Sans Souci
John Compton Highway
Castries
Saint Lucia
Telephone Number: 758-457-4400
Fax Number: 758-457-4409
Email Address: lucelec@candw.lc
Website: www.lucelec.com

ATTORNEYS-AT-LAW

McNamara & Company
20 Micoud Street
Castries
Saint Lucia

AUDITORS

KPMG Eastern Caribbean
Chartered Accountants
Morgan Building
L'Anse Road
P.O. Box 1101
Castries
Saint Lucia

BANKERS

First Caribbean 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

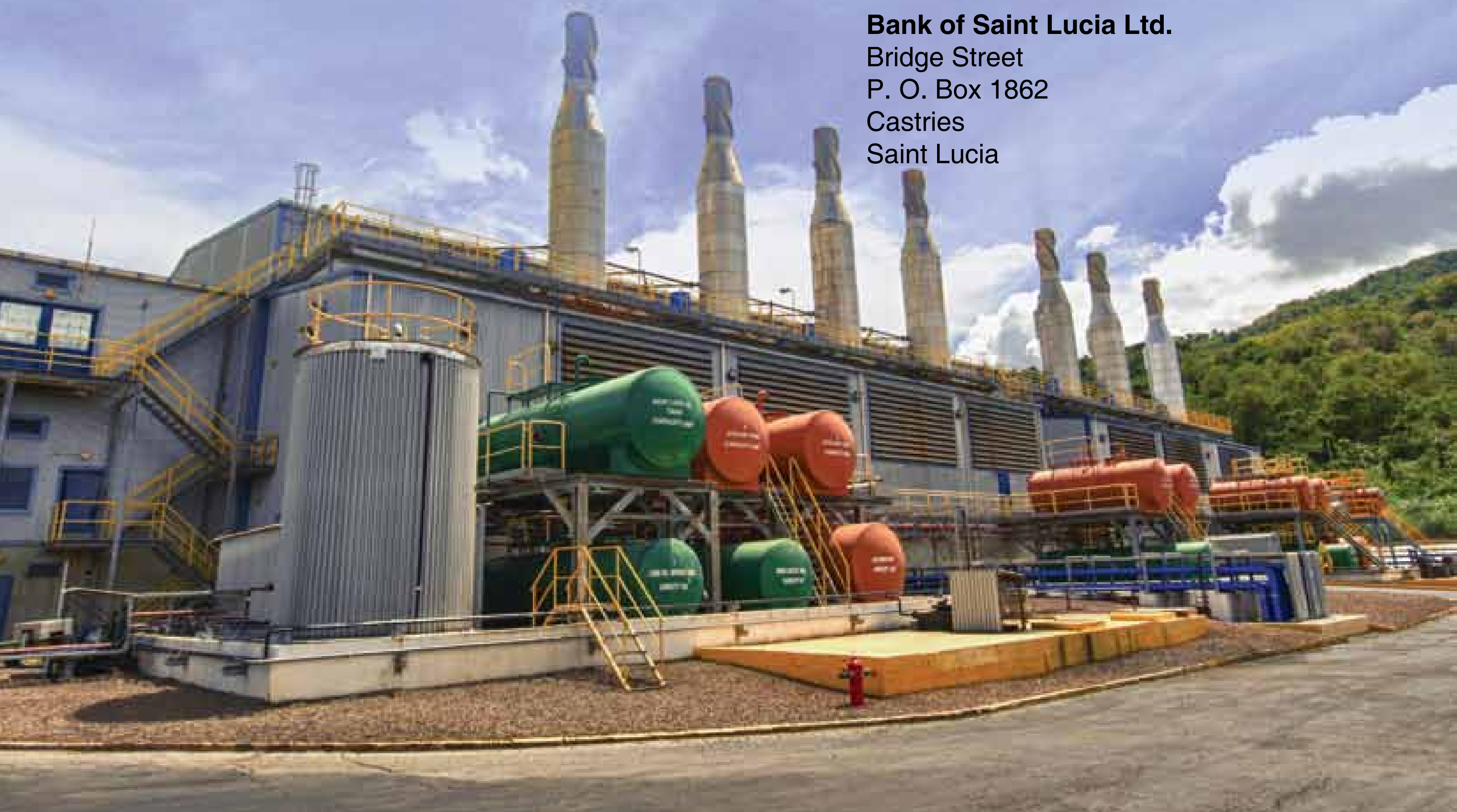


TABLE OF CONTENTS

06..2012 Performance Indices & Targets And 2013 Targets

08..6 Year Operational & Financial Performance At A Glance

13..Chairman's Report

16..Board Of Directors

18..Directors' Report

21..Operations Review

30..2012 Top Performers

32..Management Team

34..The Year In Pictures

38..Corporate Social Responsibility

45..Financial Statements

100..Financial Statistics

102..Operating Statistics 2003 - 2012

2012 PERFORMANCE INDICES & TARGETS AND 2013 TARGETS

TARIFF CHANGE vs. INFLATION
Percentage change in basic price of electricity (excluding the fuel surcharge cost adjustment) as a percentage of the annual inflation rate.
Target: <97%
Performance: 96.31%

SYSTEM AVERAGE INTERRUPTION DURATION INDEX (SAIDI)
SAIDI is a measure of reliability. It is the average outage duration for each customer served, and is calculated by totalling all customer interruption durations and dividing that by the total number of customers served. A lower number means fewer interruptions and a more reliable service.
Target: 7.5 hours
Performance: 11.81 hours

REPORTABLE INJURY ACCIDENTS (RIA)
RIA is the number of reportable injury accidents.
Target: Limit the Reportable Injury Accidents that result in two or more sick days to no more than 1.
Performance: 4

SYSTEM LOSSES
System losses are total electric energy losses in the electrical system. It is calculated by dividing the difference between units generated and the sum of the units sold and units used by LUCELEC, by the units generated and expressing the result as a percentage.
Target: 9.5%
Performance: 9.6%

SPECIFIC FUEL CONSUMPTION
The number of units (kWh) of electricity produced from each gallon of fuel consumed.
Target: 19.54 kWh
Performance: 19.57 kWh

WORK HOURS LOST
Work hours lost as a percentage of nominal work hours.
Target: 2.0
Performance: 2.26

ENVIRONMENTAL RATING
Measured by the number of incidents of oil and fuel spills from the power station and substations where the spill was not contained within the compound.
Target: Max 1
Performance: 0

CUSTOMER SERVICE PERCEPTION vs. EXPECTATIONS
Customer perception of service quality expressed as a percentage of customer expectation of service quality.
Target: 87%
Performance: 83.79%

RETURN ON EQUITY
(ROE) measures how well the Company is using shareholders' invested money. It tells you the number of dollars of profits the Company can earn for each dollar of shareholders' equity and is calculated by taking a year's worth of after tax earnings and dividing by the average shareholders' equity for that year.
Target: 15.3%
Performance: 15.0%

2013 TARGETS
In 2012, the company approved a new Strategic Business Plan and for 2013 the Corporate Targets have been modified to reflect the alignment with the current strategic objectives. The 2013 Corporate Targets are as follows:

IMPROVE FINANCIAL PERFORMANCE
Return on Equity - 12.90%
Improved Working Capital – Current Ratio of 1.5

INCREASE CUSTOMER VALUE AND STAKEHOLDER SATISFACTION
Fuel Efficiency - 4.295 kWh/litre
SAIDI - 10.5 hours
Stakeholder (Customer) Satisfaction Score - 85%

IDENTIFY & IMPLEMENT NEW BUSINESS OPPORTUNITIES
Establishment of new Business venture - Two Business plans approved for execution

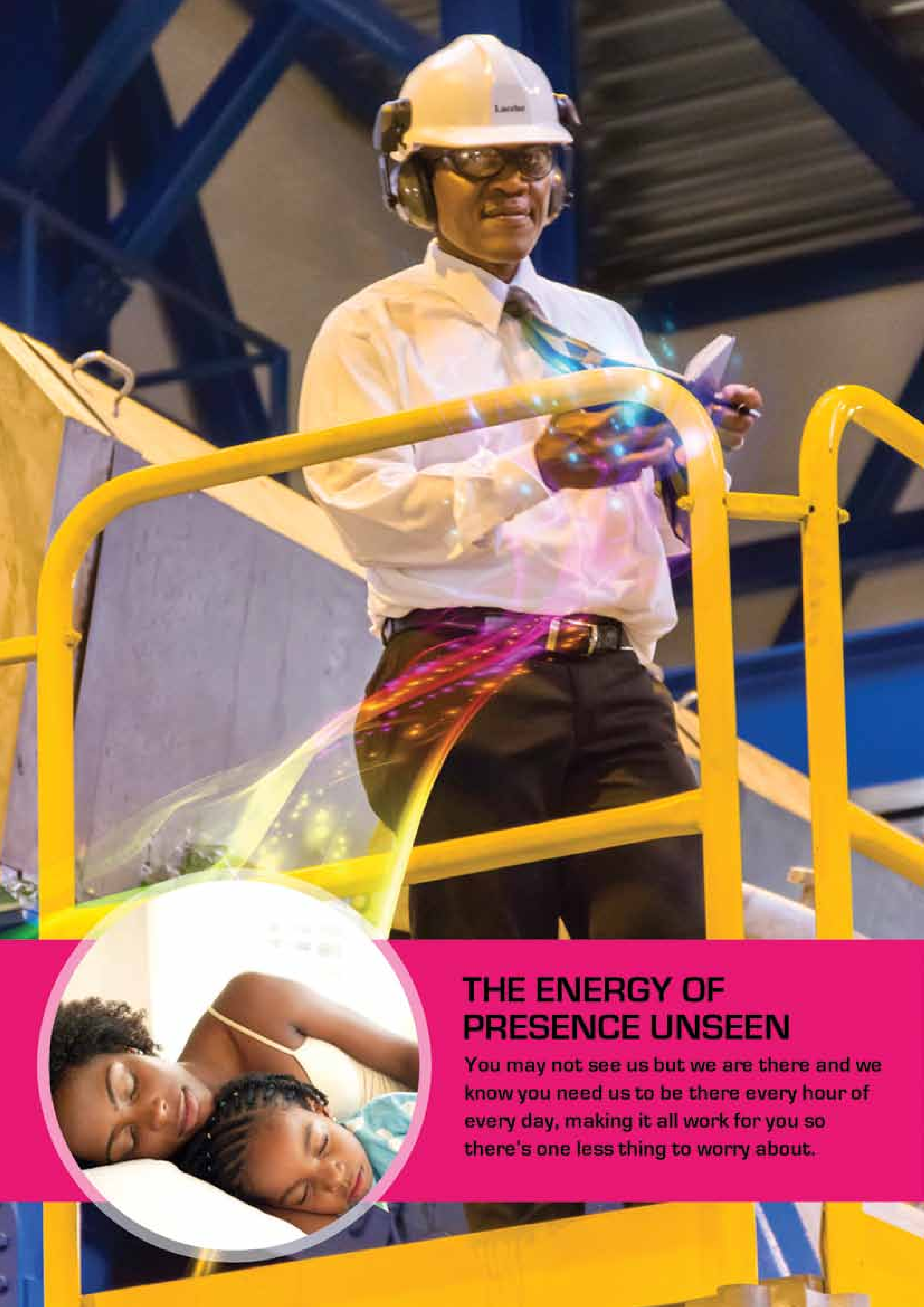
IMPROVED COST EFFECTIVENESS OF ENERGY SUPPLY
Least cost fuel identified - 80% completion of project paper
Own use reduction - Install 120 LED lamps by December 2013

REDUCTION IN SYSTEM LOSSES
System Losses – 9.55%

IMPROVED HR CREDIBILITY
Achievement levels of Strategic project plan - 90% completion of agreed HR deliverables for 2013

IMPROVE EMPLOYEE SATISFACTION & ENGAGEMENT
Employee Engagement & Satisfaction Score - average 5% improvement in overall Score

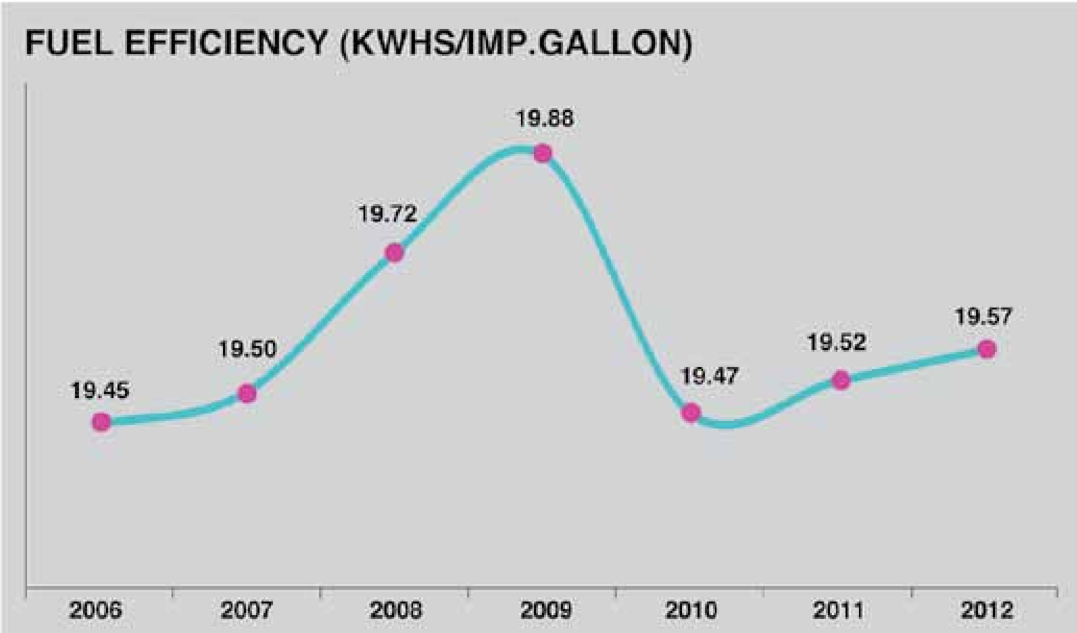
READY FOR NEW REGULATION
Successful accomplishment of Action Items identified in project plan - 90% completion

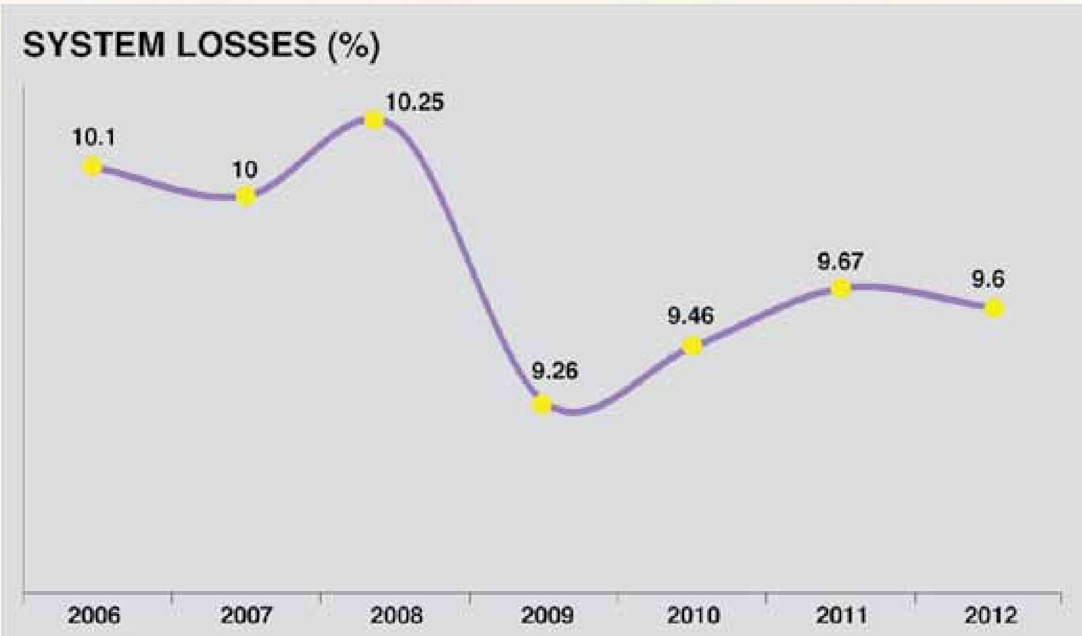


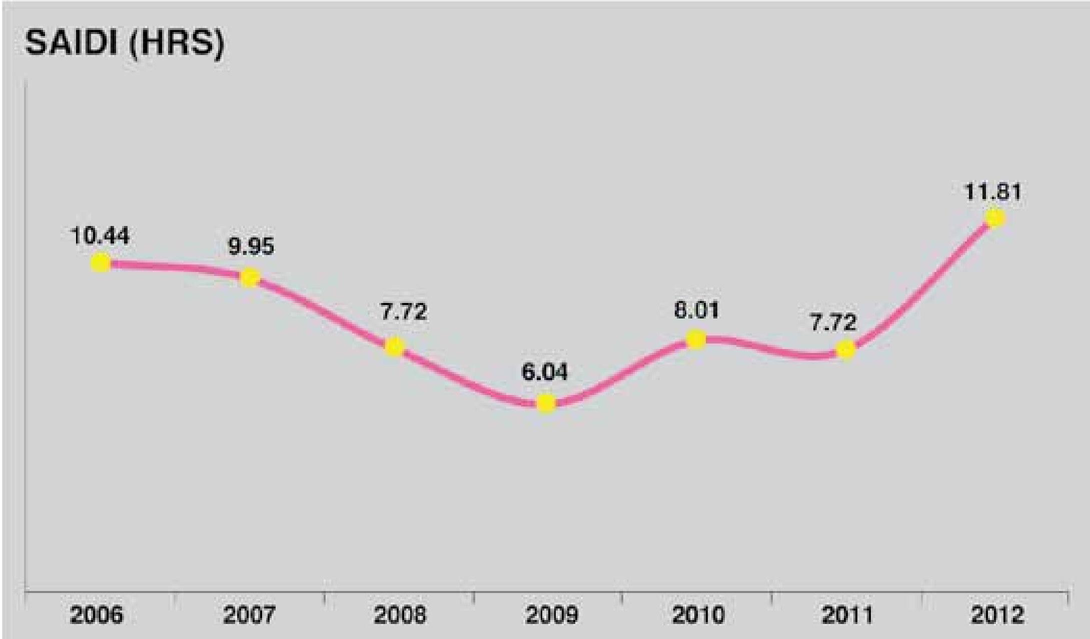
THE ENERGY OF PRESENCE UNSEEN

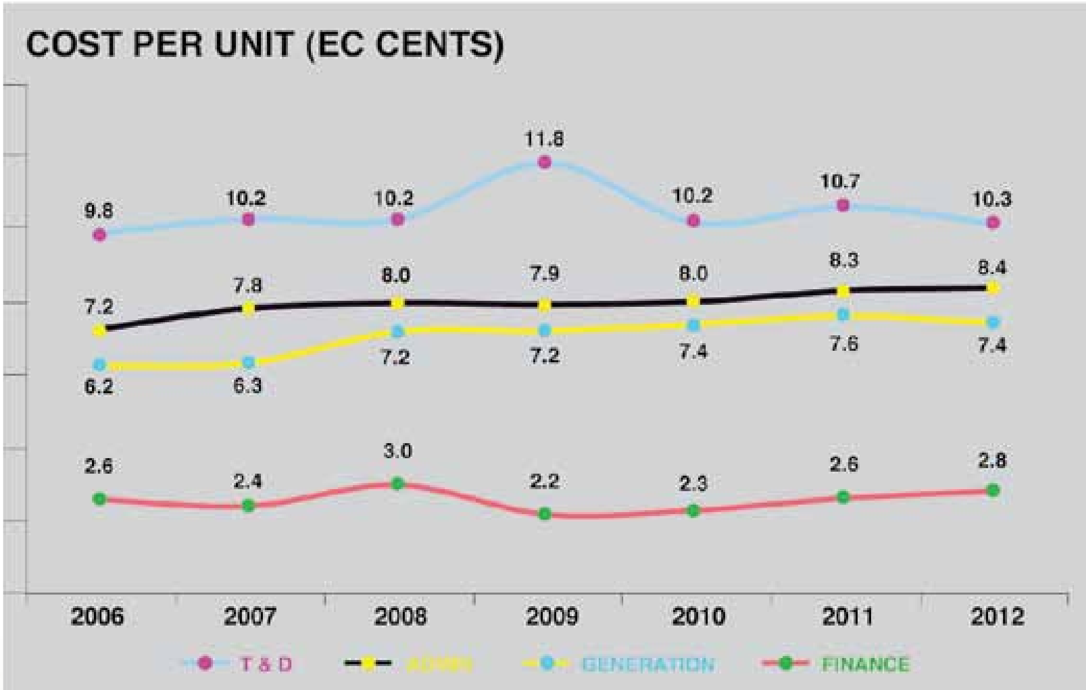
You may not see us but we are there and we know you need us to be there every hour of every day, making it all work for you so there's one less thing to worry about.

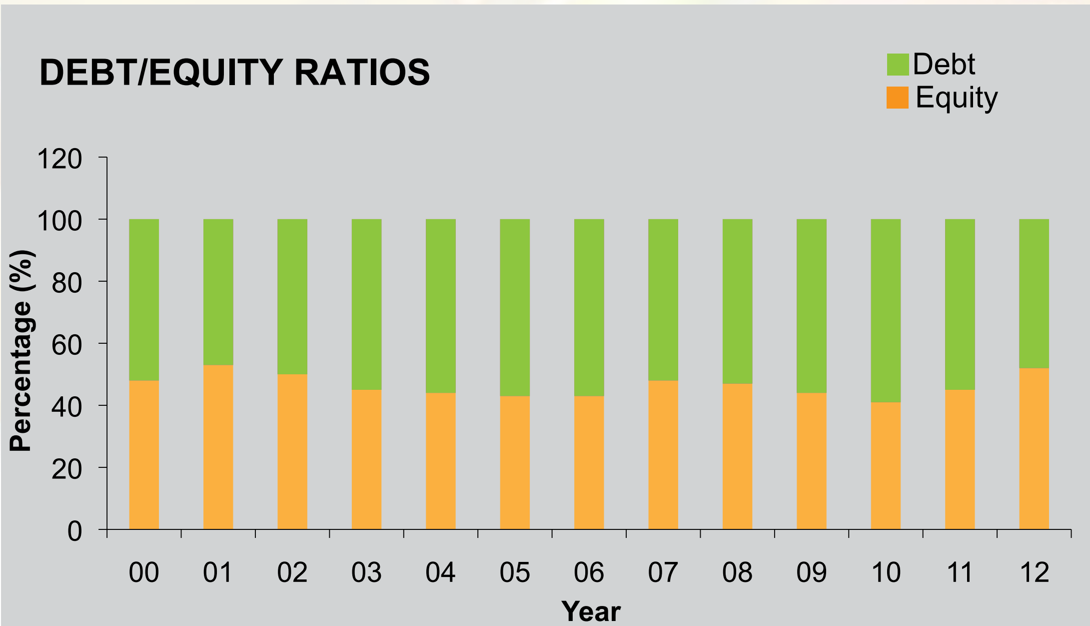
6 YEAR OPERATIONAL & FINANCIAL PERFORMANCE AT A GLANCE

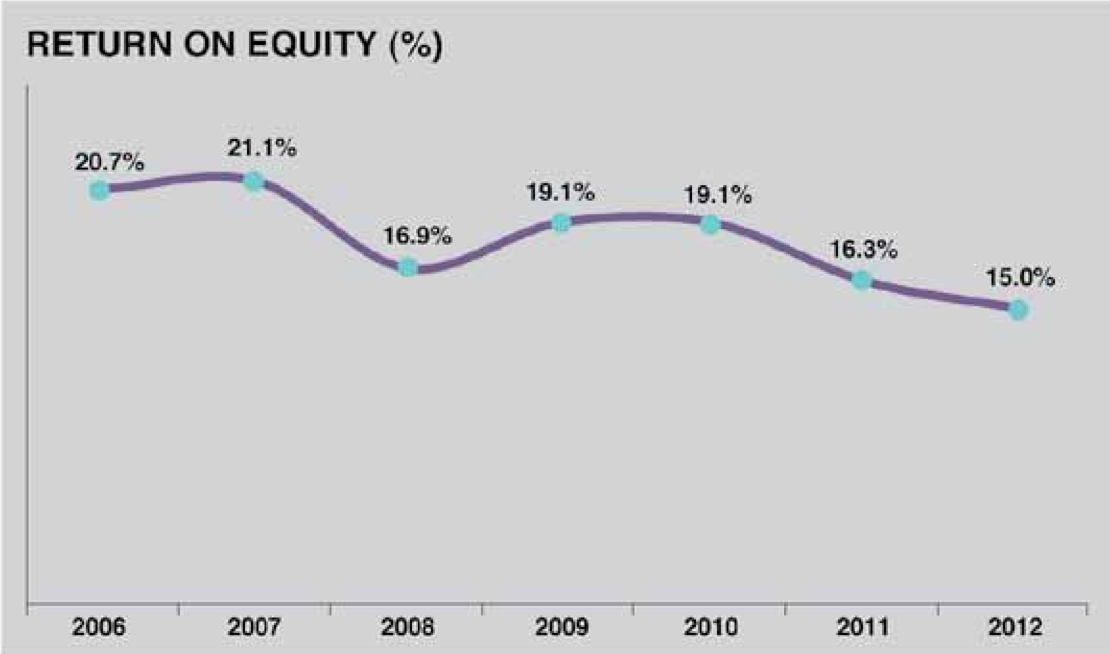


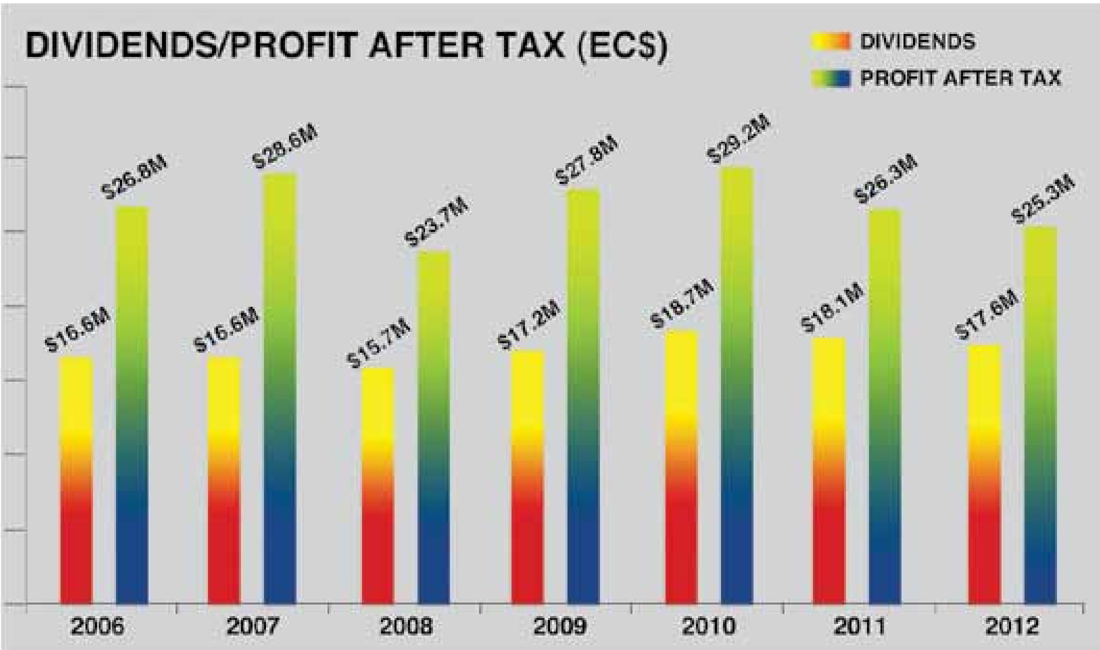


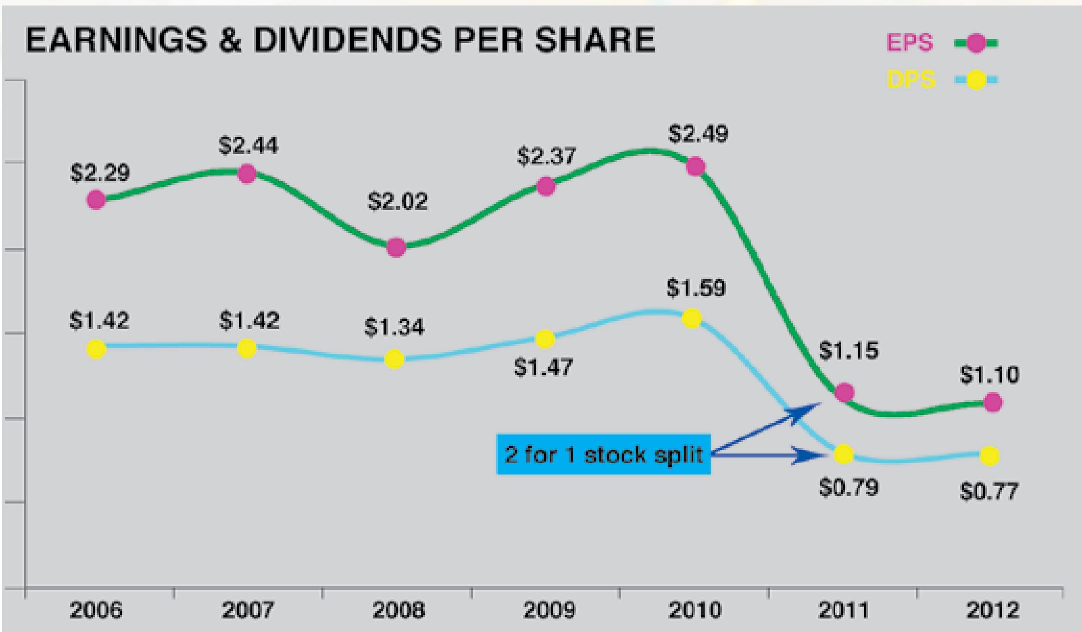

SAIDI (HRS)
10.44
9.95
7.72
6.04
8.01
7.72
11.81
2006
2007
2008
2009
2010
2011
2012


COST PER UNIT (EC CENTS)
9.8
10.2
10.2
11.8
10.2
10.7
10.3
7.2
7.8
8.0
7.9
8.0
8.3
8.4
6.2
6.3
7.2
7.2
7.4
7.6
7.4
2.6
2.4
3.0
2.2
2.3
2.6
2.8
2006
2007
2008
2009
2010
2011
2012
T & D
GENERATION
FINANCE


DEBT/EQUITY RATIOS
Debt
Equity
Percentage (%)
120
100
80
60
40
20
0
00
01
02
03
04
05
06
07
08
09
10
11
12
Year

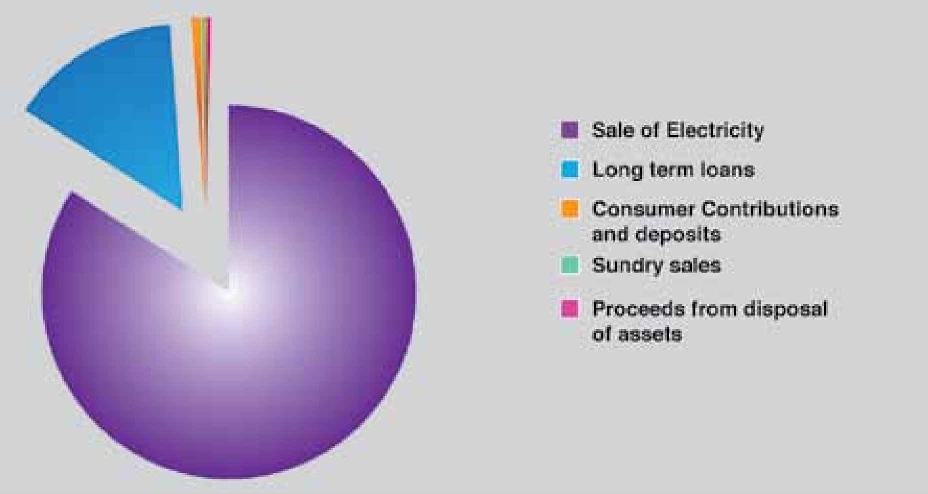

RETURN ON EQUITY (%)
20.7%
21.1%
16.9%
19.1%
19.1%
16.3%
15.0%
2006
2007
2008
2009
2010
2011
2012


DIVIDENDS/PROFIT AFTER TAX (EC$)
DIVIDENDS
PROFIT AFTER TAX
$16.6M
$26.8M
$16.6M
$28.6M
$15.7M
$23.7M
$17.2M
$27.8M
$18.7M
$29.2M
$18.1M
$26.3M
$17.6M
$25.3M
2006
2007
2008
2009
2010
2011
2012


EARNINGS & DIVIDENDS PER SHARE
EPS
DPS
$2.29
$2.44
$2.02
$2.37
$2.49
$1.15
$1.10
$1.42
$1.42
$1.34
$1.47
$1.59
$0.79
$0.77
2 for 1 stock split
2006
2007
2008
2009
2010
2011
2012

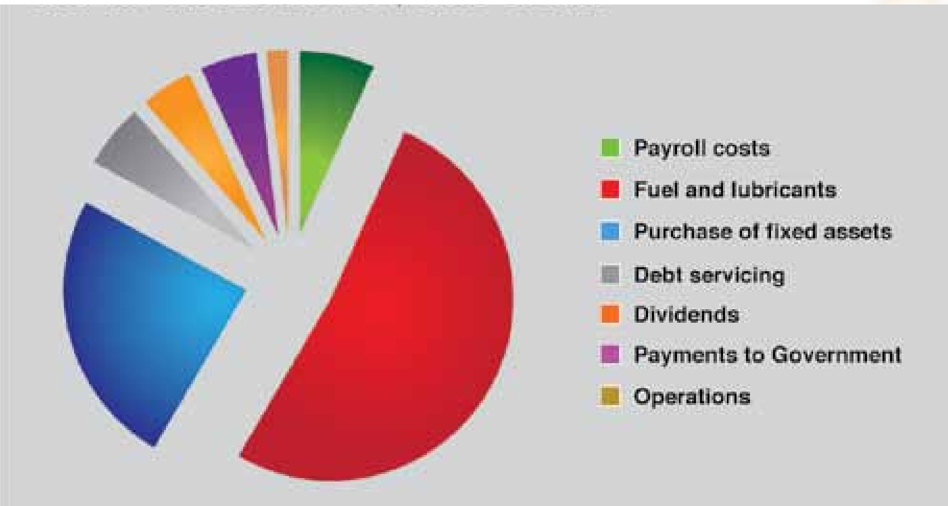
2012 FINANCIAL HIGHLIGHTS

WHERE THE LUCELEC DOLLAR CAME FROM

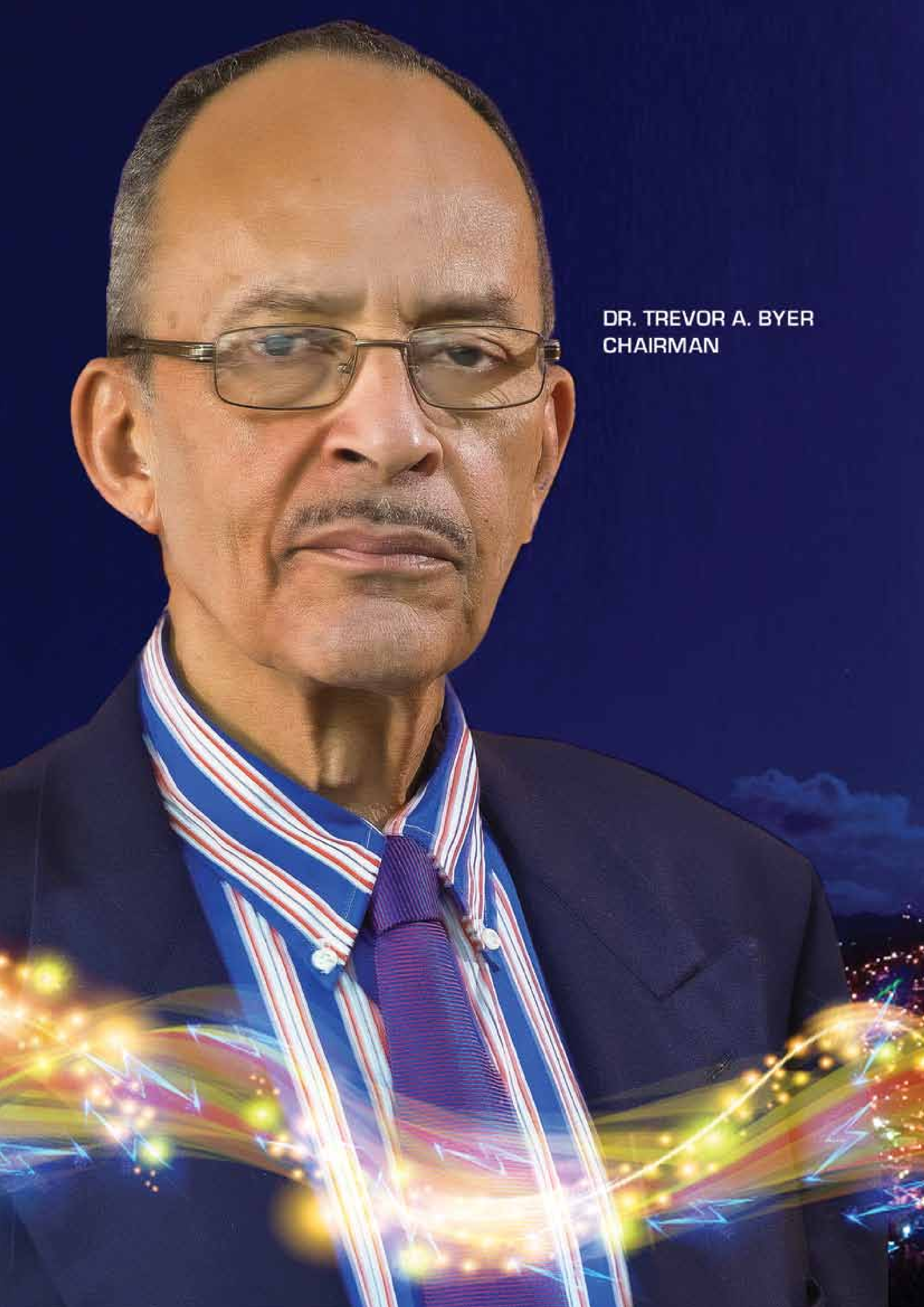


	$ '000	cents
Sale of Electricity	340,687	84.1
Long term loans	60,000	14.8
Proceeds from disposal of assets	48	0.0
Consumer contributions and deposits	2,989	0.7
Sundry sales	1,486	0.4
	405,210	100.0

HOW THE LUCELEC DOLLAR WAS SPENT



	$ '000	cents
Payroll costs	26,276	6.6
Fuel and lubricants	205,420	51.8
Purchase of fixed assets	97,243	24.5
Debt servicing	22,352	5.6
Dividends	17,991	4.5
Payments to Government	19,849	5.0
Operations	7,429	1.9
	396,560	100.0



DR. TREVOR A. BYER
CHAIRMAN

CHAIRMAN'S REPORT

INTRODUCTION

2012 was a year of change from many perspectives. A new administration was sworn in at the end of 2011 as the Government of St. Lucia and from the company's perspective the transition in 2012 has been seamless, thereby providing an excellent platform from which to deepen the effectiveness of the dialogue between the Government and LUCELEC, as we face the challenges in the energy and economic sectors of the country.

During 2012 there were changes in the composition of the Board of Directors. We saw the departure of Mr. Irvine John, former Mayor of Castries and Chairman of the Castries City Council, who resigned in the month of December 2011, and the alternate Director, Mr. Vaughn Louis-Fernand appointed in early 2012, prior to the new Director, Dr. Mkabi Walcott, being appointed as the representative of the Castries City Council.

Mr. Isaac Anthony, former Permanent Secretary/Director of Finance in the Ministry of Finance, Economic Affairs & National Development resigned towards the end of 2012 after 10 years on the LUCELEC Board. Mr. Anthony, as Chairman of the Audit Committee brought both to that Committee and the Board a calm thoroughness and professionalism that was greatly valued. He is succeeded by Dr. Reginald Darius, Permanent Secretary in the Ministry of Finance, Economic Affairs and Social Security.

Although he had resigned prior to his death, the untimely passing of former Director, Mr. Laurie Barnard, after a long period of illness reminds us all of the fragility of life. Mr. Barnard's considerable experience in the business sector, particularly in the tourism, manufacturing, service industries and agriculture, provided an invaluable perspective both to the Major Investments & Initiatives Committee (MMIC) and the Board. This will be missed. I take this opportunity to convey my condolences to his family. Mr. Andre Chastanet has been appointed as the new Director to succeed Mr. Barnard.

Mr. Robert Hanf, appointed to the LUCELEC Board by Emera (St. Lucia) Limited was succeeded by Ms. Sarah Mc Donald in January 2013. On behalf of the Board, Management and Staff of St. Lucia Electricity Services Limited, I express sincere gratitude and appreciation to all the outgoing Directors and welcome those coming on board. Further details of the tenure of the respective Directors may be perused in the section of the Annual Report dedicated to the Board of Directors.

LUCELEC'S MAJOR CHALLENGES IN 2012

For the first time in the history of LUCELEC, the company registered a decline in electricity sales. Additionally, from the transmission and distribution (T&D) perspectives equipment failure at the Soufriere substation aggravated reliability issues in the southern part of the country, especially having lost the Praslin substation a few months earlier. The technical staff are to be commended for the innovative solutions devised to provide temporary solutions to the problem, which ensured that the company's reputation was protected. Indeed, this event highlighted some important lessons – there was a problem; an opportunity was identified; and, its solution implemented to satisfy what was important – the customers' needs. These are the ingredients of success. The substation problems serve as a pertinent reminder of the critical role of the T&D system in delivering electricity in any part of the world, unlike the telecom sector which relies increasingly now on wireless and much less on fixed line technology.

There was a 5 month delay in the 'Go-live' date of the Customer Information System (CIS) despite best efforts of staff, particularly those who worked long hours, including weekends and some of whom were reassigned from their normal duties and stations for 2 years. In fact, the implementation of this project should be categorized both as a challenge and a success and the staff, in question must be commended. Additionally, the company was involved in protracted negotiations with the Union representing the Grade 1 staff.

Targets were achieved for Fuel Efficiency, Tariff Change versus Inflation and Environmental Stewardship. As far as System Losses, Work Hours Lost and Return on Equity were concerned, these were between their targets and thresholds. In contrast, the Company failed to achieve the targets set for System Reliability (SAIDI), Reportable Injury Accidents and Customer Expectation versus Perception score. Details of these are to be found in the pages relating to Corporate Performance and in the Operations Review.

LUCELEC'S MAJOR ACHIEVEMENTS IN 2012

LUCELEC's overall corporate performance scores were not as good as was targeted. Nonetheless, there were some major successes in 2012. The most significant being the expansion of the power station and substation at Cul-de-Sac which increased the Company's installed generating capacity to 88.4 megawatts (MW). Of special relevance was the fact that the project was completed on schedule and without any major disruptions to normal operations. The project team must be congratulated for the excellent job done.

Additionally, we were able to replace and improve the entire telecommunications system across the company and, in addition to better service and new productivity features, the company expects to achieve significant reductions in telecommunications costs.

Further important achievements of the Company were illuminated in recent tariff surveys undertaken by CARILEC, the Caribbean Electric Utility Service Corporation, in December 2011 and June 2012 among 14 CARILEC electric utility companies. The findings revealed that LUCELEC's tariff for residential customers using between 100 – 400 kWh/month (the lowest tariff categories) was the lowest rate among the 14 utilities (5 OECS countries, Curacao, Barbados, St. Martin, Jamaica, Cayman Islands, Turks & Caicos Islands, US Virgin Islands, and Bermuda). Additionally, the Fuel Adjustment Surcharge was the lowest, and significantly so, among the 14 companies. A relevant factor which contributed to the much lower Fuel Adjustment Surcharge is LUCELEC's use of hedging diesel fuel prices to moderate the degree of volatility in the fuel adjustment component of the tariff.

In terms of fuel diversification strategies to reduce the dependence on, and high economic costs of imported diesel oil, and concurrently lowering the economic cost of supplying electricity, some important steps were taken in 2012 which would begin laying the preliminary foundations in 2013 for the introduction of firm (top priority) and intermittent (high priority) renewable energy supplies. In particular, the company arrived at an agreed Terms-of-Reference with the World Bank for a major in-depth study to "Assess the Role of Solar PV Systems in Meeting Electricity Demand in St. Lucia". This would be grant funded through the Small Island Developing States (SIDS) facility, following approval by the St. Lucia Government. The in-depth study is expected to be completed in 6 - 8 months with its initiation scheduled for May 2013. The study would focus on those customers (hotels, commercial, industrial, and certain Government departments, Ministries, hospitals etc.) that drive the peak demand (between about 9 a.m. - 5 p.m.) on the power system.

In terms of accelerating the introduction of intermittent renewable energy sources in St. Lucia the company made some progress, in collaboration with the Ministry of Energy in 2012, in advancing its search for a suitable site for a wind farm. PV systems rely on the sun which, during the course of a year is available about 8 - 9 hours per day on average, in the southern Caribbean. In the case of wind, its availability is not constrained by the sun, since the wind is available both during the day and at night, though its profile and intensity would differ. Of course, as with all intermittent renewable energy sources the key requirement to reinforce their reliability is that some of their energy is stored in "flow batteries" which can discharge this stored energy into the power grid when power generation from either the PV or the wind turbine declines significantly. However, the technology to develop large and safe "flow batteries" is at its nascent stage. In the inter-regnum, limitations on the amount of intermittent renewable energy capacity connected to the power grid would need to be restricted to about 15 - 20% of the total system firm installed capacity.

From the perspective of firm renewable energy supply, which is ranked as the Top Priority, in 2012 some progress was made in the geothermal area in terms of negotiations between a leading geothermal company, the Government of Saint Lucia and LUCELEC. This will continue in 2013. The other area of firm renewable energy which would continue to be assessed in 2013 would be that of Waste-to-Energy based on municipal and agricultural wastes.

In 2012 LUCELEC continued to assess the economics of imported natural gas in the form of LNG (Liquid Natural Gas) via different transportation modes. These assessments will continue in 2013.

Finally, in 2012 one of the significant steps forward by the company was the development of the Strategic Business Plan (SBP) which covers the period 2012 - 2020 – the vision being "to be the energy that powers the nation's success". The foundation for delivery of the SBP is the Human Resource function, which has as its underpinning philosophy what has been termed the 4Hs – a workforce that is Happy, Healthy, Hard-Working in Harmony. Its key focus is to sustain employee motivation through aligning employee and company goals and needs, while being flexible to allow adjustments with time.

POLICY ISSUES

An important advance was made in 2012 with Grenada and St. Lucia becoming the first two countries of the OCES to become members of the Eastern Caribbean Energy Regulatory Authority (ECERA). This is an important step in the development of an effective energy regulatory capacity within the OECS.

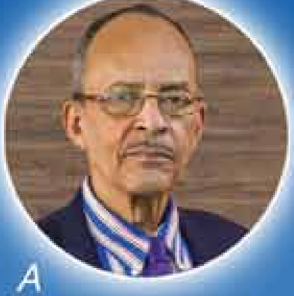
A policy which needs to be affirmed by the Government of Saint Lucia is the recognition that LUCELEC is one of St. Lucia's most important national strategic assets. Indeed, the power sector is the most critical national strategic asset in the energy sector in any modern country, since electricity penetrates, like a web, deeper and more critically into a modern economy than any of the other forms of energy supply.

Dr. Trevor A. Byer
Chairman

THE ENERGY TO LIGHT A NATION'S PRIDE

We see the big picture, like the city of Castries seen from a hill and beautifully lit. We light the way such that every national has a unique potential to make a difference and to shine.

BOARD OF DIRECTORS


A


B


C


D


E


F


G

A) Dr. Trevor A. Byer[1] Acc. Dir - Chairman
Dr. Byer is an energy consultant. He was appointed to the Board of Directors in December 2008, representing minority shareholders. Dr. Byer holds an M.A. and PhD in Nuclear Physics from Cambridge University. He is the Chairman of the Intra-Caribbean Gas Pipeline Company (ICGPC), a Partner of the Eastern Caribbean Gas Pipeline Company (ECGPC) and an Associate of the Association of Caribbean Energy Specialists (ACES). He is the Chairman of the Board's Major Investments and Initiatives Committee and a member of the Human Resources Committee.

B) Trevor M. Louisy, Acc. Dir. – Managing Director
Mr. Louisy was appointed to the Board on January 1, 2004. He has a B. Sc. (Electrical Engineering) and is a member of the Board's Human Resource and Major Investments and Initiatives Committees.

C) Isaac Anthony[2] *(resigned September 28, 2012)*
Mr. Anthony was the Permanent Secretary/Director of Finance in the Ministry of Finance, Economic Affairs and National Development, Government of Saint Lucia. The Government of Saint Lucia appointed him to the Board of Directors on November 6, 2002. He holds a B. Sc. in Economics and Accounting and an Executive MBA. Mr. Anthony is also a Certified Government Financial Manager and was the Chairman of the Board's Audit Committee and a member of the Major Investments and Initiatives Committee.

D) Stephen Mc Namara[3]
Mr. Mc Namara is a Senior Partner with the law firm of Mc Namara & Company, LUCELEC's external legal advisors. He was appointed to the Board on October 27, 2005, representing minority shareholders. Mr. Mc Namara became a Barrister at Law after attending Lincoln's Inn – Inn of Court School of Law. He is the Chairman of the Board's Governance Committee and a member of the Human Resources Committee.

E) Matthew Lincoln Mathurin, Acc. Dir.
Mr. Mathurin is the Director/Chief Executive Officer of the National Insurance Corporation and was appointed to the Board by that organisation on August 29, 2007. He is a Fellow of the Chartered Association of Certified Accountants and holds an MBA (with Distinction) with a Specialism in Finance from the Edinburgh Business School of Herriott Watt University. Mr. Mathurin is the Chairman of the Board's Audit and a member of the Major Investments and Initiatives Committee.

F) Laurie Barnard *(resigned September 30, 2012)*
Mr Laurie Barnard resigned from the Board of Directors on September 30, 2012 and died shortly thereafter on October 25, 2012. Prior to his death Mr. Laurie Barnard was Managing Director of St. Lucia Distillers and a former President of the St. Lucia Manufacturers Association and St. Lucia Chamber of Commerce, and former Chairman of the St. Lucia Tourist Board. At the time of his death he was the Chairman of his family business which owns and manages a number of hotel properties in St. Lucia. Mr. Barnard had significant experience working in the agriculture, tourism, manufacturing and service industries. He was awarded the M.B.E in 1988 for services to Agriculture and Tourism. Mr. Barnard, prior to his resignation, was a member of the Board's Human Resources and Major Investments and Initiatives Committees.

G) Peter Williams[4]
Mr. Peter Williams was appointed by Emera (St. Lucia) Limited to the Board of St. Lucia Electricity Services Limited on March 2, 2011. Mr. Williams holds a BSc. in Mechanical Engineering, an MSc. in Electrical Power Systems and an MBA. He is the Managing Director of Light & Power Holding Limited. He is a member of the Board's Audit and Human Resources Committees.

1 *Prior to the reconstituting of Board Committees in August 2012, Dr. Byer was a member of the Audit Committee*
2 *Prior to the reconstituting of Board Committees in August 2012, Mr. Anthony was also a member of the Governance Committee*
3 *Prior to the reconstituting of Board Committees in August 2012, Mr. McNamara was a member of the Major Investments and Initiatives Committee*
4 *Prior to the reconstituting of Board Committees in August 2012, Mr Williams was a member of the Major Investments and Initiatives Committee*
5 *Prior to the reconstituting of Board Committees in August 2012, Mr Nath was a member of the Major Investments and Initiatives Committee*
6 *Ms. MacDonald was appointed to the Governance and Human Resources Committees on March 8, 2013.*
7 *Mr. Chastanet was appointed to the Audit and Major Investment and Initiatives Committees on March 8, 2013.*


H


I


J


K


L


M


N

H) Ms. Sharon Christopher Acc. Dir
Ms. Sharon Christopher joined the Board of the St. Lucia Electricity Services Limited on January 1, 2011. Ms. Christopher was appointed by First Citizens Bank where she is the Deputy Chief Executive Officer/Group Corporate Secretary. Ms. Christopher holds an LLB (Hons.) and LLM in Corporate Law. Ms. Christopher also holds the accreditation Acc. Dir. having completed director training held jointly with ICSA Canada and the ECSE. She is the Chairman of the Board's Human Resources Committee and a Member of the Governance Committee.

I) Mr. Larry Nath[5]
Mr. Larry Nath joined the Board of St. Lucia Electricity Services Limited on July 27, 2011. He was appointed by First Citizens Bank Limited where he holds the position of Chief Executive Officer. He holds a Bachelor of Business Administration and a Master of Science in Industrial Administration. He is a member of the Board's Audit Committee.

J) Mr. Robert Hanf *(resigned January 11, 2013)*
Mr. Robert Hanf was appointed by Emera (St. Lucia) Limited to the Board of St. Lucia Electricity Services Limited on July 28, 2011. He holds a Bachelor of Arts degree and an LLB. Mr. Hanf was the Executive Chairman of Light & Power Holding Limited and was a member of the Governance and Major Investments and Initiatives Committees of the Board.

K) Dr. Reginald Darius *(appointed October 2, 2012)*
Dr. Reginald Darius was appointed by the Government of Saint Lucia to the Board of the St. Lucia Electricity Services Limited on October 2, 2012. He is the Permanent Secretary in the Ministry of Finance, Economic Affairs and Social Security. He graduated from the University of the West Indies with first class honours in Economics and holds a Masters degree in Economics from the University of Cambridge. In 2006 Dr. Darius graduated from the University of Warwick with a PhD in Economics for his work on the Macroeconomics of Open Economies (Exchange Rate Regimes and Welfare). He is a member of the Board's Audit and Major Investments and Initiatives Committees.

L) Dr. Mkabi Walcott
Dr. Mkabi Walcott was appointed by the Castries City Council to the Board of St. Lucia Electricity Services Limited on April 2, 2012. She is a Doctor of Veterinary Medicine and a Quality Management Systems Specialist. She is the Director of the St. Lucia Bureau of Standards and is a member of the Board's Governance and Audit Committees.

M) Ms. Sarah MacDonald *(appointed January 12, 2013)*[6]
Ms. Sarah MacDonald was appointed by Emera (St. Lucia) Limited to the Board of St. Lucia Electricity Services Limited on January 12, 2013. She graduated from Dalhousie Law School, Halifax in 1992 and received her M.B.A. from St. Mary's, also in Halifax, in 2002. She is a Certified Human Resources Professional. Ms McDonald currently serves as President and CEO of both the Grand Bahama Power Company and ICD Utilities Limited, positions she has held since June 2011. In January 2013, she took on the additional responsibilities of President of Emera Caribbean Limited, with management oversight of all Emera's Caribbean assets and business development in the region. She also serves on the Board for Barbados Light & Power. Ms. MacDonald is a member of the Governance and Human Resources Committees of the Board.

N) Mr. Andre Chastanet *(appointed November 30, 2012)*[7]
Mr. Andre Chastanet was appointed to the Board of St. Lucia Electricity Services Limited on November 30, 2012. He is a Chartered Accountant by profession and fellow of the Association of Chartered Certified Accountants of the UK. Mr. Chastanet has a wealth of knowledge and expertise in both the local and regional retail industry. His leadership and expertise in the industry has been recognised in several forums including at the 2011 St. Lucia Business Awards held under the auspices of the St. Lucia Chamber of Commerce, Industry & Agriculture where the Entrepreneur of the Year Award was conferred upon him. He is a member of the Board's Audit and Major Investment and Initiatives Committees.

DIRECTORS' REPORT

The Directors present their report for the year ended December 31, 2012.

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 47th Annual Shareholders Meeting were:

NON-EXECUTIVE DIRECTORS:

- Dr. Trevor Byer
- Mr. Matthew Lincoln Mathurin
- Mr. Isaac Anthony (resigned effective September 28, 2012)
- Mr. Robert Hanf (resigned effective January 11, 2013)
- Mr. Laurie Barnard (resigned effective September 30, 2012)
- Mr. Stephen McNamara
- Ms. Sharon Christopher
- Mr. Peter Williams
- Mr. Larry Nath
- Dr.Mkabi Walcott (appointed April 2, 2012)
- Dr. Reginald Darius (appointed October 2, 2012)
- Mr. Andre Chastanet appointed November 30, 2012)
- Ms Sarah McDonald (appointed January 12, 2013)

EXECUTIVE DIRECTOR:

- Mr. Trevor Louisy

FINANCIAL RESULTS

The company sold 333.32 million kWh of electricity a decrease of 0.1 million kWh over the previous year attributable to lower economic activity than in previous years. Total revenues were EC$ 341.80 million, an increase of 6.5% over the previous year, mainly attributable to higher fuel prices.

Net profit for the year was EC$25.3 million (M), which was a 3.9% decline on the previous year.

The Company achieved Earnings per Share of EC$1.10 which was 4.3% lower than in 2011 and the dividend distribution was EC$ 0.77, a decline from the prior year (EC$0.79).

Assets acquired during the year amounted to EC$97.2M, and loan drawdowns were EC$60M mainly related to short and medium term generation expansion, the CIS and AMI projects and other strategic investments.

DIVIDENDS

The Board of Directors declared a dividend for the financial year ended December 31, 2012 of 70% of the Company's adjusted after tax net profits, having paid an interim dividend in December 2012 of $0.35 per ordinary share.

The Board at its 164th Board of Directors Meeting held on November 30, 2012 resolved to amend the dividend policy from a policy position of paying 70% of the Company's adjusted after tax net profits as dividends, to a revised dividend policy whereby payment of an annual dividend payout shall be determined annually by the Board taking into consideration the performance of the Company at the time and the future obligations of the Company.

The total dividend for the 2012 financial year amounted to $0.77 per ordinary share.

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

In March 2012, Directors attended a Strategic Planning Session to discuss the strategic positioning of the Company to meet future financial, technical and regulatory challenges.

In December 2012, the Board conducted its fourth Annual Board Evaluation exercise. The focus of this session was to review the progress made from the 2011 evaluation and to develop a programme for the conduct of future evaluations

In accordance with clause 54 of By Law No. 1 of the Company:-

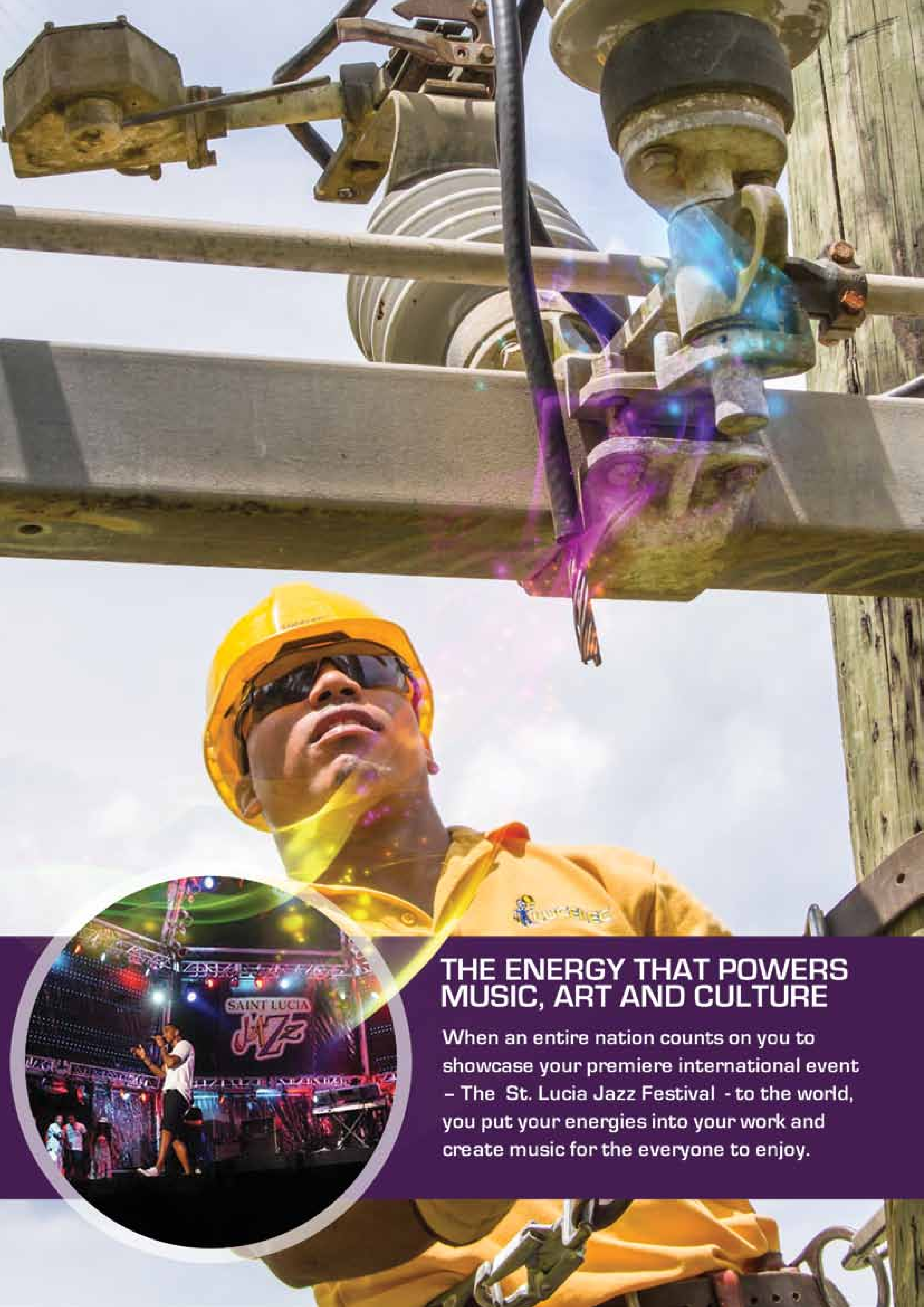
1. On April 2, 2012 Dr. Mkabi Walcott was appointed to the Board Directors of by the Castries City Council.
2. The Government of Saint Lucia appointed Dr. Reginald Darius to replace Mr. Isaac Anthony who had resigned.
3. The Board of Directors appointed Mr. Andre Chastanet to fill the casual vacancy arising from the resignation of Mr. Laurie Barnard. Mr. Barnard had been appointed by the minority shareholders.
4. Emera (St. Lucia) Limited appointed Ms Sarah McDonald to replace Mr. Robert Hanf who had resigned.

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, 2012 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


SAINT LUCIA
Jazz
THE ENERGY THAT POWERS
MUSIC, ART AND CULTURE
When an entire nation counts on you to showcase your premiere international event – The St. Lucia Jazz Festival - to the world, you put your energies into your work and create music for the everyone to enjoy.

OPERATIONS REVIEW

CORPORATE PERFORMANCE

Global and local economic conditions did not improve significantly during 2012 and the declining rate of growth of electricity demand in recent years continued. In fact, for the first time in its history the Company registered a decline in unit sales (0.02%). Nonetheless, the challenges of meeting this demand, reliably and cost effectively remained. As it turned out, the economic conditions and the sales performance justified the Company's focus on improving operational and cost efficiencies for 2012. However, the tough year was reflected in the Company's corporate performance.

The Company achieved three of the nine corporate targets. The performance on Environmental Incidents was commendable with no incidents recorded for 2012, representing a major improvement on the 2011 performance when 2 incidents were recorded. The target was no more than one. The fuel efficiency target (19.54 kWh per Imperial Gallon) was exceeded (19.57 kWh/IG) and the target for Tariff Change vs. Inflation (≤97%) was achieved (96.31%). The Company continues to perform well in these areas.
The performances in the areas of System Losses, Work Hours Lost and Return on Equity were all better than in 2011, but were between the targets and thresholds set for 2012, reflecting the very high performance standards that the Company sets itself.

The Company failed to achieve the targets set for system reliability (SAIDI), Reportable Injury Accidents (RIA), and the Customer Expectation vs. Perception score. The unavailability of the Praslin and Soufriere substations for most of the year (details on this are provided later) contributed to the inability to meet the targets for System Losses and SAIDI. After a significant improvement in 2011 (1.74 hours), Work Hours Lost went back above 2 hours. Similarly, the Customer Service vs. Perception score (83.19%) fell below the levels achieved in 2011. However, analysis of the results showed that although business customers had a higher perception of the overall quality of service in 2012 over 2011, the expectations had increased to almost a perfect score. For household customers the expectations as were the perceptions of the quality of service were slightly lower. Overall though, the sizeable increase in expectation but slightly less than commensurate increase in perception of the quality of service resulted in a decreased score.

A major disappointment is the four lost time accidents, three of which were contractor related, and all of which were preventable.

OPERATIONAL PERFORMANCE

Praslin Substations

On the operational front, the past year was characterised by major challenges and successes. Some of these challenges tested the Company's mettle and the ability of the staff to adapt, innovate, and find solutions. That the Company was able to record some significant successes in the face of a tough year is a testimony to how well it was able to adapt. Some of the more critical issues of note are reported on below under specific headings.

Technical Operations

A reflection of the prevailing economic conditions was that no new system peak was recorded during 2012 with this figure remaining unchanged at 60.3 MW from 2011.

During the month of May, major equipment failure (the 66/11kV interbus transformer or IBT) at the Soufriere substation compounded reliability issues for the southern half of the island, with the Praslin substation having been taken off-line some months before due to an IBT failure there as well. LUCELEC technical staff through innovation, dedication and perseverance devised several solutions to restore a degree of normalcy to customers in the south. First, power was brought into Soufriere from Vieux Fort via the Choiseul 11kV line. Then, the two mobile high speed generating units previously stationed at Union were relocated to set up a small temporary generating facility at Belle Plaine. The Vieux Fort West 66kV line was converted to an 11kV line to improve the reliability and quality of supply to Soufriere; and the team devised a switching mechanism using both the SCADA and Distribution Automation systems to be able to convert the line from 66kV to 11kV and vice versa in less than one hour. Previously, that switch would take anywhere between two and a half to four hours.

Belle Plaine Power Station

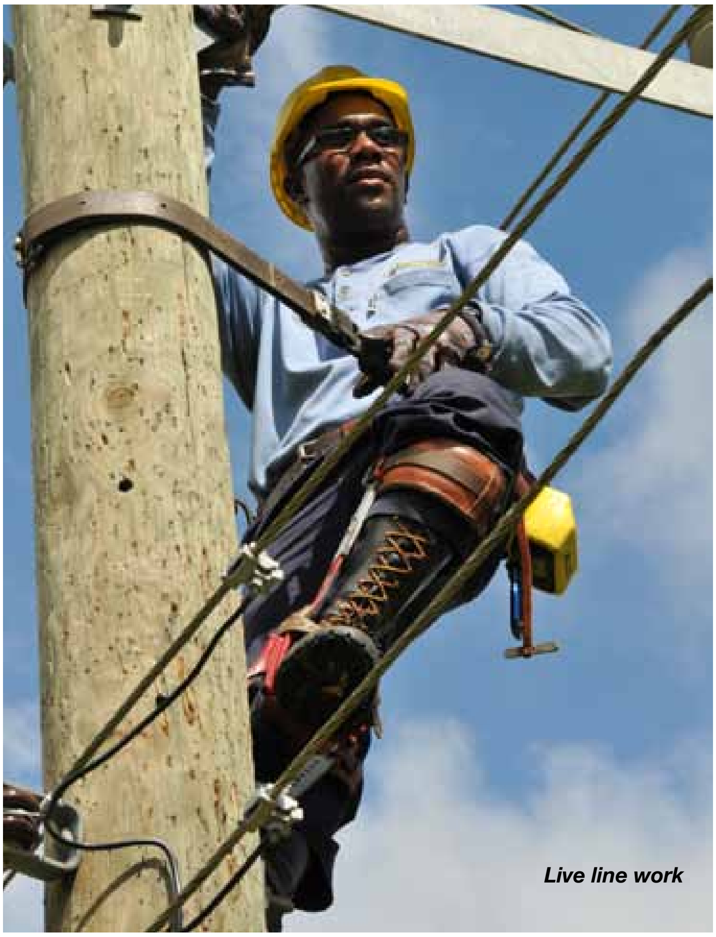
Soufriere Substation

These efforts ensured that the Company's reliability index and reputation were not unduly affected despite the less than optimal mode of operation of the 66kV Transmission System. However, the challenges with Soufriere and Praslin substations were major contributing factors to the Company's inability to meet the targets set for SAIDI and System Losses for 2012.

Despite these challenges the Company was able to successfully undertake its maintenance of and improvements to the 66,000 Volt (transmission), 11,000 Volt (primary distribution) and 415/240 Volt (secondary distribution) networks. The section of the 66kV transmission line along the East Coast from the Ti Rocher Junction to Helen Estate was completed and a number of 11kV feeder loads were balanced to improved operational performance. Several underground ties between feeders were completed to improve reliability. Some of the areas that will benefit significantly from these initiatives are Cap Estate, Sans Souci, Vigie - including the GFL Charles Airport and the Pigeon Island Causeway. A tie between the Vieux Fort Feeder and Choiseul Feeder was nearing completion at the end of the year.

66kv Relocation

Another 1,800 AMI electronic meters were deployed, bringing the total installed to over 30,000. The AMI head end software was also upgraded to facilitate improved communication and to increase redundancy of the system. The Company also enhanced its capacity to carry out live line work and switching operations which will broaden the aspects of maintenance and construction work that can be undertaken without power outages and yield speedier response time following faults.



Live line work

Work on Distribution Automation (DA) continued in 2012 and was focused on optimizing system configuration and maximizing reliability of supply. System records indicate that the DA system prevented an average of 3.8 outages per customer. The concomitant reduction in SAIDI was approximately 3.0 hours.

For 2013, major overhauls are planned on generators CDSPS #4, #6 and #9. The deployment of the Automated Metering Infrastructure (AMI) will continue albeit on a reduced scale than in previous years. The indoor 66kV switchgear at Castries Substation which is over 20 years old will be refurbished and work will continue on refurbishment of the overhead transmission network particularly on the East coast. All of these works are geared towards improving the reliability of the transmission system and enhancing the safety of the public and operations staff. An additional 12 auto-reclosers and 10 automated switches are expected to be installed as the push to improve reliability continues.

Customer Information System (CIS) Implementation Update

The new Cayenta Utilities (CU) customer information system (CIS) went live with on December 10, 2012. The key objective of this project initiated in December 2010, was to facilitate the delivery of enhanced customer care through the replacement of the legacy system.

Over the 24-month period, a dedicated project team comprising four consultants, eight full time employees and eight part-time employees worked tirelessly to successfully implement various phases of the project. Currently the new CIS interfaces directly with other Company systems such as the Geographic Information System (GIS), Automated Metering Infrastructure (AMI) and the financial accounting system (JDE), to provide seamless transactions and facilitate the flow of information for analysis and decision making.

Overhauls

Customers have begun to experience the benefits of the new system which include a new and improved bill layout, e-mail communication on account information, and quicker processing of payments through a barcode feature on the bill which allows for easy and accurate identification of accounts in the system. Following the post implementation stabilisation period during the first quarter of 2013 customers will be able to access further services such as online account enquiry, electronic payments and prepaid metering and billing.

Industrial Relations

Negotiations between the Company and the Civil Service Association (CSA) on the 2011 - 2013 collective agreement for the Grade One bargaining unit spanned all of 2012. Most clauses in the agreement were settled quickly and amicably, but agreement could not be reached on wage increases and a new salary grade structure.

The Company's offer was on the basis that staff salaries and benefits were already above market rates, the realities of the changing electricity regulatory environment, and the need for prudence in uncertain times.

The matter was referred to the Office of the Labour Commissioner in July and eventually escalated to the Minister who referred it further to the Labour Tribunal for arbitration. As the company awaited the appointment of the members of the Labour Tribunal in December the CSA issued notice of intension to strike in January 2013.

The matter was resolved very early in the New Year when the Company and the CSA came to agreement on the outstanding matters. During 2013 the Company also expects to commence and conclude negotiations for the collective agreement for the Grade One bargaining unit for the next period January 2014 – December 2016.

Preliminary discussions were held with the National Workers Union (NWU) which gained union recognition during the first half of the year for the supervisors and professional staff in grades 4 - 6 and 7 - 9 bargaining units. The Company and the NWU agreed to begin negotiations in 2013.

Telecommunications Systems Upgrade

Towards the end of 2012, the Company embarked on an upgrade of its telecommunication system. The focus of this initiative is to provide a modern communication system capable of supporting the Company's needs for the next ten years whilst at the same time controlling the growing operational cost of conventional PBX phone systems tied to specific providers.

The new solution is an all-digital Voice Over IP (VOIP) telephony and messaging communications system. Central to the design of the system were the core requisites of system redundancy and availability to ensure maximum uptime to users, and least cost routing to take advantage of optimal telephone rates depending on call destination (landline, mobile or international).

These core requisites have been put in place along with a host of new communication features to users such as video conferencing for meeting rooms, voicemail, and digital fax management. Collaborative features such as instant messaging and desktop sharing are also being rolled out in a bid to enhance the communication tools available to users.

The system is based on a Cisco platform and is supported with the renowned CISCO Smartnet 24 hour support service.

Government Relations

Relations with the Government of Saint Lucia (GOSL) remain fairly cordial and a framework for regular engagements at both the policy and technical levels has been established and is functioning smoothly. The GOSL has some specific concerns and the Company is working with the government to see how these may be resolved to the mutual satisfaction of both parties.

Strategic Business Plan

During the first quarter of 2012, with input from a broad cross section of the staff across the Company, a new Strategic Business Plan was developed looking towards 2020 and the long term sustainability of the Company. Coming out of that process, which began in 2011 with initial input from the Board of Directors, a new vision for the Company was derived and adopted - "To be the energy that powers the nation's success". Appropriately, this is the theme for the Annual Report, and the theme statement seeks to paint a picture of that vision.

In the ensuing months, work continued on fine tuning the Strategic Business Plan and eight key strategic themes have been identified 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 Management and Reduction, Development of an Enterprise-wide Risk Management System, and Environmental Stewardship.

Various teams have been formed to pursue these and the project plans for these are in the final stages of completion. Updates on these initiatives are summarised below.

System Improvements and Enhancements (including renewable energy)

During the year the Company extended the Cul De Sac Power Station to house an additional 10.2 MW generator comprising a Wärtsilä 12V46 engine, ABB generator, ancillary equipment and switchgear. The 66kV Cul De Sac Substation was also extended to accommodate a 37MVA ABB interbus transformer and switchgear. The project was completed on schedule at a cost of EC$71 million and the generator placed into commercial operation on December 20, 2012.

Discussions with the geothermal developer regarding the terms of an agreement for the purchase of electricity generated from the local geothermal resource continued during 2012.

In 2013 the two failed interbus transformers at the Praslin and Soufriere substations will be replaced. Work will also begin on planning approval studies at the site of the proposed Ti Rocher Substation. The Company will also develop plans for a utility-scale photovoltaic system as well as encourage the uptake of small photovoltaic systems by residential and commercial customers.

As well, during 2013 effort will be directed to the completion of agreements with the geothermal developer for the harnessing of the geothermal resource for electricity generation. Upon finalising the agreement the developer expects to commence the feasibility and exploratory phases of a project that is expected to take up to five years for completion.

Preparing for Regulatory Reform

With the launch of the Eastern Caribbean Energy Regulatory Authority (ECERA) now set for March 2014, the Company has been preparing for the new regulatory environment. The team that will lead this initiative was set up, a detailed action list was developed, and implementation has begun. Part of the process will include a Cost of Service Study and the Terms of Reference for this has been sent out.

In 2013, the team will be accelerating the execution of the implementation plan.

Corporate Diversification

During 2011 the Board of Directors approved in principle the incorporation of a wholly owned subsidiary Company that will seek and undertake business opportunities outside of the regulated electricity sector. Discussions on the relevant structure, governance and resources for the subsidiary are on-going.

Human Resources (HR) Strategic Plan

The extensive array of industrial relations issues which the Company grappled with during the year (elaborated on later in this report) diverted concerted attention from the implementation of the HR Strategic Plan, but some progress was realised. Work continued on the restructuring of the HR Department, and the position of Assistant HR Manager responsible for the area of Talent Management was filled in November. The first phase of a succession plan was completed and work continued on improving the performance management system. Work was initiated on a new rewards and recognition system to better align initiatives in this area with the HR and business strategy.

Work had also commenced on reviewing the Performance Based Incentive Plan (PBIP).

For 2013 work will continue on the succession plan, the PBIP, talent management and the restructuring of the HR Department. The review of the Company's organizational structure is also scheduled to commence as it has become necessary to give this priority. Inherent in all of these is the need for a change management programme, and the early stages of conceptualization are being planned for this year also.

Customer Care

During 2012 the major focus was the implementation of the new Customer Information System. The completion of this project paves the way for the provision of enhanced customer care and services in several aspects of the Company's operations. All users of the new CIS have received the requisite training to enable them to utilise its functionality to perform routine tasks more efficiently. A review of business processes was also conducted to ensure that staff are aware of their respective roles and that there is a seamless customer experience across business units of the Company.

A project plan has been developed to facilitate the execution of several initiatives that will improve the quality of customer care at all levels of the Company's operations. Some of these include more frequent customer experience and needs surveys for better insight into areas needing improvement, increased face to face consultations with specific customer groups, establishment of a system of Customer Care Agents for specific customer groups, Customer Care training for front line and field personnel, and call quality monitoring using available technology. The broad-based customer education and awareness campaign across media platforms will continue.

Cost Management and Reduction

Work in this area for 2012 was focused on improving budget, purchasing and expenditure processes to yield the best value for money. For 2013, the team charged with leading this initiative expects to complete its project plan and begin implementation of specific activities to derive improved cost efficiencies.

Enterprise-Wide 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 at its regular meetings during the course of the year. For 2012 risks related to system reliability associated with the unavailability of the Soufriere and Praslin Substations were elevated. So too were risks associated with industrial relations. Appropriate monitoring and mitigation measures have been developed.

Environmental Stewardship

A team charged with implementing the Company's environmental stewardship initiative was formed in 2011. During 2012, working with the LUCELEC Trust Company Inc. and the Corporate Communications Department the Company was able to engage in or support several activities in pursuit of its environmental stewardship objectives. These are detailed in the section of the report on Corporate Social Responsibility.

During 2013 the Environmental Stewardship Team will also work closely with other departments to implement strategies to engage staff, and external stakeholders in various environmental initiatives.

Conclusion

Uncertainties in the regulatory and economic operating environments make long range planning extremely risky. There are clear signals from the Government of Saint Lucia that the laws governing the operations of the Company are likely to change in the short term. Nonetheless, the Company maintains the responsibility for meeting the country's demand for electricity and it will continue to do so by balancing its desire to achieve standards of excellence second to none with prudent planning and the realities of the prevailing conditions.

FINANCIAL OPERATIONS

Sales & Revenues

Electricity sales were on par with the previous year's performance compared to a 0.8% growth recorded in 2011. This zero growth rate is reflective of a sluggish economic recovery.

Sales in the Domestic and Industrial sectors' declined while all the other sectors registered improved performance. The Domestic sector declined by 1.1% and the Industrial sector by 5.8% reflecting the lower levels of economic activity. The Commercial sector registered growth of 0.6%, the Hotel sector 1.8% and Street Lighting 1.3%.

Total revenues were EC$341.8M, an increase of 6.5% over the previous year's EC$321.0M. This was mainly due to higher tariffs caused by increases in fuel prices. The overall average tariff was EC$1.02, an increase of 6.6% over that of the previous year (EC$0.96). Tariff movements reflect only the effect of fuel price movements as the Company's base tariff has not changed since 2005. Fuel costs are passed through to customers with no mark up.

The average fuel cost per gallon for the year was EC$10.43, an increase of 10.0% over that of 2011 which was EC$9.48 per gallon. Fuel continues to remain the single largest cost item comprising 77.4% of direct operating expenditure.

Generation costs (excluding fuel costs) were lower than the previous year by 2.4% due to a decrease in depreciation and plant maintenance costs.

Transmission and Distribution costs (excluding the amounts set aside for the Self Insurance Fund) were lower by 4.2% due to reductions in depreciation and maintenance costs of the T&D infrastructure.

Administrative expenses increased by $0.3M (1.1%) with increases in the payroll costs and software maintenance off-set by savings in training and public relation costs.

Finance costs increased by EC$0.6M (7.2%) mainly reflecting draw-downs made on the facility obtained in 2011, offset by the capitalisation of a portion of the finance costs incurred.

Profit

Higher operating, administrative and net finance costs resulted in a Profit Before Tax of EC$34.1M, which is lower than the previous year's outturn of EC$36.3M by 6.1%.

Profit After Tax was EC$25.3M a decrease of 3.9% on the previous year's achievement of EC$26.3M.

Earnings Per Share for the year was EC$1.10 (2011 – EC$1.15) reflecting the lower net profit, and Dividends Per Share for the year was EC$0.77 (2011- EC$0.79).

The Company achieved a rate of Return on Equity of 15.0% (2011 – 16.3%) reflecting the decline in performance from the previous year, but this performance remains in line with or above peers in the Caribbean.

The net profit for the year translated to a 6.9% return on net Fixed Assets based on historical costs (2011 – 8.7%) and 4.9% on Total Assets (2011 – 6.0%).

Based on current replacement costs of its fixed assets the return on net Fixed Assets would be 3.1% (2011 - 3.5%) and Return on Equity would increase to 6.4% (2011 - 5.0%) Retained Earnings increased from EC$84.3M to EC$91.3M and the Debt to Equity ratio was 52:48.

Despite the stock split in 2011, the Company's shares traded at $25 per share, resulting in a price earnings (P/E) ratio of 22.7 times (2011 – 10.9 times).

Capital Expenditure

Expenditure for the year amounted to EC$97.2M (2011 – EC$45.4M) associated mainly with the continued upgrade of the Transmission & Distribution network, the Distributed Automation (DA) programme, the Automated Metering Infrastructure (AMI), Generation Expansion, and the continuation of work of the replacement of the Customer Information System.

Working Capital Management

Debt management continued to be a challenge during the year as customers continued to face difficulties from the effects of the economic downturn. The Company, to the extent that it was able to, accommodated customers on a case by case basis. Despite the unfavourable economic environment the Days Sales Outstanding (DSO) declined to 69 days compared to 73 days in 2011.

The establishment of a dedicated Debt Management section is expected to contribute to significantly reduced debt levels. Certain formal arrangements have been made with some major customers which, it is anticipated, will improve collections in 2013.

Capital Financing

The Company drew down the sum of EC$60 Million from the existing long-term facility of EC$100 million secured during 2011 primarily to fund the short and medium term generation expansion programme.

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. All approved changes to the SSA were essentially completed during 2011.

Self-Insurance

During the year the Board approved the formation of a non-profit company to carry out the business of the self-insurance of the Company's assets. As at December 31, 2012, the fund's balance stood at EC$17.7 million (2011 - EC$14.1 million). The fund's investments comprised regional securities rated by regional or international agencies, and at local banks on short term basis to provide quick access to cash if required.

Credit Rating

A credit rating exercise was conducted by CariCRIS, the Caribbean credit rating agency at the end of 2012. The Company expects to receive the results of the rating exercise by the end of the first quarter of 2013. In the previous year, CariCRIS reaffirmed the Company's credit rating of CariBBB (Adequate). This is only one notch below that of the Government of Saint Lucia which is rated at CariBBB+.

Fuel Hedging

The Board gave the authority for the company to engage in a fuel price hedging programme with the strategic aim to improve price stability by reducing the volatility in the monthly tariffs caused by purchases of fuel at spot prices. The full-fledged programme was approved for commencement in 2010 and additional approval was given for the continuation of the programme on a twelve month rolling basis for 75% of estimated volumes utilising Fixed Price Swaps.

With respect to hedge performance, it should be noted that for 2012, fuel prices that resulted from hedge placements were less volatile than would have obtained without the hedge. This was attributable to the fairly stable hedge prices for 2012. The resulting tariff also reflected similar trends. The Company's objective of reducing price volatility to its customers was most successfully met in 2012, since the Company started its hedge programme in 2009.

Shareholders' Equity

The Company's shares traded firm at EC$25, a 100% increase from the price of EC$12.50 after the stock split. The issued ordinary share capital of the Company stands at 22,920,000 shares.

The Board approved a change to the dividend policy from a fixed to a flexible one, whereby dividends declared would be dependent on the Company's financial performance in that year and the capital requirements in the foreseeable future.

Other

At the end of May 2012, Earl Estrado resigned from his position as Financial Controller. During the period June to December 2012, Ms Ziva Phillips acted in the position. Interviews were conducted for the position towards the end of the year and a suitable candidate was recruited.

Outlook

The level of growth expected for 2012 was not realized as a result of the effects of the continuing global economic crises. The economic environment and the low growth caused the Company to adopt a new strategy for increasing its value by considering opportunities in areas outside of the electricity sector. Plans to execute this corporate diversification strategy are being finalised with the intention that roll out will commence in 2013.

An increase of 1.5% in sales is projected for 2013. It is anticipated that this would be driven by some measure of economic stabilisation due to the introduction of various government fiscal initiatives and growth in the tourism and construction sectors. These projections may be impacted by the implementation of the Value Added Tax (VAT) as consumers will be left with lower disposable income and this may impact the level of economic activity in the country, efforts at improving energy efficiency within the country, and the potential uptake of grid-tied photovoltaic systems.

The Company is projecting an ROE of 12.9% for the year 2013, a reduction from the previous year's ROE of 15%. This is due mainly to increased finance charges with respect to the recent significant capital investment which was financed by debt.

The Company will continue to focus on the strategic initiatives approved by the Board. These include:

- Network improvement - the replacement of the interbus transformers at the Soufriere and Praslin Substations, the refurbishing of the switchgear at the Castries Substation and the development of a new substation in Ti Rocher to address the demand on the substations in the North of the island.

- Renewable energy – developing the Renewable Energy portfolio through investments in photovoltaic and geothermal energy.

- Corporate diversification – use of the Company's existing asset base and skill sets to expand revenue opportunities.

- New Regulatory environment – becoming experts in regulatory frameworks for small island utility companies.

- Customer Care – the leveraging of the new CIS system to offer a seamless customer experience.

- HR Strategic plan – revising the existing HR plan to align with the new strategic business plan with emphasis on changing the Company's culture.

The Company will continue to focus on improving operating efficiencies to ensure its continued financial and operational success.

TOP PERFORMERS FOR 2012

Anthony Joseph
Transmission & Distribution Department
Employee of the Year

Gerald Sidone
Generation Department
Supervisor of the Year

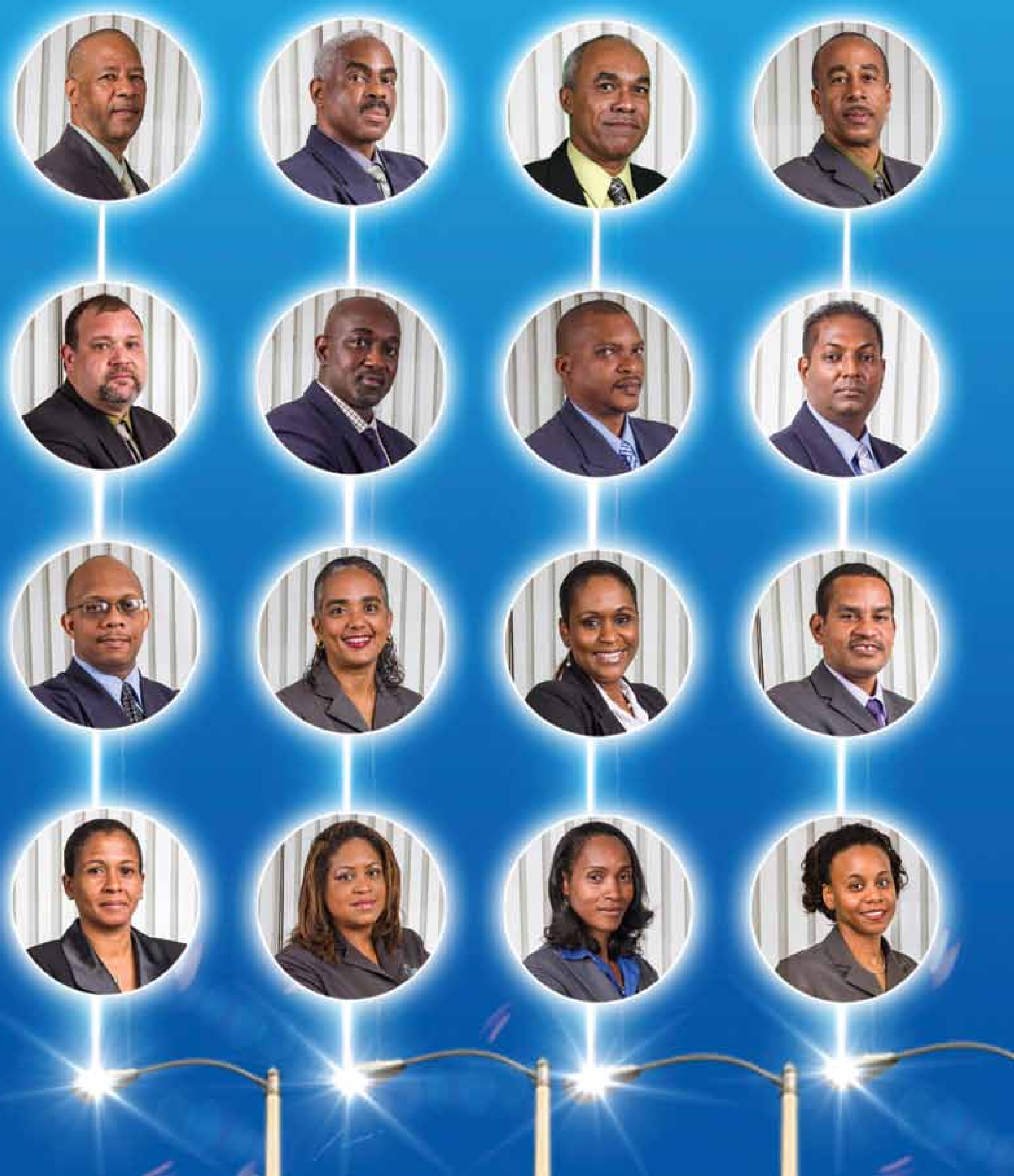
Leroy James
James Enterprises
Contractor of the Year

Gordon Florent
Generation Department
Manager of the Year

THE POWER FOR BUSINESS

Business runs on energy. We know that part of the success of business relies on us excelling at ours. That's why we remain committed to ensuring reliability, efficiency and continuous innovation.

MANAGEMENT TEAM



Row 1, left to right:

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

Victor Emmanuel
B. Eng. (Electrical Engineering), M.Sc. (Information Systems Engineering)
Business Development Manager

Earl Estrado
CGA
Financial Controller (until May 31, 2012)

Goodwin d'Auvergne
B.Sc. (Electrical Engineering)
Chief Engineer

Row 2 left to right:

Gary Eugene
M. Eng. (Electronics Engineering), Registered Professional Engineer
System Control Engineer

Francis Daniel
B.Sc. (Electrical Engineering), MPM (Project Management)
Planning Manager

Jevon Nathaniel
B.Sc. (Electrical Engineering), M.Sc. (Computer Science)
Generation Engineer

Gilroy Pultie
B.Sc. (Electrical & Computer Engineering), Certified Diploma Accounts & Finance (ACCA)
Transmission & Distribution Manager

Row 3, left to right:

Wynn Alexander
B.Sc. (Computer Science), M. Eng. Internetworking, DipFM
Information Systems Manager

Nicole Duboulay
BA (Psychology), MBA (Human Resource Management), M.Sc. (Training and Performance Management), CHRP (Certified Human Resource Professional)
Human Resource Manager

Jennifa Flood-George
B.Sc. (Management Studies/Psychology)
Customer Service Manager

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

Row 4, left to right:

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

Ziva Phillips (acted as Financial Controller from June 1, 2012 – January 31, 2013)
FCCA, B. Sc. (Economics and Accounting)
Finance and Accounts Manager

Callixta Branford
CGA
Internal Audit Manager

Hester Hyacinth (acted as Finance and Accounts Manager from June 1, 2012 – January 31, 2013)
FCCA
Management Accountant

THE YEAR IN PICTURES

1.


2.


3.


4.


5.


6.


7.

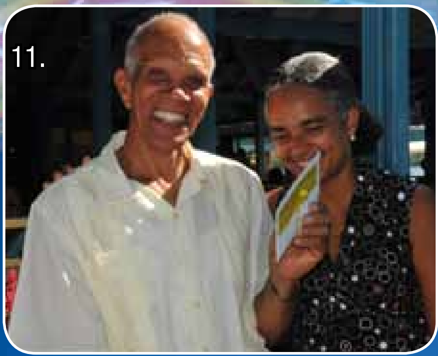

8.


9.


1 2012 Annual General Meeting | **2 & 3** **2012 Company Mass & Brunch** (2) Example of HR's 4H Philosophy adopted in 2012 – Happy, Healthy, Hardworking in Harmony **(3)** Agnes rates the Company, Mass, Brunch and venue (Mount of Prayer, Coubaril) #1 | **4** Energy & Utilities Minister Dr. James Fletcher gets familiar with the LUCELEC Power Plant at Cul de Sac | **5&6** Managing Director Trevor Louisy presents the big picture as he shares the Strategic Business Plan with staff across the Company. | **7,8 & 9** LUCELEC gets the 'thumbs up' from some of the children of LUCELEC employees who attended the 2012 Annual Scholarship Social where students in the Company's scholarship programme receive their school supplies and funds… and a great time was had by all!

THE YEAR IN PICTURES

10



11.

12.

13

14

15

16

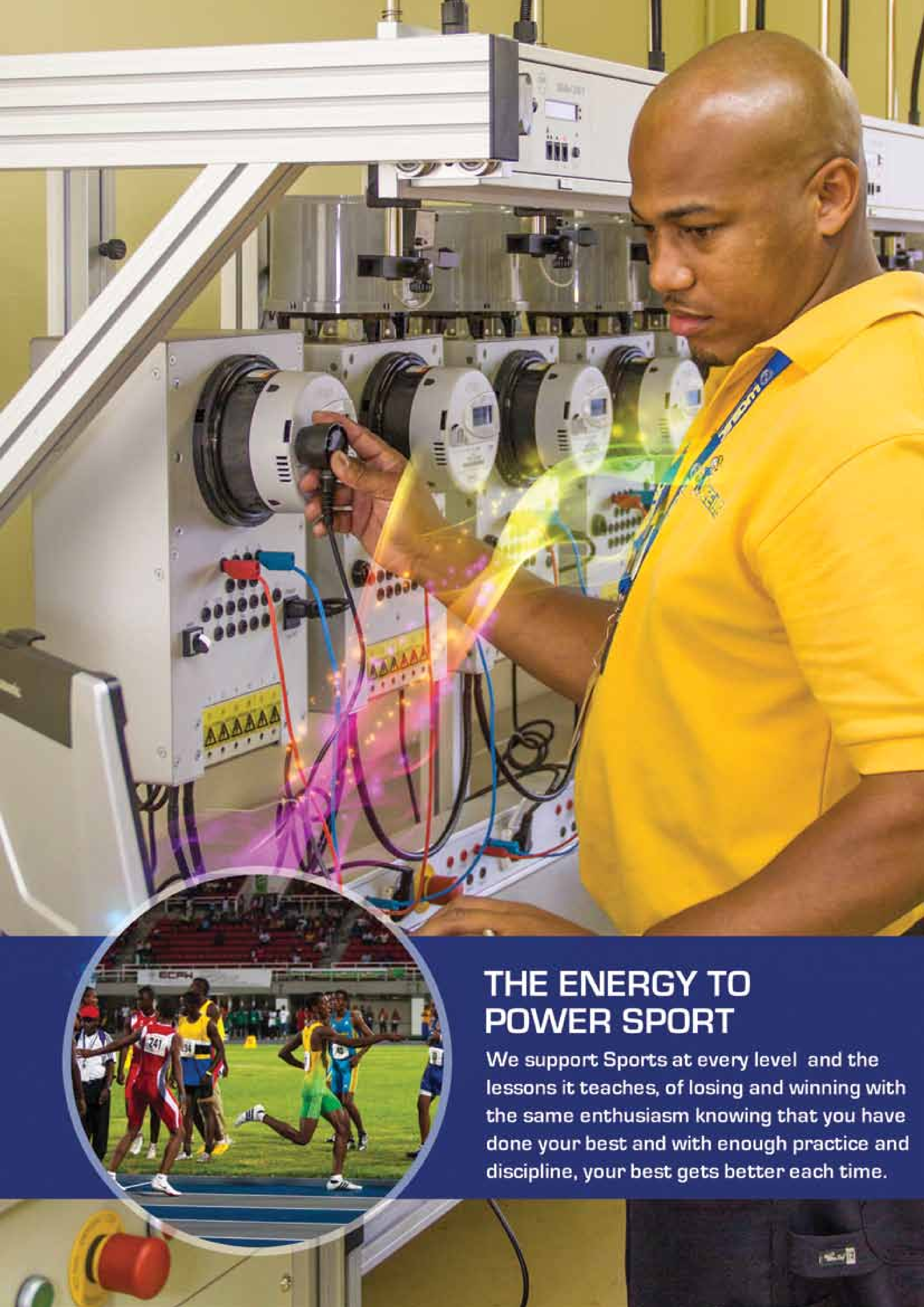
17

18

10 LUCELEC inspects Contractors' Equipment to ensure they meet Company safety standards | **11 & 12** At the Annual Retirees Luncheon LUCELEC appreciates its retirees who laid the foundation for the Company's performance today | **13** The LUCELEC Trust makes a major contribution to improving the Electronics Laboratory at the Sir Arthur Lewis Community College. | **14 & 15** Two years in the making, the new Customer Information System went live in December 2012 | **16, 17 & 18** Health and Safety Month activities included a safety quiz, a fun walk, sessions on stress relief, financial management, various safety demonstrations and discussions.

THE YEAR IN PICTURES

19 The Company said ‘Good-bye’ to Mrs. Celina John who retired from the Customer Service Department after 35 years of service. | **20** LUCELEC staff got into the colour and flavour of Jounen Kweyol | **21** The first Christmas Staff Party was a big hit! | **22 & 23** LUCELEC responded to major equipment failure in Soufriere by setting up a temporary power station at Belle Plaine and met with residents to discuss the plan and hear any potential concerns they may have | **24,25,26 & 27** Shown here in various stages of progress, the expansion of the power station and substation at Cul de Sac and the installation of engine #10 was a major project that spanned much of 2012



THE ENERGY TO POWER SPORT

We support Sports at every level and the lessons it teaches, of losing and winning with the same enthusiasm knowing that you have done your best and with enough practice and discipline, your best gets better each time.

CORPORATE SOCIAL RESPONSIBILITY

Some of LUCELEC's Corporate Social Responsibility would have been covered in the preceding sections of this report as the Company embraces the concept of Corporate Social Responsibility in its broadest sense and considers sustainable development as a whole. This is reflected in its organizational governance, respect for human rights, labour practices, care for the environment and consumer issues, fair operating practices, and community involvement and development. This section focuses on the Company's corporate philanthropy and details how, through its various interventions, it is energizing the nation's success.

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.

Information on of some of the sponsorships and donations made during 2012 are provided below.

Tourism

LUCELEC's support for tourism related initiatives stem from the appreciation of the vital role that the sector plays as one of the main drivers of economic activity in the country. LUCELEC supported events at the local level that help develop and nurture the industry such as staff recognition awards at the various tourism enterprises, the Miss SLHTA competition, the Chefs in Schools Programme, and a national tourism public speaking competition. The company supported as well events that help bring international recognition and acclaim to St. Lucia and help drive the island's overall tourism promotional and development efforts such as the culinary team that placed third overall in the regional Taste of the Caribbean Culinary Competition, the Atlantic Rally for Cruisers (ARC) and St. Lucia Jazz.

As a major sponsor of St. Lucia Jazz at Pigeon Island Main Stage and several community jazz shows in other parts of the island - Opening of Jazz (Mindoo Philip Park), Tea Time Jazz (at La Place Carenage), Waterfront Jazz (at Pointe Seraphine), Jazz on the Bay (a new feature at Marigot Bay), and Fond d'Or Jazz – LUCELEC helps ensure that the St. Lucia Jazz experience is second to none and that the festival achieves its objectives.

Business

The 2012 World Bank Ease of Doing Business Report ranked St. Lucia second only to Singapore in the developing world, and number one in the Caribbean for the ease of getting a business electricity connection. LUCELEC plays no small part in this, and this is the type of environment for business that the Company strives to maintain and improve. But beyond meeting the electricity demand for business, LUCELEC's energies are also directed at supporting initiatives that seek to develop and grow the private sector, especially in the push towards international standards of product and service excellence. In 2012, the Company was a leading sponsor of the St. Lucia Manufacturers' Association Quality Awards Programme, the 2012 National Exposition put on by Office of Private Sector Relations to showcase St. Lucian goods and services, the St. Lucia Chamber of Commerce Industry & Agriculture's St. Lucia Business Awards, St. Lucia Industrial & Small Business Association (SLISBA) National Small, Medium & Micro Enterprise Awards, and the Media Awards.

Education

LUCELEC believes that education is the foundation on which the nation's success is built, and a significant component of the sponsorships and donations the Company makes are directed towards improving educational infrastructure, supporting educational programmes and campaign that seek to provide diverse experiences to students, and helping to ensure that students can achieve their maximum potential. And this support for education spans the length and breadth of the country.

In 2012 LUCELEC assisted with the Schools Independence Competition, the Francophonie Spelling Bee competition in celebration of the International Francophonie Day, the Vide Boutielle Primary School's talent show in honour of St. Lucia's two Nobel Prize Winners, the Central Library's Youth in Poetry Extravaganza, the Rotaract Club of Saint Lucia's Spelling Competition, and the SLHTA's Chefs in Schools Programme and the National Schiils Science and Technology Fair.

The Company supported educational immersion programmes such as the Dame Pearlette Louisy Primary School's educational tour to Barbados, the Leon Hess Comprehensive Secondary School Language Immersion Programme (French) trip to Martinique, and the participation of a St. Lucian student in the Student Programme for Innovation in Science & Engineering (SPISE) – a 4 week resident programme at the Caribbean Science Foundation where participants got the opportunity for hands-on laboratory project work in electronics and robotics.

LUCELEC was also a major sponsor of the Junior Achievement Company Programme at the Choiseul Secondary School and with the Company's help the school swept the awards capturing all, but one, of the top prizes up for grabs including Company of the Year, Best Recordkeeping and Highest Return on Investment awards. The Company also assisted the school in ensuring that the team was able to attend the Junior Achievement Company of the Americas Competition in South America.

And in the area of improving educational infrastructure, LUCELEC assisted the Morne Tender Care Pre School with the repainting of the school, the Des Barras Combined School with re-fencing the school compound, and the Patience Combined School with equipment to furnish the School's Special Education Resource Room. The Company also bought and installed air conditioning units for the Bocage Combined School's Resource Centre and the Ave Maria Girls Infant School's library.

Arts & Culture

LUCELEC was also active in Arts and Culture as the Company sought to contribute not only to the propagation of St. Lucia's culture, but also to provide critical support to the development of cultural products to help jump start the country's fledgling cultural industries. So the Laborie Development Foundation Inc got support for its community Christmas Festival "Kolasyon Nwel"; the Folk Research Centre (FRC) got support for the Jennes Kwéyòl Pageant for schools; and the Cultural Development Foundation (CDF) received support for the Junior Panorama Competition, the launching of Kendal Hippolyte's book of poems "Fault Lines", and the National Arts Festival.

Similarly, the St. Lucia Arts Festival Company's WORDALIVE International Literary Festival, Fish Alphonse Productions' theatre production, "Man Story", as well as several calypso tents, steel bands and Carnival bands, received varying levels of assistance from LUCELEC in putting their respective marks on St. Lucia's 2012 arts and culture calendar. The Company was also instrumental in ensuring that some of the original recordings of St. Lucia's Queen of culture Dame Marie Selipha Sessenne Descartes was reproduced on CD.

Sports

Support for sports is another area that LUCELEC pays great attention to. 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 2012 LUCELEC assisted the Grass Street Youth & Sports Club with putting on its Davy Cup T20 Cricket Competition, the Rockets Athletics Club with its participation in the AAU Championships in Florida, and the Delcer Female Youth Cricket Team with hosting its cricket tournament. The Company also assisted various clubs with acquiring training gear.

Support was provided as well to the Caribbean Community Secretariat for the CARICOM 10K Road Race which was held in St. Lucia in 2012, the Golf St.Lucia Open Golf Open hosted by the Saint Lucia Golf Association, the St.Lucia Rugby Football Association for hosting the Curacao national teams (male, female, youth and veteran), the St. Lucia Amateur Body Building and Fitness Association's National Bodybuilding Championship, and the Castries Football Council's Summer Football Fiesta for young boys between the age of 6 and 18 years.

The St. Lucia Athletics Association (Central American and Caribbean Championships in San Salvador), the St. Lucia Amateur Boxing Association (regional tournament in Barbados), St. Lucia Amateur Swimming Association (OECS Swimming Championships in St. Kitts), the St. Lucia Volleyball Association (Group B NORCECA's 2014 FIVB Men & Women World Championships Continental Qualification), St. Lucia Taekwondo Federation (Open Taekwondo Championships in St. Vincent and the Grenadines), and the St. Lucia Tennis Association (ITF/GSDF 13 and under Caribbean Development

Championships in Trinidad & Tobago) all received support in hosting or attending regional tournaments or competitions as well.

And in a major tangible contribution to the development of sports among the youth, the Company entered into an initial 3-year commitment with the Ministry of Youth Development & Sports valued at $150,000 to assist with the funding of the Inter Secondary School Sports calendar as the country prepares for hosting the 2017 Commonwealth Youth Games. Additionally, the company also supported the St. Lucia National Tennis Centre in putting on the first National Inter-School Tennis Tournament.

Corporate Philanthropy

LUCELEC supports a myriad of charitable institutions through the LUCELEC Trust which manages its donations. Several interventions were made to non-profit organisations in support of fundraising efforts, to provide equipment, to improve facilities, and to feed the underprivileged. Several religious and faith based organisations also received assistance towards meeting the increased demand for the services offered by these institutions.

Youth at Risk/Youth Development

Several interventions to assist youth at risk were supported during 2012. Many of these were youth camps during the Easter and summer vacations in an effort to keep these youth at risk occupied with productive activity and to provide opportunities that they may not otherwise have had. Among those receiving LUCELEC's support were: the Streams of Power Tabernacle annual youth camp, the Laborie Police Station's Annual Youth Summer Camp, the Micoud Police Station's after school programme for youth at risk, and the Saint Lucia Red Cross hosting the Caribbean Red Cross Youth Camp.

The Company also contributed to a summer literacy programme for children from Grades 1 and 2 in the Gros Islet Community, the hosting of the Archdiocesan Episcopal Conference Youth Assembly, the Girl Guides Association of St. Lucia's training programme in Mexico.

The various homes for youth at risk also received assistance from LUCELEC including the Vieux Fort Children's Society, the Holy Family Children's Home, and the Boys Training Centre with sending some of its wards to participate in an international swim meet in Trinidad.

Health & Wellness

Consistent with LUCELEC's own focus on safety, health and wellness for its employees, the Company extended its support to Ministry of Health, Wellness, Human Services & Gender Relations in sponsorship of a Public Education Day Campaign to promote health and wellness among the population. The Ministry also received assistance with the formal launching of the first Breast Feeding Support Group and Lamaze Class graduation to coincide with World Breastfeeding Week.

St. Lucia Diabetes & Hypertensive Association, the St.Lucia Arthritis & Lupus Association, the Caribbean Organization of Sickle Cell Association all received various forms of assistance from LUCELEC during 2012.

The Company also aided Faces of Cancer St. Lucia with the payment of mammograms for unemployed St. Lucian women.

Charitable Contributions

For the last few years the National Council of & for Persons with Disabilities hosts an 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. And for the last few years LUCELEC has been a staunch supporter of the initiative, because it is activities such as these that energise the heart and soul of a nation.

There are other agencies with a similar charitable mandate and they too get assistance from LUCELEC in meeting the needs of their respective clientele. There is the St Lucia Crisis Centre, the St. Lucia Blind Welfare Association, the Salvation Army, the Ex-Service Men and Women's League, the various Rotary Clubs, the Friends of St. Jude Hospital, the St.Lucia Renal Association, the Marian Home and the Adelaide Home. All of them benefited from LUCELEC support during 2012.

The Company also supports various feeding programmes at schools and within the community with regular contributions directly to schools and through agencies like Feed the Poor Ministry Inc. and the St. Benedict's Centre Parish office.

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 and food hampers.

Environmental Responsibility

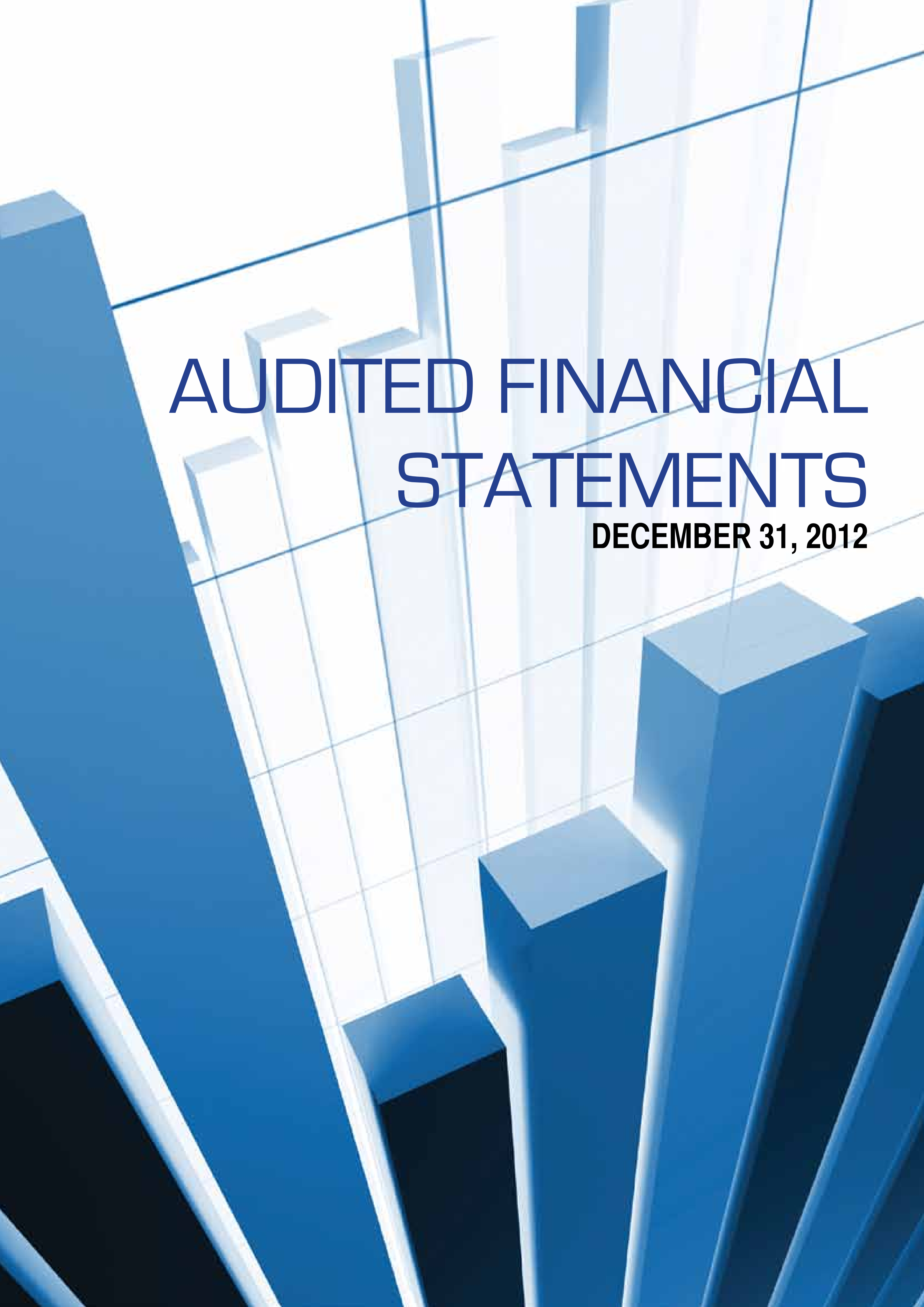
Beyond the active steps that the Company takes within its operations to minimise impact on the environment, LUCELEC also actively supports several initiatives that promote environmental sustainability in its various forms. LUCELEC was a major sponsor of the Our Planet Environmental Kids Club and Environmental Film Festival, the Ministry of the Public Service, Sustainable Development, Energy, Science and Technology's Energy Awareness Week under the theme "Sustainable Energy: Powering a Green Economy", as well as the Caribbean Youth Environmental Network (CYEN) "Let's Do It World Clean-up Campaign".
LUCELEC also provides annual support to the St. Lucia National Trust Youth Environment Forum (YEF), and the Caribbean Student Environmental Alliance's Rainforest Reef Camp that teaches young people how to protect watersheds and coral reefs within their respective communities.

Conclusion

LUCELEC's corporate social responsibility is energising lives across a wide spectrum of St. Lucian society. Several projects could not have been initiated or completed successfully without LUCELEC interventions. Some have impacts that are building the foundation for St. Lucia's success decades into the future given the target groups and the changes that are being made in their lives. It is part of the process of being the energy that powers the nation's success.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012



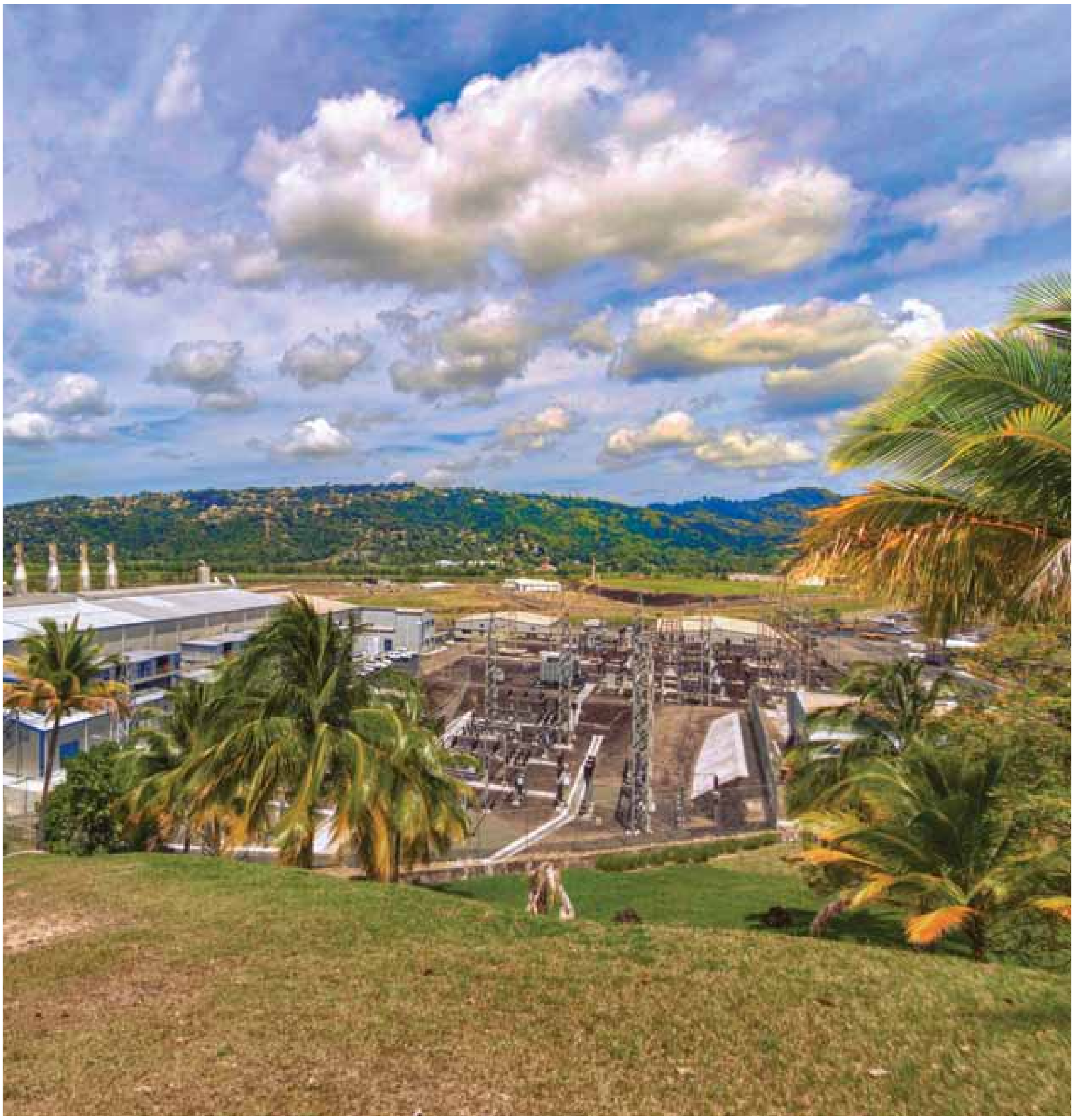


TABLE OF CONTENTS

47..Independent Auditors' Report

48..Statement of Financial Position

49..Statement of Comprehensive Income

50..Statement of Changes in Equity

51..Statement of Cash Flows

52-99 ....Notes to Financial Statements

KPMG Eastern Caribbean
Morgan Building
L'Anse Road
P.O. Box 1101
Castries, St. Lucia

Telephone (758) 453-1471
(758) 453-0625
Fax (758) 453-6507
e-Mail kpmg@kpmg.lc

INDEPENDENT AUDITORS' REPORT

ST. LUCIA ELECTRICITY SERVICES LIMITED

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

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

KPMG Eastern Caribbean
March 8, 2013
Castries, Saint Lucia

KPMG Eastern Caribbean, a partnership registered in Anguilla, Antigua &, Barbuda, St. Lucia and St. Vincent and the Grenadines, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Frank V. Myers
Cleveland S. Seaforth Brian A. Glasgow
Claudel V. V. Romney Reuben M. John

ST. LUCIA ELECTRICITY SERVICES LIMITED

STATEMENT OF FINANCIAL POSITION

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

	Notes	2012	2011 Restated
Assets			
Non-current			
Property, plant and equipment	6	$ 350,554,589	291,178,325
Intangible assets	7	15,053,991	9,821,895
Retirement benefit asset	8	9,354,000	9,135,000
Available-for-sale financial asset	9	167,969	166,163
Total non-current assets		375,130,549	310,301,383
Current			
Inventories	10	19,168,529	21,253,302
Trade, other receivables and prepayments	11	77,580,781	74,523,909
Cash and cash equivalents	12	36,685,474	28,035,425
Income tax receivable		9,043,958	829,511
Total current assets		142,478,742	124,642,147
Total assets		$ 517,609,291	434,943,530
Equity and liabilities			
Shareholders' equity			
Share capital	13	$ 80,162,792	80,162,792
Retained earnings		91,335,400	84,267,176
Total equity attributable to shareholders		171,498,192	164,429,968
Retirement benefit reserve	8	9,354,000	9,135,000
Total shareholders' equity		180,852,192	173,564,968
Liabilities			
Non-current			
Borrowings	14	167,797,100	123,395,650
Consumer deposits	15	14,770,880	13,871,047
Deferred tax liabilities	16	29,054,609	22,825,773
Consumer contributions	17	33,170,723	31,534,698
Retirement benefit liability	18	1,402,589	1,240,234
Total non-current liabilities		246,195,901	192,867,402
Current			
Borrowings	14	15,263,474	11,964,729
Trade and other payables	19	64,199,424	45,105,938
Dividends payable		11,098,300	11,440,493
Total current liabilities		90,561,198	68,511,160
Total liabilities		336,757,099	261,378,562
Total equity and liabilities		$ 517,609,291	434,943,530

Approved by:

_____________ Director   _____________ Director

The notes on pages 52 to 99 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012
(Expressed In Eastern Caribbean Dollars)

	Notes	2012	2011
Revenue			
Energy sales		$ 318,264,626	280,177,406
Fuel surcharge		22,083,227	39,184,718
Other revenue		1,486,119	1,657,480
		341,833,972	321,019,604
Operating expenses			
Fuel cost at base price		187,235,821	145,397,617
Fuel cost over base		22,074,156	40,334,648
Transmission and distribution		34,188,609	35,571,174
Generation		26,891,803	26,993,025
	27	270,390,389	248,296,464
Gross income		71,443,583	72,723,140
Administrative expenses	27	(28,061,709)	(27,754,131)
Operating profit		43,381,874	44,969,009
Other gains, net	22	66,876	66,067
Profit before finance costs and taxation		43,448,750	45,035,076
Finance costs, net	26	(9,388,635)	(8,761,356)
Profit before taxation		34,060,115	36,273,720
Taxation	23	(8,809,335)	(10,002,550)
Net profit for the year from continuing operations		25,250,780	26,271,170
Other comprehensive income:			
Actuarial losses on defined benefit plans		(315,156)	(192,023)
Total comprehensive income for the year		$ 24,935,624	26,079,147
Earnings per share	25	$ 1.10	1.15

The notes on pages 52 to 99 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012
(Expressed In Eastern Caribbean Dollars)

	Notes	Stated Capital	Retained Earnings	Retirement Benefit Reserve	Total
Balance at January 1, 2011		$ 80,162,792	76,970,314	9,017,000	166,150,106
Total comprehensive income for the year		-	26,079,147	-	26,079,147
Appropriation for tariff reduction	20	-	(557,485)	-	(557,485)
Transfer to retirement benefit reserve		-	(118,000)	118,000	-
Ordinary dividends as previously stated	21	-	(18,000,000)	-	(18,000,000)
Prior year adjustment	21	-	(106,800)	-	(106,800)
Ordinary dividends as restated	21	-	(18,106,800)	-	(18,106,800)
Balance at December 31, 2011 as restated		$ 80,162,792	84,267,176	9,135,000	173,564,968
Balance at January 1, 2012 as restated		80,162,792	84,267,176	9,135,000	173,564,968
Total comprehensive income for the year		-	24,935,624	-	24,935,624
Transfer to retirement benefit reserve		-	(219,000)	219,000	-
Ordinary dividends	21	-	(17,648,400)	-	(17,648,400)
Balance at December 31, 2012		$ 80,162,792	91,335,400	9,354,000	180,852,192

The notes on pages 52 to 99 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012
(Expressed In Eastern Caribbean Dollars)

	Notes	2012	2011
Cash flows from operating activities			
Profit before taxation		$ 34,060,115	36,273,720
Adjustments for:			
Depreciation	6	31,962,555	33,267,743
Amortisation of intangible assets	7	662,741	996,502
Finance costs expensed		9,388,635	8,761,356
Gain on disposal of property, plant and equipment	22	(39,068)	(84,879)
Amortisation of consumer contributions	17	(555,030)	(1,065,162)
Post-retirement benefits		(371,801)	(225,698)
Operating profit before working capital changes		75,108,147	77,923,582
Decrease/(increase) in inventories		2,084,773	(1,267,417)
Increase in trade and other receivables		(3,056,872)	(14,741,630)
Increase in trade and other payables		19,093,486	3,389,264
Cash generated from operations		93,229,534	65,303,799
Interest received		763,938	483,161
Finance costs paid		(10,490,198)	(8,905,779)
Income tax paid		(10,794,946)	(14,850,237)
Net cash from operating activities		72,708,328	42,030,944
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	(90,988,210)	(38,544,131)
Proceeds on disposal of property, plant and equipment		48,392	87,283
Acquisition of intangible assets	7	(6,254,770)	(6,845,467)
Net cash used in investing activities		(97,194,588)	(45,302,315)
Cash flows from financing activities			
Proceeds from borrowings		60,000,000	40,000,000
Repayment of borrowings		(11,861,703)	(13,158,524)
Dividends paid		(17,990,593)	(17,885,385)
Appropriation for tariff reduction		-	(557,485)
Consumer contributions received	17	2,191,055	2,724,033
Consumer deposits received (net)		797,550	301,829
Net cash from financing activities		33,136,309	11,424,468
Net increase in cash and cash equivalents		8,650,049	8,153,097
Cash and cash equivalents at beginning of year		28,035,425	19,882,328
Cash and cash equivalents at end of year	12	$ 36,685,474	28,035,425

The notes on pages 52 to 99 are an integral part of these financial statements.

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

1. Reporting Entity

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 also re-registered under the Companies Act of Saint Lucia on October 22, 1997. The Company operates under the Electricity Supply Act, 1994 (as amended), and is granted an exclusive license for the exercise and performance of functions relating to the generation, transmission, distribution and sale of electricity in Saint Lucia. It is listed on the Eastern Caribbean Securities Exchange.

The Company's registered office is situated at Sans Souci, John Compton Highway, Castries, Saint Lucia.

2. Basis of Preparation

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were approved for issue by the Board of Directors on March 8, 2013.

(b) *Basis of measurement*

The financial statements have been prepared using the historical cost basis except for available-for-sale financial assets that are measured at fair value.

The methods used to measure fair value are discussed further in note 4.

(c) *Functional and presentation currency*

These financial statements are presented in Eastern Caribbean dollars, which is the Company's functional currency. All financial information has been rounded to the nearest dollar.

(d) *Use of estimates and judgments*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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 recognized in the financial statements is included in the following notes:

- Note 3(c)(iii): Estimated useful lives of plant, property, and equipment, and intangible assets
- Note 3(h): Measurement of defined benefit obligations
- Note 3(i): Estimation of unbilled sales and fuel surcharge
- Note 4: Determination of fair values
- Note 29: Valuation of financial instruments

3. Significant Accounting Policies

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

(a) Foreign Currency

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated 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 amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign exchange currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges which are recognized directly in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(b) Financial Instruments

(i) *Non-Derivative Financial Instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, trade and other payables, consumer deposits, consumer contributions and available-for-sale financial assets.

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company'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 (j).

3. Significant Accounting Policies (Cont'd)

(b) Financial Instruments (Cont'd)

(i) *Non-Derivative Financial Instruments (Cont'd)*

Trade and Other Receivables

Trade and other receivables are carried initially at fair value and subsequently measured at amortized cost less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company 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.

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 Company.

Borrowings

Borrowings are recognized initially as the proceeds are received and are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized 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 Company has an unconditional right to defer settlement of the liability for at least twelve (12) months after the date of the statement of financial position.

Consumer Deposits

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

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 amortized over their estimated useful lives at an annual rate of 5%. The annual amortization of consumer contributions is deducted from the depreciation charge in respect of these line extensions. Contributions in excess of the applicable capital cost of line extensions up to 5% of the estimated cost of the job are recorded as miscellaneous income in the period in which the job is completed; contributions in excess of 5%, arising mainly as a result of changes to job specifications during the implementation stage, are refundable to the customers upon finalization of the total cost of the job. The capital costs of consumer line extensions are included in property, plant and equipment.

3. Significant Accounting Policies (Cont'd)

(b) Financial Instruments (Cont'd)

(i) *Non-Derivative Financial Instruments (Cont'd)*

Available-for-sale Financial Assets

The Company's investment in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(e)), and foreign exchange gains and losses on available-for-sale equity instruments (see Note 3(a)), are recognized in other comprehensive income and presented with equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

(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.

(c) Property, Plant and Equipment

(i) *Recognition and Measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized 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 gains 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 recognized net within "other gains" in profit or loss.

(ii) *Subsequent Expenditure*

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

3. Significant Accounting Policies (Cont'd)

(c) Property, Plant and Equipment (Cont'd)

(iii) *Depreciation*

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an 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 Company will obtain ownership by the end of the lease term. Land and way leave rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use.

The annual rates of depreciation for the current and comparative periods are as follows:

▪ Building	$2^1/_2$ - $12^1/_2$% per annum
▪ Plant and machinery	5 - 14% per annum
▪ Generator overhauls	$33^1/_3$% per annum
▪ Motor vehicles	20 and $33^1/_3$% per annum
▪ Furniture and fittings	10 - 25% per annum
▪ Computer hardware	$12^1/_2$ - 25% per annum

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

(d) Intangible Assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized 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.

Amortization

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of 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 asset. The estimated useful lives for the assets (computer software) that are amortized ranges from four (4) to five (5) years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Inventories

Inventories are measured at the lower of cost and replacement 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. Cost may also include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories. Allowance is made for slow-moving and damaged goods. Goods in transit are stated in invoice cost.

3. Significant Accounting Policies (Cont'd)

(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.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

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 amortized 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 receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities 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.

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 Company'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.

3. Significant Accounting Policies (Cont'd)

(f) Impairment (Cont'd)

(ii) *Non-Financial Assets (Cont'd)*

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) Derivative Financial Instruments

The Company holds derivative financial instruments to hedge against the volatility of its fuel costs. On initial designation of the hedge, the Company formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred.

3. Significant Accounting Policies (Cont'd)

(g) Derivative Financial Instruments (Cont'd)

Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash Flow Hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

(h) Employee Benefits

(i) Defined Benefit Plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government securities that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the Projected Unit Credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the net total of any unrecognised past service costs and 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 Company recognises actuarial gains and losses arising from defined benefit plans in other comprehensive income.

3. Significant Accounting Policies (Cont'd)

(h) Employee Benefits (Cont'd)

(ii) *Pension Benefits Assumptions*

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

The expected return on plan assets assumption is determined on a uniform basis taking into consideration long-term historical returns, asset allocation and future estimates of long-term obligations.

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

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 8.

(iii) *Termination Benefits*

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

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

(i) 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 of 57.74% (2011 - 56.8%) at year end is based upon the actual information obtained subsequent to the year end. 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 is included in accrued income.

3. Significant Accounting Policies (Cont'd)

(j) Finance Income and Expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), gains on the disposal of available-for-sale 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 expenses comprise interest expense on borrowings 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.

(k) 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.

3. Significant Accounting Policies (Cont'd)

(k) Income Tax (Cont'd)

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.

(l) Earnings Per Share

The Company presents basic 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 Company by the weighted average number of ordinary shares outstanding during the period.

(m) New standards, amendments to standards and interpretations

At the date of approval of the financial statements, a number of new standards, amendments to standards and interpretations are effective the annual periods beginning after January 1, 2012, and have not been applied in preparing these financial statements or disclosed in these financial statements. None of these are expected to have a significant effect on the measurement of the amounts recognized in the Company's financial statements.

(i) Standards, amendments and interpretations effective in the 2012 financial year are as follows:

- *IFRS 7, Financial Instruments: Disclosures* has been amended to introduce additional disclosures designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. These amendments are effective for annual periods beginning on or after January 1, 2012; however, there were no effects on these financial statements.

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

- *IAS 1, Presentation of Financial Statements* has been amended to require an entity to present separately the items of other comprehensive income (OCI) that would be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregate tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. However, an entity is still allowed to use other titles. The amendment is effective for annual periods beginning on or after July 1, 2012.

3. Significant Accounting Policies (Cont'd)

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

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

- *IAS 19, Employee Benefits* has been amended to require that all actuarial gains and losses be recognized immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability for entities to recognize all changed in the defined benefit obligation and plan assets in profit or loss, and for the expected return on plan assets recognized in profit or loss is to be calculated based on the rates used to discount the defined benefit obligation. The amendment also includes changes to the definitions and disclosure requirements in the current standard. The amendment is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact that this amendment will have on its 2013 financial statements.

- *IFRS 7, Financial Instruments: Disclosures* clarify existing applications used relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of offset" and "simultaneous realization and settlement". The amendment requires entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangements. The amendment is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact that this amendment will have on its 2013 financial statements.

- IFRS 9, *Financial Instruments:* effective for annual periods beginning on or after January 1, 2015, deals with classification and measurement of financial assets and its requirements represent a significant change from the existing requirement in IAS 39 in respect of financial assets. IFRS 9 contains two primary measurement categories for financial assets: at amortized cost and fair value. A financial asset will be measured at amortized cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets will be measured at fair value. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables.

  For an investment in an equity instrument that is not held for trading, IFRS 9 permits an irrevocable election, on initial recognition on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss.

3. Significant Accounting Policies (Cont'd)

(m) 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 9, *Financial Instruments :(Cont'd)*

However, dividends on such investments are recognized in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income will be measured at fair value with changes in fair value being recognized in profit or loss.

IFRS 9 also requires that derivatives embedded in contracts with a host that is a financial asset are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

The impact of IFRS 9 on the Company's financial statements is currently being considered. IFRS 9 is permitted for early adoption but the Company does not intend to do so.

Recent amendments to IFRS 9

These were issued in December 2011 by the International Accounting Standards Board ("IASB"). The amendments require entities to apply IFRS 9 for annual periods beginning on or after 1 January 2015 with early application permissible. In these amendments, the IASB has modified the relief from restating prior periods. IASB has also made amendments to IFRS 7 to require additional disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9.

For entities which initially apply IFRS 9:

(a) before January 1, 2012, they need not restate prior periods and are not required to provide the disclosures set out in below;
(b) on or after January 1, 2012 and before January 1, 2013, they must elect either to provide the disclosures set out below or to restate prior periods; and
(c) on or after January 1, 2013, they shall provide the disclosures set out below. The entity need not restate prior periods.

At the date of initial application of IFRS 9, the entity shall disclose the changes in the classification of financial assets and financial liabilities showing separately,

(i) the changes in the carrying amounts on the basis of their measurement categories in accordance with IAS 39 (i.e. not resulting from a change in measurement attribute on transition to IFRS 9); and

3. Significant Accounting Policies (Cont'd)

(m) 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 9, *Financial Instruments: (Cont'd)*

  Recent amendments to IFRS 9 (Cont'd)

  (ii) the changes in the carrying amounts arising from a change in measurement attribute on transition to IFRS 9.

  In addition to the above, in the reporting period in which IFRS 9 is initially applied, an entity shall disclose the following for financial assets and financial liabilities that have been reclassified so that they are measured at amortised cost as a result of the transition to IFRS 9:

  (i) the fair value of the financial assets or financial liabilities at the end of the reporting period;

  (ii) the fair value gain or loss that would have been recognized in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified;

  (iii) the effective interest rate determined on the date of reclassification; and

  (iv) the interest income or expense recognized.

  If an entity treats the fair value of a financial asset or a financial liability as its amortized cost at the date of initial application, then the disclosures in (iii) and (iv) above shall be made for each reporting period following reclassification until de-recognition. Otherwise, all the disclosures need not be made after the reporting period containing the date of initial application.

  If these disclosures are made then, the entity should reconcile:

  (i) the measurement categories in IAS 39 and IFRS 9;

  (ii) the class of financial instruments at the date of initial application; and

  (iii) the line items presented in the statement of financial position.

- *IFRS 13, Fair Value Measurement*, which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets disclosure requirements for fair value measurements. It explains how to measure fair value, and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value, or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Company is assessing the impact that this new standard will have on its 2013 financial statements.

4. Determination of Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. 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.

Investments in equity and debt securities
The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Trade and other receivables
Trade and other receivables together with accrued income comprise balances owed by customers and employee advances which are due in less than 12 months. Because of the short-term nature of these balances, their carrying values approximate their fair value at the reporting date. The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Trade and other payables
Due to the short-term nature of the related transactions, the fair value of trade and other payables approximate their carrying amounts at the reporting date.

Non-derivative financial liabilities
Non-derivative financial liabilities are measured at fair value at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Financial Risk Management

Overview

The Company 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 Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

5. Financial Risk Management (Cont'd)

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 the Audit Committee, which oversees how management monitors compliance with the Company'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 Company. The Committee is assisted in its oversight role by Internal Audit, 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, 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 Company's activities. The Company, 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.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

Trade and Other Receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Company'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 Company'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 Company 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 Company'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 Company's customers have been transacting with the Company for over four years, and losses have occurred infrequently. The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. 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.

5. Financial Risk Management (Cont'd)

Credit Risk (Cont'd)

Investments
The Company limits its exposure to credit risk by only investing in liquid securities. Given these high credit ratings, management does not expect any counterparty to fail to meet its obligations.

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 Company in the management of its short-term commitments.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company'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 Company's reputation.

Typically the Company 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 Company maintains the following lines of credit:

- Two overdraft facilities of EC$10 million and EC$6 million which are secured. Interest is payable at the rate of 9% and 8% respectively.
- A standby credit facility in the amount of EC$10 million which will be utilised to restore transmission and distribution assets damaged by hurricane and other natural disasters, should it become necessary. This facility is convertible into a 12-year term instalment loan subject to the necessary approvals. The interest rate is 7.41% on the credit facility and 6.5% if converted into a demand loan.

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 Company'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.

The Company is exposed to currency risk on purchases and borrowings that are denominated in a currency other than the functional currency. The currency in which these transactions primarily are denominated is United States Dollars.

Interest on borrowings is denominated in currencies of the borrowings. The Company limits its interest rate risk by ensuring as far as possible that fixed rate borrowings are negotiated.

5. Financial Risk Management (Cont'd)

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company'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 Company's operations. The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company'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 company 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.

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 Company 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 Company's total debt shall not exceed two times its tangible net worth which currently comprises its share capital and retained earnings.

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

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

6. Property, Plant and Equipment

		Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fittings	Work in Progress	Total
Cost							
Balance at January 1, 2011	$	87,731,255	541,497,266	3,372,933	11,714,535	15,047,772	659,363,761
Additions		430,091	330,945	478,356	511,728	36,793,011	38,544,131
Transfers		-	6,367,172	-	-	(6,367,172)	-
Disposals		-	-	(295,750)	(17,964)	-	(313,714)
Balance at December 31, 2011		88,161,346	548,195,383	3, 555,539	12,208,299	45,473,611	697,594,178
Balance at January 1, 2012		88,161,346	548,195,383	3, 555,539	12,208,299	45,473,611	697,594,178
Additions		539,840	737,164	-	1,410,630	88,300,576	90,988,210
Transfers		(20,987)	97,146,570	47,076	23,874	(97,196,533)	-
Reclassifications from intangible assets		402,532	-	-	90,542	(133,141)	359,933
Disposals		-	-	(271,039)	(26,312)	-	(297,351)
Balance at December 31, 2012	$	89,082,731	646,079,117	3,331,576	13,707,033	36,444,513	788,644,970
Accumulated Depreciation							
Balance at January 1, 2011	$	30,968,595	330,334,122	2,724,364	9,432,339	-	373,459,420
Charge for the year		2,053,468	30,188,491	364,288	661,496	-	33,267,743
Eliminated on disposals		-	-	(295,750)	(15,560)	-	(311,310)
Balance at December 31, 2011		33,022,063	360,522,613	2,792,902	10,078,275	-	406,415,853
Balance at January 1, 2012		33,022,063	360,522,613	2,792,902	10,078,275	-	406,415,853
Charge for the year		2,061,338	29,021,197	322,050	557,970	-	31,962,555
Eliminated on disposals		-	-	(262,592)	(25,435)	-	(288,027)
Balance at December 31, 2012	$	35,083,401	389,543,810	2,852,360	10,610,810	-	438,090,381
Carrying Amounts							
At January 1, 2011	$	56,762,660	211,163,144	648,569	2,282,196	15,047,772	285,904,341
At December 31, 2011	$	55,139,283	187,672,770	762,637	2,130,024	45,473,611	291,178,325
At January 1, 2012	$	55,139,283	187,672,770	762,637	2,130,024	45,473,611	291,178,325
At December 31, 2012	$	53,999,330	256,535,307	479,216	3,096,223	36,444,513	350,554,589

Borrowing costs amounting to $3,099,599 (2011 - $129,262) were capitalized during the year.

As stated in Note 14, borrowings are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable property and floating charges over all other assets, all ranking pari passu pursuant to a security sharing agreement, and assignment of insurance policies.

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

7. Intangible Assets

		Information Systems	Way Leave Rights	Work In Progress	Total
Cost					
Balance at January 1, 2011	$	4,726,168	1,556,013	1,429,230	7,711,411
Additions		2,204,466	698,074	3,942,927	6,845,467
Balance at December 31, 2011		6,930,634	2,254,087	5,372,157	14,556,878
Balance at January 1, 2012		6,930,634	2,254,087	5,372,157	14,556,878
Additions		2,290,871	290,553	3,673,346	6,254,770
Transfers		8,624,192	200,622	(8,824,814)	-
Reclassifications to property, plant and equipment		-	(272,244)	(87,689)	(359,933)
Balance at December 31, 2012	$	17,845,697	2,473,018	133,000	20,451,715
Accumulated Amortisation					
Balance at January 1, 2011	$	3,738,481	-	-	3,738,481
Amortised for the year		996,502	-	-	996,502
Balance at December 31, 2011		4,734,983	-	-	4,734,983
Balance at January 1, 2012		4,734,983	-	-	4,734,983
Amortised for the year		662,741	-	-	662,741
Balance at December 31, 2012	$	5,397,724	-	-	5,397,724
Carrying Amounts					
At January 1, 2011	$	987,687	1,556,013	1,429,230	3,972,930
At December 31, 2011	$	2,195,651	2,254,087	5,372,157	9,821,895
At January 1, 2012	$	2,195,651	2,254,087	5,372,157	9,821,895
At December 31, 2012	$	12,447,973	2,473,018	133,000	15,053,991

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

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

8. Retirement Benefit Asset

Grade I Employees
The Company contributes to a defined benefit pension scheme with Sagicor Life Inc. for Grade I employees who were employed prior to January 1, 2008.

Grade II Employees
The Company 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 held with Colonial Life Insurance Company Limited (CLICO).

The most recent actuarial valuation of these two schemes is dated December 31, 2012. The plans were valued using the "Projected Unit Credit" method of valuation.

Grade III Employees
For its senior employees who were employed prior to January 1, 2008, the Company contributes to the regional CDC Caribbean Pension Scheme administered by Sagicor Life Inc.

The most recent actuarial valuation of the plan was completed December 31, 2012.

The plan was valued using the "Projected Unit Credit" method of valuation.

The principal actuarial assumptions used for all schemes were as follows:

	Grade III		Grades I and II	
	2012	**2011**	**2012**	**2011**
	%	**%**	**%**	**%**
Discount rate	7.0	6.5	7.0	7.0
Expected return on plan assets	7.5	7.0	7.0-7.5	7.5
Future salary increases	2.5	2.5	5.5	5.5
Future pension increases	3.0	3.0	0.0	0.0
Future promotional increases	2.0	2.0	0.0	0.0

8. Retirement Benefit Asset (Cont'd)

The amounts recognised in the statement of financial position at December 31, 2012 are determined as follows:

	Grade III		Grade II		Grade I		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Present value of funded obligations	$ (20,483,000)	(19,385,000)	(13,872,000)	(12,956,000)	(12,788,000)	(12,102,000)	(47,143,000)	(44,443,000)
Fair value of plan assets	20,127,000	17,577,000	17,228,000	16,048,000	14,420,000	13,935,000	51,775,000	47,560,000
Unrecognised actuarial (loss)/gain	4,608,000	6,262,000	(1,410,000)	(1,389,000)	1,524,000	1,145,000	4,722,000	6,018,000
Defined benefit asset	$ 4,252,000	4,454,000	1,946,000	1,703,000	3,156,000	2,978,000	9,354,000	9,135,000

The amount of $9,354,000 (2011 - $9,135,000) is recognised as a defined benefit asset as it will be available to the Company to fund a contribution reduction in the future. The Trustees of the pension schemes are precluded from paying out any part of this amount to the Company.

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

8. Retirement Benefit Asset (Cont'd)

The movements in the defined benefit obligation for the year ended December 31, 2012 were as follows:

	Grade III		Grade II		Grade I		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Defined benefit obligation as at January 1,	$ 19,385,000	16,185,000	12,956,000	11,949,000	12,102,000	11,358,000	44,443,000	39,492,000
Services and interests costs	2,354,000	2, 094,000	1,508,000	1,426,000	1,063,000	1,004,000	4,925,000	4,524,000
Members' contributions	-	-	230,000	224,000	186,000	182,000	416,000	406,000
Benefits paid	(268,000)	(192,000)	(598,000)	(345,000)	(371,000)	(308,000)	(1,237,000)	(845,000)
Expense allowance	-	-	(69,000)	(68,000)	(57,000)	(56,000)	(126,000)	(124,000)
Actuarial (gain)/loss	(988,000)	1,298,000	(155,000)	(230,000)	(135,000)	(78,000)	(1,278,000)	990,000
Defined obligation benefit as at December 31,	$ 20,483,000	19,385,000	13,872,000	12,956,000	12,788,000	12,102,000	47,143,000	44,443,000

The movements in the plans' assets for the year ended December 31, 2012 were as follows:

	Grade III		Grade II		Grade I		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Fair value of plan assets at January 1,	$ 17,577,000	16,111,000	16,048,000	14,496,000	13,935,000	13,418,000	47,560,000	44,025,000
Contributions paid - company	1,181,000	992,000	553,000	387,000	265,000	189,000	1,999,000	1,568,000
Contributions paid - members	-	-	230,000	224,000	186,000	182,000	416,000	406,000
Expected return on plan assets	1,262,000	1,238,000	1,198,000	1,084,000	976,000	939,000	3,436,000	3,261,000
Benefits paid	(268,000)	(192,000)	(598,000)	(345,000)	(371,000)	(308,000)	(1,237,000)	(845,000)
Expense allowance	-	-	(69,000)	(68,000)	(57,000)	(56,000)	(126,000)	(124,000)
Actuarial gain/(loss)	375,000	(572,000)	(134,000)	270,000	(514,000)	(429,000)	(273,000)	(731,000)
Fair value of plan assets at December 31,	$ 20,127,000	17,577,000	17,228,000	16,048,000	14,420,000	13,935,000	51,775,000	47,560,000

8. Retirement Benefit Asset (Cont'd)

Plan assets consist of the following:

	Grade III		Grade II		Grade I	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Equity securities	44%	94%	-	-	-	-
Debt securities	43%	-	40.0%	38.0%	-	-
Cash/Money Market	-	-	3.9%	3.2%	-	-
Other (Deposit administration account)	13%	6%	56.1%	58.8%	100%	100%
Total	100%	100%	100%	100%	100%	100%

The actual return on plan assets for the year ended December 31, 2012 was as follows:

	Grade III		Grade II		Grade I		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Return on plan assets	$ 1,637,000	666,000	1,064,000	1,354,000	462,000	510,000	3,163,000	2,530,000

The amounts recognised in the statement of comprehensive income for the year ended December 31, 2012 were as follows:

	Grade III		Grade II		Grade I		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Current service cost	$ 1,035,000	904,000	620,000	599,000	226,000	217,000	1,881,000	1,720,000
Interest on defined benefit obligations	1,319,000	1,190,000	888,000	827,000	837,000	787,000	3,044,000	2,804,000
Expected return on plan assets	(1,262,000)	(1,238,000)	(1,198,000)	(1,084,000)	(976,000)	(939,000)	(3,436,000)	(3,261,000)
Amortised net loss	291,000	187,000	-	-	-	-	291,000	187,000
Net pension costs	$ 1,383,000	1,043,000	310,000	342,000	87,000	65,000	1,780,000	1,450,000

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

8. Retirement Benefit Asset (Cont'd)

The credit is recognised in the following line item in the statement of comprehensive income:

	2012	2011
Administrative expenses	$ 28,061,709	27,754,131

The movement in the retirement benefit asset recognised in the statement of financial position was as follows:

	2012	2011
At beginning of year	$ 9,135,000	9,017,000
Total expenses as shown above	(1,780,000)	(1,450,000)
Contributions paid	1,999,000	1,568,000
At end of year	$ 9,354,000	9,135,000

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

	Grade III		Grade II		Grade I		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Cumulative amount as at January 1,	$ 6,262,000	4,579,000	(1,389,000)	(889,000)	1,145,000	794,000	6,018,000	4,484,000
Recognised during the period	(1,654,000)	1,683,000	(21,000)	(500,000)	379,000	351,000	(1,296,000)	1,534,000
Cumulative amount as at December 31,	$ 4,608,000	6,262,000	(1,410,000)	(1,389,000)	1,524,000	1,145,000	4,722,000	6,018,000

8. Retirement Benefit Asset (Cont'd)

Historical information for Grade I, Grade II and Grade III is as follows:

Grade III

		2008	2009	2010	2011	2012
Defined benefit obligation	$	13,128,000	14,455,000	16,185,000	19,385,000	20,483,000
Fair value of plan assets		(11,582,000)	(14,470,000)	(16,111,000)	(17,577,000)	(20,127,000)
Deficit/(surplus)	$	1,546,000	(15,000)	74,000	1,808,000	356,000
Experience adjustment on plan liabilities	$	(693,000)	(380,000)	(106,000)	40,000	(185,000)
Experience adjustment on plan assets	$	(7,632,000)	1,195,000	(283,000)	(572,000)	375,000

Grade II

		2008	2009	2010	2011	2012
Defined benefit obligation	$	9,736,000	10,858,000	11,949,000	12,956,000	13,872,000
Fair value of plan assets		(13,055,000)	(14,009,000)	(14,496,000)	(16,048,000)	(17,228,000)
Surplus	$	(3,319,000)	(3,151,000)	(2,547,000)	(3,092,000)	(3,356,000)
Experience adjustment on plan liabilities	$	(96,000)	(34,000)	(60,000)	(230,000)	(155,000)
Experience adjustment on plan assets	$	(22,000)	(404,000)	(573,000)	270,000	(134,000)

Grade I

		2008	2009	2010	2011	2012
Defined benefit obligation	$	9,614,000	10,331,000	11,358,000	12,102,000	12,788,000
Fair value of plan assets		(11,984,000)	(12,780,000)	(13,418,000)	(13,935,000)	(14,420,000)
Surplus	$	(2,370,000)	(2,449,000)	(2,060,000)	(1,833,000)	(1,632,000)
Experience adjustment on plan liabilities	$	(122,000)	31,000	(379,000)	(78,000)	(135,000)
Experience adjustment on plan assets	$	(60,000)	(20,000)	(261,000)	(429,000)	(514,000)

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

9. Available-for-sale Financial Asset

		2012	2011
Securities: available-for- sale			
At beginning of year	$	166,163	163,410
Additions for year		1,806	2,753
At end of year	$	167,969	166,163

The available-for-sale financial asset as at December 31, 2012 has a stated interest rate of 1.52% to 2% (2011 – 1.52%).

The Company's exposure to credit, currency and interest rate risks related to the available-for-sale financial asset is disclosed in Note 29.

10. Inventories

		2012	2011
Fuel inventories	$	2,971,407	5,239,123
Generation spare parts		8,960,417	9,129,953
Transmission, distribution and other spares		9,049,302	9,443,729
Goods in transit		415,084	1,076
Gross inventories		21,396,210	23,813,881
Less: provision for inventory obsolescence		(2,227,681)	(2,560,579)
	$	19,168,529	21,253,302

11. Trade, Other Receivables and Prepayments

		2012	2011
Trade receivables due from related parties	$	6,557,588	12,133,507
Other trade receivables		55,732,405	46,729,918
Less: provision for impairment of trade receivables		(7,154,293)	(6,183,439)
Trade receivables, net		55,135,700	52,679,986
Other receivables due from related parties		759,952	696,811
Other receivables		4,032,608	2,212,802
Less: provision for impairment of other receivables		(425,411)	(402,760)
Other receivables, net		4,367,149	2,506,853
Accrued income		16,732,600	17,894,997
		76,235,449	73,081,837
Prepayments		1,345,332	1,442,073
	$	77,580,781	74,523,909

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 29.

12. Cash and Cash Equivalents

Cash and cash equivalents comprise:

		2012	2011 Restated Note 33
Cash at bank and in hand	$	18,690,507	14,065,571
Term deposits		17,994,967	13,969,854
	$	36,685,474	28,035,425

13. Share Capital

		2012	2011
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

		2012	2011
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. Borrowings

This comprises:

	Notes		2012	2011
Current				
Bank borrowings		$	3,541,878	3,279,062
Related parties	26		11,721,596	8,685,667
			15,263,474	11,964,729
Non-current				
Bank borrowings			38,673,957	42,206,174
Related parties	26		129,123,143	81,189,476
			167,797,100	123,395,650
Total borrowings				
Bank borrowings			42,215,835	45,485,236
Related parties	26		140,844,739	89,875,143
		$	183,060,574	135,360,379

Borrowings include loans amounting to $99,990,240 (2011 - $41,811,267) that are guaranteed by the Government of Saint Lucia and other bank loans that are secured by hypothecary obligations and mortgage debentures creating fixed charges over all immovable property and floating charges over all other assets, all ranking pari passu pursuant to a security sharing agreement, and assignment of insurance policies.

14. Borrowings (Cont'd)

The weighted average effective rates at the date of the statement of financial position were as follows:

	2012 %	2011 %
Bank borrowings	8.11%	7.82%
Related parties	7.59%	7.48%

Maturity of non-current borrowings:

	2012	2011
Between 1 and 2 years	$ 14,724,543	12,751,316
Between 2 and 5 years	48,101,640	38,058,587
Over 5 years	104,970,917	72,585,747
	$ 167,797,100	123,395,650

The Company's exposure to interest rate, foreign currency, and liquidity risks related to borrowings is disclosed in Note 29.

15. Consumer Deposits

Consumers requesting energy connections are required to pay a deposit that is refundable when service is no longer required. Interest accrues on these deposits at a rate of 3% per annum (2011 – 3% per annum).

	2012	2011
Consumer deposits	$ 11,105,941	10,308,391
Interest accrual	3,664,939	3,562,656
Total	$ 14,770,880	13,871,047

16. Deferred Tax Liabilities

Deferred tax liability is calculated in full on temporary differences under the balance sheet liability method using a principal tax rate of 30% (2011 – 30%). The movement on the deferred tax liability account is as follows:

	2012	2011
At beginning of year	$ 22,825,773	24,619,474
Charged/(reversed) during the year	6,228,836	(1,793,701)
At end of year	$ 29,054,609	22,825,773

Deferred tax liabilities are attributed to the following items:

	2012	2011
Property, plant and equipment	$ 26,669,186	20,457,386
Pensions and retirement benefit asset and liabilities	2,385,423	2,368,387
	$ 29,054,609	22,825,773

17. Consumer Contributions

	2012	2011
At beginning of year	$ 31,534,698	29,875,827
Contributions received	2,191,055	2,724,033
Amortisation for the year	(555,030)	(1,065,162)
At end of year	$ 33,170,723	31,534,698

18. Retirement Benefit Liability

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

The principal actuarial assumptions used for all schemes were as follows:

	Grade III		Grades I and II	
	2012 %	2011 %	2012 %	2011 %
Discount rate	7.0%	6.5%	7.0%	7.0%
Medical expense increase	4.5%	4.0%	5.0%	5.0%

The amounts recognised in the statement of financial position at December 31, 2012 are determined as follows:

	Grade III		Grade II & I		Total	
	2012	2011	2012	2011	2012	2011
Present value of funded obligations	$ 393,198	334,141	1,485,000	1,462,000	1,878,198	1,796,141
Unrecognised actuarial loss	(207,609)	(199,907)	(268,000)	(356,000)	(475,609)	(555,907)
Post retirement liability	$ 185,589	134,234	1,217,000	1,106,000	1,402,589	1,240,234

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

18. Retirement Benefit Liability (Cont'd)

The movements in the post retirement benefit obligation for the year ended December 31, 2012 were as follows:

		Grade III		Grades II & I		Total	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**
Defined benefit obligation as at January 1,	$	334,141	208,397	1,462,000	1,009,000	1,796,141	1,217,397
Services and interests costs		46,013	31,573	137,000	94,000	183,013	125,573
Benefits paid		(4,814)	(4,271)	(40,000)	(42,000)	(44,814)	(46,271)
Actuarial (gain)/loss		17,858	98,442	(74,000)	401,000	(56,142)	499,442
Defined obligation benefit as at December 31,	$	393,198	334,141	1,485,000	1,462,000	1,878,198	1,796,141

The amounts recognised in the statement of comprehensive income for the year ended December 31, 2012 were as follows:

		Grade III		Grade II & I		Total	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**
Current service cost	$	22,958	16,013	36,000	25,000	58,958	41,013
Interest on defined benefit obligations		23,055	15,560	101,000	69,000	124,055	84,560
Amortised net gain		10,156	5,024	14,000	-	24,156	5,024
Net pension costs	$	56,169	36,597	151,000	94,000	207,169	130,597

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

		Grade III		Grade II & I		Total	
		2012	**2011**	**2012**	**2011**	**2012**	**2011**
Cumulative amount as at January 1,	$	199,907	106,492	356,000	(45,000)	555,907	61,492
Recognised during the period		7,702	93,415	(88,000)	401,000	(80,298)	494,415
Cumulative amount as at December 31,	$	207,609	199,907	268,000	356,000	475,609	555,907

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

19. Trade and Other Payables

		2012	2011
Trade payables	$	18,532,480	17,303,513
Accrued expenses		37,887,395	19,264,838
Other payables		7,779,549	8,537,587
	$	64,199,424	45,105,938

The Company's exposure to foreign currency and liquidity risks related to trade and other payables is disclosed in Note 29.

20. 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 14.5% in respect of 2012 (2011 - 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 Allowable 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 below the Allowable Rate of Return for the year ended December 31, 2012, no appropriation will be made. For the prior year, an amount of $557,485 was due to qualifying customers and was included in trade and other payables.

21. Ordinary Dividends

			2012	2011 Restated
Interim - $0.35	(2011 - $0.30) per share	$	8,022,000	6,876,000
Final - $0.42	(2011 - $0.49) per share		9,626,400	11,230,800
		$	17,648,400	18,106,800

In 2011, the final dividend was inadvertently understated by $106,800. The effect of the correction of this error is to increase dividends for the year ended December 31, 2011 and dividends payable at that date by an equivalent amount, with no impact on the statement of comprehensive income.

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

22. Other Gains, Net

	2012	2011
Gain on disposal of property, plant and equipment	$ 39,068	84,879
Foreign exchange gain/(loss)	27,808	(18,812)
	$ 66,876	66,067

23. Taxation

	2012	2011
Current tax	$ 2,580,499	11,796,251
Net change in deferred tax liabilities (Note 16)	6,228,836	(1,793,701)
	$ 8,809,335	10,002,550

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

	2012	2011
Profit before taxation	$ 34,060,115	36,273,720
Tax at the statutory rate of 30% (2011 – 30%)	10,218,035	10,882,116
Tax effect of income not subject to tax	(166,509)	(319,549)
Tax effect of unadjusted differences	103,654	116,209
Tax effect of difference in deferred tax computation	(741,905)	(676,226)
Correction to 2010 taxes	(603,940)	-
Actual tax charge	$ 8,809,335	10,002,550

24. Fuel Price Hedging

The underlying strategy and imperative related to the Company's objective 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 Company has only been authorised to use Fixed Price Swaps in its programme during the period to cover the related contracts.

The Board of Directors, as part of the hedging strategy, approved a rolling 12 month hedging program that commenced in January 2012 utilising Fixed Price Swaps covering 75% of estimated monthly volumes.

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

25. Earnings Per Share

Earnings per share have been calculated by dividing the profit for the year of $25,250,780 (2011 - $26,271,170) by the weighted average number of issued ordinary shares of 22,920,000 (2011– 22,920,000).

26. Related Parties

(a) *Identification of related party*
A party is related to the Company if:

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

(ii) The party is a member of the key management personnel of the Company,
(iii) The party is a close member of the family of any individual referred to in (i) or (ii),
(iv) The party is a post-employment benefit plan for the benefit of employees of the Company or any Company that is a related party of the Company.

(b) *Related party transactions and balances*
A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, or commercial terms and conditions.

Transactions with key management personnel
In addition to their salaries, the Company also provides non-cash benefits to executive officers and contributions to a post-employment defined benefit plan on their behalf. The key management personnel compensations are as follows:

		2012	2011
Short-term employee benefits	$	3,193,306	2,911,221
Post-employment benefits		261,000	226,941
Directors' remuneration		287,118	188,325
Termination benefits		31,569	61,780
	$	3,772,993	3,388,267

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

26. Related Parties (Cont'd)

The Company is controlled by the following entities:

	2012	2011
	%	%
Emera St. Lucia Ltd.	20.00	20.00
First Citizens Bank Limited	20.00	20.00
National Insurance Corporation	16.79	16.79
Castries City Council	16.33	16.33
Government of Saint Lucia	12.44	12.44
	85.56	85.56

The remaining 14.44% (2011 – 14.44%) of the shares is widely held.

Transactions with related parties

Transactions with shareholders during the year were as follows:

Donations
The LUCELEC Trust Company Inc. was formally 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, charitable, educational and sporting body by way of donation. LUCELEC provided initial funding of two million dollars to the Trust and under the Deed of Covenant is committed to provide additional sums to the Trust annually.

LUCELEC donated the amount of $360,000 (2011 - $525,000) to the Trust for 2012.

Supply of electricity

		2012	2011
National Insurance Corporation	$	3,449,262	3,017,753
Castries City Council		1,794,304	1,697,355
Government of Saint Lucia and its corporations		27,374,973	25,335,780
	$	32,618,539	30,050,888

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

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

26. Related Parties (Cont'd)

Transactions with related parties (Cont'd)

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

		2012	2011
National Insurance Corporation	$	308,579	257,545
Castries City Council		111,063	151,757
Government of Saint Lucia and its corporations		6,137,946	11,724,205
	$	6,557,588	12,133,507

Other Services

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

		2012	2011
LUCELEC Trust Company Inc.	$	20,070	20,070
Emera St. Lucia Ltd.		1,460	1,460
Castries City Council		-	36,782
Government of Saint Lucia and its corporations		738,422	638,499
	$	759,952	696,811

Loans from shareholders

Movements in loans from shareholders for the year and their balances at December 31, 2012 were as follows:

		2012	2011
National Insurance Corporation			
At beginning of year	$	42,242,922	2,735,616
Proceeds from new loan		60,000,000	40,000,000
Repayments during year		(4,799,578)	(1,095,742)
		97,443,344	41,639,874
Interest expense		2,573,776	603,048
At end of year	$	100,017,120	42,242,922

		2012	2011
First Citizens Bank Limited			
At beginning of year	$	47,632,221	54,436,824
Repayments during year		(10,597,922)	(11,465,862)
		37,034,299	42,970,962
Interest expense		3,793,320	4,661,259
At end of year	$	40,827,619	47,632,221

The above loans are fully secured (Note 14).

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

26. Related Parties (Cont'd)

Transactions with related parties (Cont'd)

Finance costs

Details of the related finance costs are as follows:

	2012	2011
National Insurance Corporation	$ 2,573,776	603,048
First Citizens Bank Limited	3,793,320	4,661,259
	$ 6,367,096	5,264,307

These charges are included in the finance costs, net of $9,388,635 (2011 - $8,761,356) disclosed in the statement of comprehensive income.

	2012	2011
Lease Charges		
Government of Saint Lucia	$ 100,000	100,000

Transactions with key management personnel

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.

The aggregate value of transactions and outstanding balances relating to those entities, were as follows:

Director/Shareholder	Company	Transactions	Transaction Value	
			2012	2011
Stephen McNamara	McNamara & Co	Legal fees	395,821	85,155
		Payments on behalf of third parties	230,540	475,930

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

27. Expenses by Nature

	2012	2011
Fuel cost over base	$ 22,074,156	40,334,648
Fuel at base price	187,235,821	145,397,617
Depreciation on property, plant and equipment	31,962,555	33,267,743
Amortisation of intangible assets	662,741	996,502
Repairs and maintenance	10,821,935	11,404,666
Employee benefits (Note 28)	26,276,176	23,724,761
Other operating expenses	19,973,744	21,989,820
Amortisation of consumer contributions	(555,030)	(1,065,162)
	$ 298,452,098	276,050,595
Operating expenses	$ 270,390,389	248,296,464
Administrative expenses	28,061,709	27,754,131
	$ 298,452,098	276,050,595

28. Employee Benefit Expense

	2012	2011
Wages and salaries	$ 20,147,345	19,332,894
Pension contributions	2,050,601	1,812,616
Medical contributions	559,209	352,462
Other employee benefits	3,519,021	2,226,789
	$ 26,276,176	23,724,761

The number of permanent employees at December 31, 2012 was 249 (2011 – 247).

29. 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	
		2012	2011
Available-for-sale financial asset	9	$ 167,969	166,163
Trade and other receivables	11	76,235,449	73,081,837
Cash and cash equivalents	12	36,685,474	28,035,425
		$ 113,088,892	101,283,425

29. Financial Instruments (Cont'd)

Credit Risk (Cont'd)

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

	Carrying Amounts	
	2012	**2011**
Business	$ 47,187,831	42,545,897
Residential	15,102,162	14,879,304
	$ 62,289,993	57,425,201

Impairment losses:

The aging of trade receivables at the reporting date was:

	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	$ 25,745,899	-	29,311,102	-
Past due 30-60 days	10,289,972	-	11,195,165	-
Past due 60-90 days	4,495,490	-	7,023,460	-
Over 90 days	21,758,632	7,154,293	16,078,913	6,183,439
	$ 62,289,993	7,154,293	63,608,640	6,183,439

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

	Carrying Amount 2012	Carrying Amount 2011
Balance at beginning of year	$ 6,183,439	5,394,718
Impairment loss recognized	970,854	788,721
Balance at end of year	$ 7,154,293	6,183,439

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

29. Financial Instruments (Cont'd)

Liquidity Risk

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

December 31, 2012

Non-derivative financial liabilities		Carrying amount	Contractual cash flows	Under 1 year	1-2 years	2-5 Years	More than 5 years
Secured loans	$	(183,060,574)	(278,283,925)	(28,427,672)	(26,985,691)	(78,014,266)	(144,856,296)
Trade and other payables		(46,065,422)	(46,065,422)	(46,065,422)	-	-	-
	$	(229,125,996)	(324,349,347)	(74,493,094)	(26,985,691)	(78,014,266)	(144,856,296)

December 31, 2011

Non-derivative financial liabilities		Carrying amount	Contractual cash flows	Under 1 year	1-2 years	2-5 Years	More than 5 years
Secured loans	$	(135,360,379)	(198,201,231)	(18,955,336)	(21,730,725)	(59,396,847)	(98,118,323)
Trade and other payables		(30,913,299)	(30,913,299)	(30,913,299)	-	-	-
	$	(166,273,678)	(229,114,530)	(49,868,635)	(21,730,725)	(59,396,847)	(98,118,323)

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012

(Expressed In Eastern Caribbean Dollars)

29. Financial Instruments (Cont'd)

Currency Risk

The Company's exposure to foreign currency risk was based on notional amounts as follows:

		2012			2011			
		EURO	**GBP**	**Total**	**EURO**	**GBP**	**BDS**	**Total**
Cash and cash equivalents		83,605	-	83,605	82,177	-	-	82,177
Trade and other payables		-	(127,673)	(127,673)	(114,273)	(188,978)	(1,750)	(305,001)
	$	83,605	(127,673)	(44,068)	(32,096)	(188,978)	(1,750)	(222,824)

The following significant exchange rates applied during the year:

		Reporting date			
XCD		**Average rate**		**Spot rate**	
		2012	**2011**	**2012**	**2011**
GBP 1	$	4.259	4. 343	4.342	4. 199
EURO 1	$	3.454	3. 725	3.552	3.481
BDS 1	$	1.321	1. 381	1.323	3.389

29. Financial Instruments (Cont'd)

Interest Rate Risk
Profile

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

		Carrying Amount 2012		Carrying Amount 2011	
Fixed rate instruments:					
Financial assets	$	18,162,935	2.88%	14,136,017	3.33%
Financial liabilities		(182,850,013)	7.50%	(134,711,716)	7.50%
	$	(164,687,078)		(120,575,699)	

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

Fair Values
Fair values versus carrying amounts

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

		Carrying amount as at December 31, 2012	Fair value as at December 31, 2012	Carrying amount as at December 31, 2011	Fair value as at December 31, 2011
Available-for-sale financial asset	$	167,969	167,969	166,163	166,163
Trade and other receivables		76,235,449	76,235,449	73,081,837	73,081,837
Cash and cash equivalents		36,685,474	36,685,474	28,035,425	28,035,425
Secured borrowings		(183,060,574)	(117,506,372)	(135,360,379)	(87,247,754)
Trade and other payables		(46,065,422)	(46,065,422)	(30,913,299)	(30,913,299)
	$	(116,037,104)	(50,482,902)	(64,990,253)	(16,877,628)

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

<u>Interest rates used for determining fair values</u>
The interest rates used to discount estimated cash flow are based on the interest rates of Government securities at the reporting date.

ST. LUCIA ELECTRICITY SERVICES LIMITED

NOTES TO FINANCIAL STATEMENTS *(Continued)*

December 31, 2012
(Expressed In Eastern Caribbean Dollars)

30. Commitments

Capital commitments

Company had capital commitments at December 31, 2012 of $621,448 (2011 - $52,497,461) in respect of work contracted.

Operating lease commitment

(i) Union premises

The future aggregate minimum lease payments on the operating lease is as follows:

		2012	2011
Not later than 1 year	$	100,000	100,000
Later than 1 year and not later than 5 years		400,000	400,000
	$	500,000	500,000

The above operating lease commenced in 2001 for a term of twenty years. The yearly rent, after being paid at the rate of $100,000 on the 1st day of May in each year of the first 5 years, is negotiated thereafter annually between the parties by reference to the cost of living index as published in the Official Gazette of Saint Lucia and by reference being paid for similar premises at Union at the time of such negotiations.

(ii) Motor vehicles and property

The Company entered into lease agreements for company vehicles for management staff, into property agreements for office premises and housing agreements for project staff.

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

		2012	2011
Not later than 1 year	$	587,014	675,432
Later than 1 year and not later than 5 years		1,076,751	978,179
	$	1,663,765	1,653,611

Fuel hedging

During the year 2012, the Company executed fuel price hedging contracts for 75% of its estimated volumes. At December 31, 2012, the mark to market valuation for those contracts is US$1,004,451 or EC$2,722,062 (2011 - US$88,719 or EC$241,041).

31. Self Insurance Fund

Because of the difficulty experienced by the Company in obtaining adequate and reasonably priced commercial insurance coverage primarily on the 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 Company 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 Company received formal notification from the Registrar of Insurances of 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.

The Company also obtained, and the Board of Directors approved, an independent report on a fund investment policy to ensure its long term sustainability.

The fund balance as at December 31, 2012 is $17,719,994 (2011 - $14,136,016), of which $17,552,025 (2011 - $13,969,854) included in cash and cash equivalents have been invested in local financial institutions in short term liquid financial instruments. The balance of $167,969 (2011 - $166,163) disclosed as "Available-for-sale financial assets" represents fund amounts invested in the Unit Trust Corporation of Trinidad and Tobago.

The Company also has access to a line of credit in the amount of $10 million which will be used, if required, in the event of damage to the T&D assets as disclosed in Note 5 (Liquidity Risk) to these financial statements.

32. CLICO Investment-Grade II Pension Scheme

The Company 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 the 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. The estimated residual balance of the fund held with CLICO at December 31, 2012 was $7.585 million (2011 - $7.233 million). In addition, the estimated value of the immediate annuity policies that the scheme holds with CLICO was $2.073 million as at December 31, 2012 (2011 - $2.198 million). The total value of the scheme's investment in CLICO was therefore $9.658 million as at December 31, 2012 (2011 - $9.431 million).

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

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

During 2011, the trustees also 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.

As at December 31, 2012, the computation of the present value of the pension obligations as required by IAS 19 are reliant on the value placed on the Scheme's investments with CLICO. The Judicial Manager of CLICO has received sanction from the High Court of Barbados to pursue a restructuring plan for the Company. The proposed plan will result in a write down in value of all policyholders' liabilities to match the estimated value of the Company's net available assets. The restructured policyholder liabilities and all the assets of the Company will be transferred to a new company which will be separately governed and managed.

Currently, the quantitative effects of this proposed plan is uncertain. While discussions with the Judicial Manager point to a likely write down of the investment, there is still insufficient information available that will allow for a reliable determination of the extent of the haircut. Consequently, no impairment of the Scheme's investment in CLICO was taken into consideration in the computation of the Company's asset or liability on the balance sheet for the pension plans and its annual net pension cost as required by IAS 19.

Any write down in the value of the Scheme's assets will lead to a deterioration in its financial position and increase the likelihood of higher Company contributions being required to fund the benefits. The Company and the scheme's trustees are continuing to monitor the position closely.

33. Comparatives

Certain comparative figures were reclassified to be consistent with the 2012 financial statement presentation. In particular, at December 31, 2011, petty cash and cash float balances totalling $12,465, which were inadvertently included in term deposits, were reclassified to cash at hand and in bank. Similarly, goods in transit totalling $1,076 that were previously included in other trade receivables were reclassified accordingly. These reclassifications have no effect on the results for the year ended December 31, 2011 or the financial position as at that date.

FINANCIAL STATISTICS 2003 - 2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Units Sold (kWh x 1000)	333,324	333,378	330,729	315,082	301,975	297,841	284,398	277,399	266,402	252,120
Tariff Sales (Cents per kWh)	95.5	84.0	75.0	75.1	80.7	77.5	67.4	40.8	41.7	41.0
Fuel Charge (Cents per kWh)	6.6	11.8	8.1	0.0	19.0	3.4	12.3	32.1	22.6	18.3
Operating costs (Cents per kWh)	89.5	82.8	69.1	61.4	86.1	66.3	65.2	59.2	47.8	44.6
Summarised Balance Sheet (EC$000's)										
Fixed Assets (Net)	329,032	250,154	273,400	292,279	292,916	296,606	267,447	267,872	223,932	236,991
Retirement Benefit Asset	9,354	9,135	9,017	8,828	8,749	7,768	2,850	2,637	2,395	1,983
Available for Sale Investment	168	166	163	8,504	5,643	3,452	2,687	1,961	1,266	610
Capital Work in Progress	36,577	50,846	16,477	9,659	9,582	6,518	11,055	9,297	49,930	15,896
Current Assets	142,479	124,642	99,651	85,080	68,527	63,419	54,460	60,000	54,878	43,519
Current Liabilities	(90,561)	(68,511)	(68,796)	(67,635)	(52,483)	(57,776)	(57,545)	(66,625)	(48,165)	(35,743)
Total	427,049	366,432	329,913	336,714	332,934	319,987	280,954	275,142	284,236	263,256
Share Capital	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163
Retained Earnings	91,335	84,267	76,970	69,338	63,789	58,330	53,932	46,028	49,081	40,831
Other Reserves & Consumer Contributions	42,525	40,670	38,893	37,913	37,177	32,315	25,328	24,332	24,515	25,250
Long Term Debt	167,797	123,396	94,709	107,848	110,754	107,288	81,360	84,916	88,848	75,927
Other Long Term Liabilities	45,229	37,937	39,178	41,452	41,051	41,891	40,171	39,703	41,629	41,085
Total	427,049	366,432	329,913	336,714	332,934	319,987	280,954	275,142	284,236	263,256
Summarised Income Statement (EC$000's)										
Operating Revenues										
Electricity	318,265	280,177	247,945	236,745	243,691	230,754	191,525	113,251	111,108	103,430
Fuel Surcharge	22,083	39,185	26,908	20	57,448	10,178	34,962	88,961	60,147	46,110
Other	1,486	1,657	1,417	1,926	1,082	657	943	848	545	749
Total	341,834	321,019	276,271	238,691	302,221	241,589	227,430	203,060	171,800	150,289

FINANCIAL STATISTICS 2003 - 2012 (CONT'D)

Operating Costs	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**
Fuel (Cost over Base)	22,074	40,335	27,742	-	57,915	10,846	34,712	89,170	60,114	45,669
Generation O&M	198,154	155,985	124,133	117,791	133,943	121,317	91,504	13,682	15,202	14,084
Transmission & Distribution	18,748	19,318	17,618	20,557	16,601	16,810	14,888	14,080	11,802	12,806
Administrative & Selling	26,852	26,148	24,784	23,266	22,167	21,180	19,596	23,352	18,407	19,486
Depreciation and amortisation	32,625	34,264	34,314	31,832	29,468	27,171	24,763	23,885	21,905	20,493
Total	298,453	276,050	228,591	193,446	260,094	197,324	185,463	164,169	127,430	112,539
Operating Income	43,381	44,969	47,679	45,245.00	42,127	44,265	41,967	38,870	44,370	37,750
Interest Expense	9,389	8,761	7,618	6,915	8,997	7,201	7,131	6,074	5,686	7,344
Foreign Exchange (Gain) Loss/ Other	(67)	(66)	(296)	(636)	(462)	(151)	(503)	116	15	288
Net Income before Tax	34,059	36,274	40,357	38,966	33,592	37,215	35,339	32,680	38,669	30,117
Taxation	8,809	10,003	11,138	11,151	11,049	9,125	8,585	7,083	10,628	10,501
Net Income after Tax	25,250	26,271	29,219	27,815	22,543	28,090	26,754	25,597	28,124	19,616
Other Comprehensive income	(315)	(192)	(178)	(239)	48	-	-	-	-	-
Dividend Declared	17,648	18,107	18,666	17,228	15,705	16,642	16,642	15,715	19,462	13,361
Retained Earnings for Year	7,287	7,972	10,376	10,348	6,886	11,448	10,112	9,882	8,662	6,255
Retained Earnings beginning of Year	84,267	76,970	69,338	62,282	57,061	52,303	45,924	49,081	40,831	35,038
Transfer to Retirement Benefit & Reserves	(219)	(118)	(189)	(79)	(981)	(644)	636	(242)	(412)	(463)
Tariff Reduction Reserve	-	(557)	(2,555)	(3,213)	(1,953)	(6,046)	(3,087)	(4,557)	-	-
Prior Year Adjustment	-	-	-	-	-	-	(1,282)	(8,240)	-	-
Retained Earnings end of Year	91,335	84,267	76,970	69,338	61,013	57,061	52,303	45,925	49,081	40,831
Return on Rate Base	13.86%	15.12%	17.41%	18.32%	17.77%	21.42%	18.91%	19.67%	12.91%	10.52%
Earnings per share (EC$)	$ 1.10	$ 1.15	$ 1.27	$ 2.36	$ 1.92	$ 2.48	$ 2.30	$2.18	$2.40	$1.67
Dividend per share (EC$)	$ 0.77	$ 0.79	$ 1.59	$ 1.47	$ 1.34	$ 1.42	$ 1.42	$1.34	$1.66	$1.14
Debt/Equity Ratio	52/48	45/55	41/59	44/56	47/53	48/52	43/57	43/57	44/56	45/55
Capital expenditure	$97,243	$45,390	$22,262	$31,281	$28,344	$51,794	$26,108	$27,200	$42,881	$17,404

The return on rate base calculations changed with effect from 2005 in accordance with Amendment Act No 12 of 2006 and 13 of 2006.

OPERATING STATISTICS 2003 - 2012

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Generating Plant (kW)										
Available Capacity	88,600	76,000	76,000	76,000	76,000	76,000	65,800	65,800	56,800	56,800
Firm Capacity	55,600	55,600	55,600	55,600	55,600	55,600	46,300	46,300	37,000	37,000
Peak Demand	59,800	60,300	59,200	55,900	54,100	52,700	49,800	49,200	46,600	44,900
Percentage growth in peak demand	-0.8%	1.9%	5.9%	3.3%	2.7%	5.8%	1.2%	5.6%	3.8%	3.5%
Sales (kWh x 1000)										
Domestic	112,272	113,505	113,757	107,820	103,214	104,784	101,635	98,914	96,062	92,848
Commercial (including Hotels)	192,847	190,846	188,640	178,518	170,624	168,151	160,895	158,483	151,451	141,374
Industrial	17,679	18,761	18,373	19,002	18,626	15,789	12,982	12,522	12,345	13,185
Street Lighting	10,526	10,263	9,959	9,741	9,510	9,117	8,886	7,480	6,544	4,713
Total Sales	333,324	333,375	330,729	315,081	301,975	297,841	284,398	277,399	266,402	252,120
Power Station and Office Use (kWh x 1000)	14,511	14,599	14,127	14,312	14,256	13,185	13,071	13,172	12,076	11,793
Losses (kWh x 1000)	36,948	37,234	36,033	33,597	36,105	34,672	33,291	33,043	30,062	35,070
Units Generated (kWh x 1000)	384,783	385,208	380,889	362,990	352,335	345,698	330,760	323,614	308,540	298,983
Percentage growth in units generated	-0.1%	1.1%	4.9%	3.0%	1.9%	4.5%	2.2%	4.9%	3.2%	4.6%
Percentage growth in sales	0.0%	0.8%	5.0%	4.3%	1.4%	4.7%	2.5%	4.1%	5.7%	5.3%
Percentage Losses (excl. prior year sales adjs.)	9.6%	9.7%	9.5%	9.3%	10.2%	10.0%	10.1%	10.2%	10.2%	11.7%
Number of Consumers at Year End										
Domestic	55,110	54,415	53,566	52,986	51,444	50,163	48,697	47,417	46,347	44,980
Commercial (Including Hotels)	6,629	6,641	6,557	6,479	6,169	5,938	5,714	5,474	5,307	5157
Industrial	100	101	100	100	98	101	95	95	96	102
Street Lighting (accounts)	10	9	9	7	7	7	3*	16	16	14
	61,849	61,166	60,232	59,572	57,718	56,209	54,509	53,002	51,766	50,253
Percentage growth	1.1%	1.6%	1.1%	3.2%	2.7%	3.1%	2.8%	2.4%	3.0%	3.3%
Average Annual Consumption Per Customer (kWh)										
Domestic	2,037	2,086	2,124	2,035	2,006	2,089	2,087	2,086	2,073	2,064
Commercial (including Hotels)	29,091	28,738	28,769	27,553	27,658	28,318	28,158	28,952	28,538	27,414
Industrial	176,790	185,752	183,730	190,024	190,065	156,327	136,653	131,811	128,594	129,265
Diesel fuel consumed (Imp. Gall.)	19,541,743	19,712,324	19,561,441	18,256,739	17,870,149	17,729,217	17,009,188	16,666,145	15,961,905	15,436,122

*** At their request the accounts of the Government of St. Lucia was rationalised from 15 to 2 and this total includes one other entity**

Designed by Orange Media Group

P. O. Box 230
Sans Souci, Castries,
St. Lucia, West Indies
Tel: +1 758 452 2165
Fax: +1 758 457 4409
www.lucelec.com

LUCELEC
ST. LUCIA ELECTRICITY SERVICES LIMITED