



Accountants &
business advisers

GRENADA ELECTRICITY SERVICES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER, 2012

GRENADA ELECTRICITY SERVICES LIMITED



CONTENTS

	Page
DIRECTORS AND OFFICERS	2
INDEPENDENT AUDITORS' REPORT	3
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF COMPREHENSIVE INCOME	5
STATEMENT OF CHANGES IN EQUITY	6
STATEMENT OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8 to 34



Accountants &
business advisers

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
GRENADA ELECTRICITY SERVICES LIMITED**

We have audited the accompanying financial statements of the company which comprise the statement of financial position at December 31st, 2012 and the related 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.

Responsibility for the Financial Statements

Those charged with governance are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 accompanying financial statements present fairly in all material respects, the financial position of the Company as of December 31st, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

GRENADA:

March 5th, 2013

Accountants & business advisers:

GRENADA ELECTRICITY SERVICES LIMITED



STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2012
(Expressed in Eastern Caribbean Currency Dollars)

ASSETS	Notes	2012 \$	2011 \$
Non-Current Assets			
Property, plant and equipment	4	86,042,932	90,628,362
Suspense jobs in progress	5	1,407,581	1,589,858
Capital work in progress	6	3,512,536	2,856,602
Deferred exchange loss	7	948,305	760,437
Available-for-sale financial assets	8 (a)	<u>876,140</u>	<u>877,348</u>
		<u>92,787,494</u>	<u>96,712,607</u>
Current Assets			
Inventories	9	15,507,888	15,650,992
Trade and other receivables	10	36,204,176	33,176,104
Segregated retirement investments	11	19,613,931	19,060,844
Income tax prepaid		195,102	-
Loans and receivables financial assets	8 (b)	26,375,717	25,581,778
Cash and cash equivalents	12	<u>4,072,519</u>	<u>1,623,863</u>
		<u>101,969,333</u>	<u>95,093,581</u>
		<u>194,756,827</u>	<u>191,806,188</u>
TOTAL ASSETS			
EQUITY AND LIABILITIES			
EQUITY			
Stated capital	13	32,339,840	32,339,840
Other reserves		12,060	13,400
Retained earnings		<u>44,189,174</u>	<u>38,793,180</u>
		<u>76,541,074</u>	<u>71,146,420</u>
Non-Current Liabilities			
Customers' deposits	14	10,171,095	9,639,029
Long-term borrowings	15	31,945,548	39,096,713
Provision for retirement benefits	16	24,033,554	22,240,639
Provision for hurricane insurance reserve	17	<u>14,000,000</u>	<u>12,000,000</u>
		<u>80,150,197</u>	<u>82,976,381</u>
Current Liabilities			
Amount due to related company	18	140,219	189,969
Short-term borrowings	15	14,403,726	11,785,534
Income tax payable		-	2,980,505
Trade and other payables	19	17,654,588	17,416,078
Customers' contribution to line extensions		1,085,814	724,380
Current portion of provision for retirement benefits		500,000	1,500,000
Provision for profit sharing		<u>4,281,209</u>	<u>3,086,921</u>
		<u>38,065,556</u>	<u>37,683,387</u>
		<u>118,215,753</u>	<u>120,659,768</u>
		<u>194,756,827</u>	<u>191,806,188</u>
TOTAL LIABILITIES			
TOTAL EQUITY AND LIABILITIES			

The notes on pages 8 to 34 form an integral part of these financial statements

 Director

 : Director

GRENADA ELECTRICITY SERVICES LIMITED



**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2012**
(Expressed in Eastern Caribbean Currency Dollars)

	Notes	2012 \$	2011 \$
INCOME			
Sales - non fuel charge		78,574,699	77,346,776
- fuel charge		115,988,054	109,294,709
Unbilled sales adjustments		<u>339,052</u>	<u>1,134,184</u>
Gross Sales		194,901,805	187,775,669
Other income	20	<u>2,578,690</u>	<u>3,161,064</u>
Total income		<u>197,480,495</u>	<u>190,936,733</u>
LESS: OPERATING EXPENSES			
Production expenses		17,120,358	18,622,536
Diesel consumed		111,032,741	110,971,540
Administrative expenses		18,003,743	18,020,081
Distribution services		16,428,727	16,563,913
Planning and engineering		2,214,786	2,296,748
Provision for hurricane insurance reserve		<u>2,000,000</u>	<u>2,000,000</u>
Total operating expenses		<u>166,800,355</u>	<u>168,474,818</u>
Operating profit		30,680,140	22,461,915
Less: Finance cost	21	<u>3,393,608</u>	<u>4,209,279</u>
Profit for year before allocations and taxation		<u>27,286,532</u>	<u>18,252,636</u>
ALLOCATIONS			
Less: Donations		1,364,327	912,632
Profit sharing		<u>5,546,071</u>	<u>4,414,015</u>
		<u>6,910,398</u>	<u>5,326,647</u>
Profit for year before taxation		20,376,134	12,925,989
Less: Provision for taxation	22	<u>5,860,140</u>	<u>4,123,966</u>
Profit for year after taxation		14,515,994	8,802,023
Other comprehensive income			
Revaluation of available-for-sale financial assets		(1,340)	(1,072)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>14,514,654</u>	<u>8,800,951</u>
EARNINGS PER SHARE		<u>0.76</u>	<u>0.46</u>

The notes on pages 8 to 34 form an integral part of these financial statements



GRENADA ELECTRICITY SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 2012

(Expressed in Eastern Caribbean Currency Dollars)

	Stated Capital \$	Other Reserve \$	Retained Earnings \$	Total Equity \$
Balance at 1 st January, 2011	32,339,840	14,472	38,963,624	71,317,936
Amounts previously expensed now written back	-	-	147,533	147,533
Dividends paid	-	-	(9,120,000)	(9,120,000)
Total comprehensive income for the year: Profit for the year after taxation	-	-	8,802,023	8,802,023
Revaluation of available-for-sale financial assets	-	(1,072)	-	(1,072)
Balance at 31 st December, 2011	32,339,840	13,400	38,793,180	71,146,420
Dividends paid	-	-	(9,120,000)	(9,120,000)
Total comprehensive income for the year: Profit for the year after taxation	-	-	14,515,994	14,515,994
Revaluation of available-for-sale financial assets	-	(1,340)	-	(1,340)
Balance at 31 st December, 2012	<u>32,339,840</u>	<u>12,060</u>	<u>44,189,174</u>	<u>76,541,074</u>

The notes on pages 8 to 34 form an integral part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2012
(Expressed in Eastern Caribbean Currency Dollars)**

OPERATING ACTIVITIES	2012	2011
	\$	\$
Profit for the year before taxation	20,376,134	12,925,989
Adjustments for:		
Depreciation	12,837,194	14,801,396
Profit on disposal of fixed assets	(118,207)	(40,188)
Prior-year adjustment	<u>-</u>	<u>147,533</u>
Operating surplus before working capital changes	33,095,121	27,834,730
Increase in trade and other receivables	(3,028,072)	(3,235,585)
Increase in trade and other payables	1,132,011	1,387,437
Increase in provision for retirement benefits	792,918	1,970,708
Decrease / (increase) in inventories	143,106	(221,034)
(Decrease) / increase in amount due to related company	(49,748)	189,969
Increase / (decrease) in provision for profit sharing	<u>1,194,290</u>	<u>(68,030)</u>
	33,279,626	27,858,195
Income tax paid	<u>(9,035,755)</u>	<u>(571,427)</u>
Cash provided by operating activities	<u>24,243,871</u>	<u>27,286,768</u>
INVESTING ACTIVITIES		
Increase in available for sale financial assets	1,208	1,072
Disposal of property, plant and equipment	135,466	(19,981)
Decrease in suspense jobs in progress	182,277	521,986
(Increase) / decrease in capital work in progress	(655,934)	5,646,016
Increase in loans and receivables financial assets	(793,939)	(14,114,332)
Increase in segregated retirement investments	(553,088)	(524,343)
(Decrease) / increase in consumer contribution to line extensions	(554,153)	38,818
Purchase of property, plant and equipment	(7,714,871)	(15,866,451)
Increase in other reserves	<u>(1,340)</u>	<u>(1,072)</u>
Cash used in investing activities	<u>(9,954,374)</u>	<u>(24,318,287)</u>
FINANCING ACTIVITIES		
Dividends paid	(9,120,000)	(9,120,000)
Increase in provision for hurricane insurance reserve	2,000,000	2,000,000
Repayment of borrowings	<u>(7,098,016)</u>	<u>(8,053,853)</u>
Cash used in financing activities	<u>(14,218,016)</u>	<u>(15,173,853)</u>
Net increase / (decrease) in cash and cash equivalents	71,481	(12,205,372)
Cash and cash equivalents - at the beginning of year	<u>(3,001,475)</u>	<u>9,203,897</u>
- at the end of year	<u>(2,929,994)</u>	<u>(3,001,475)</u>
REPRESENTED BY		
Cash and cash equivalents	4,072,519	1,623,863
Bank overdraft	<u>(7,002,513)</u>	<u>(4,625,338)</u>
	<u>(2,929,994)</u>	<u>(3,001,475)</u>

The notes on pages 8 to 34 form part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012



1. CORPORATE INFORMATION

The Company is public and is registered in Grenada. It is engaged in the generation and supply of electricity throughout Grenada, Carriacou and Petit Martinique. It is a subsidiary of Grenada Private Power Limited of which WRB Enterprises Inc. is the majority owner.

The Company was issued a certificate of continuance under Section 365 of the Companies Act on November 8th, 1996.

The Company operates under the Electricity Supply Act 18 of 1994 (as amended) and has an exclusive licence for the exercise and performance of functions relating to the supply of electricity in Grenada. The Company is listed on the Eastern Caribbean Securities Exchange.

The registered office is situated at Grand Anse, St. George's, Grenada.

The Company employed on average two hundred and thirty-two (232) persons during the year (2011- 231).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Although those estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) New accounting standards, amendments and interpretations

- (i) There are no new standards, amendments or interpretations that are effective for the first time for the financial year beginning on or after 1st January 2012 that would be expected to have a material impact on the Company's financial statements.
- (ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1st January 2012 and not early adopted. These either do not apply to the activities of the Company or have no material impact on its financial statements.

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) *New accounting standards, amendments and interpretations (continued)*

IAS 1	Presentation of items of other comprehensive income – Effective for annual periods beginning on or after 1 st July, 2012
IAS 19	Employee benefits – Effective for annual periods beginning on or after 1 st January, 2013
IAS 27	Separate financial statements – Effective for annual periods beginning on or after 1 st January, 2013.
IAS 28	Investments in associates and joint ventures – Effective for annual periods beginning on or after 1 st January, 2013
IFRS 9	Financial instruments – Classification and measurement – Effective for annual periods beginning on or after 1 st January, 2013.
IFRS 10	Consolidated financial statements- Effective for annual periods beginning on or after 1 st January, 2013.
IFRS 11	Joint arrangements- Effective for annual periods beginning on or after 1 st January, 2013.
IFRS 12	Disclosure of interest in other entities- Effective for annual periods beginning on or after 1 st January, 2013.
IFRS 13	Fair value measurement - Effective for annual periods beginning on or after 1 st January, 2013.

(c) *Property, Plant and Equipment*

Recognition and Measurement

Property, plant and equipment consist of building, plant and machinery, motor vehicles, furniture and fittings and are stated at historical cost less accumulated depreciation.

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



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Property, Plant and Equipment (continued)*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as income in the statement of comprehensive income.

Subsequent Expenditure

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognised as a separate asset, as appropriate, only when 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 and other repairs and maintenance of property, plant and equipment are recognized in the statement of comprehensive income during the financial period in which they are incurred.

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 rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and available for use.

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

	% Per Annum
Building and construction	2.5 - 10
Plant and machinery	5 - 12.5
Motor vehicles	33 1/3
Furniture, fittings and equipment	12.5 - 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *Foreign Currencies Translation*

Foreign currency transactions during the year were converted into Eastern Caribbean Currency Dollars at the exchange rates prevailing at the dates of the transactions. Assets and liabilities at the statement of financial position date are expressed in EC\$ at the following rates:

EC\$2.7169 to US\$1.00	-	(2011: EC\$2.7169)
EC\$3.7356 to €1.00	-	(2011: EC\$3.6316)

Differences on exchange on current liabilities are reflected in the statement of comprehensive income in arriving at net income for the year, while differences on long term borrowings are deferred until realised.

(e) *Financial Instruments*

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Recognition and measurement

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date that is the date on which the Company commits itself to purchase or sell an asset. A regular way purchase and sale of financial assets is a purchase or sale of an asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

When financial assets are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the asset.

Financial assets are derecognised when the contractual rights to receive the cash flows expire or where the risks and rewards of ownership of the assets have been transferred.

Financial assets

The Company classifies its financial assets into the following categories: Loans and receivables and available-for-sale. Management determines the appropriate classification of its financial assets at the time of purchase and re-evaluates this designation at every reporting date.

GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Financial Instruments (continued)*

Loans and receivables

Investments classified as loans and receivable and non-derivative financial assets with fixed or determinable payments that are not quoted on the active market. They are included in current assets, except for maturities greater than twelve (12) months after the statement of financial position date. These are classified as non-current assets. The Company's loans and receivables comprise fixed deposits.

Available-for-sale

Investments are classified as available-for-sale as they are intended to be held for an indefinite period. These investments may be sold in response to needs for liquidity or changes in interest rates or equity prices. These investments are carried at fair value, based on quoted market prices where available. However, where a reliable measure is not available, cost is appropriate. Where available-for-sale investments are carried at fair value unrealized gains or losses are recognized directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. Available-for-sale investments are included in non-current assets unless management intends to dispose of the investment within twelve (12) months of the statement of financial position date.

Fair Value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Financial Instruments (continued)*

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

- (i) Significant financial difficulty of the issuer or obligor.
- (ii) A breach of contract, such as default or delinquency in interest or principal payments.
- (iii) It is becoming probable that the borrower will enter bankruptcy or other financial re-organization.
- (iv) The disappearance of an active market for that financial asset because of financial difficulties.
- (v) Observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including adverse changes in the payment status of borrowers in the Company or national or economic conditions that correlate with defaults on assets in the Company.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Impairment losses are recorded in an allowance account and are measured and recognised as follows:

- (i) Financial assets measured at amortised cost

The difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised loss is reversed to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised at the date that the impairment is reversed. The amount of the reversal is recognised in the statement of comprehensive income.

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Financial Instruments (continued)*

(ii) Financial assets measured at cost

The difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current market's rate of return for similar financial assets is recognised in the statement of comprehensive income. These losses are not reversed.

Financial Liabilities

When financial liabilities are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the liability. Financial liabilities are re-measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished that is when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognised in the statement of comprehensive income.

(f) *Inventories*

Inventories are stated at the lower of cost incurred in bringing each product to its present location and condition and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the price at which stock can be realized in the normal course of business.

(g) *Trade receivables*

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receivables, being short-term, are not discounted. 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. Significant financial difficulties of the debtor and default or delinquency in payment are considered indicators that the trade receivable is impaired.

GRENADA ELECTRICITY SERVICES LIMITED



**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank and short-term demand deposits with original maturity of three (3) months or less. Bank overdraft is included as a component of cash and cash equivalents for the purpose of the cash flow statement. Bank overdraft is shown within borrowings in current liabilities on the statement of financial position.

(i) Stated capital

Ordinary shares are classified as equity.

(j) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(k) Borrowings

Borrowings are recognised at fair value net of transaction cost incurred. Borrowings are subsequently stated at amortized cost: any difference between the proceeds, net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowings. 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.

(l) Customers' deposits

Given the long-term nature of the customer relationship, customer deposits are shown in the statement of financial position as non-current liabilities (i.e. not likely to be repaid within twelve (12) months of the date of the statement of financial position).

(m) Customers' contribution to line extensions

In certain specified circumstances, customers requiring line extensions are required to contribute toward the estimated capital cost of the extensions. These contributions are amortised over the estimated useful lives of the relevant capital cost at an annual rate of 5%. The annual amortisation of customer contributions is deducted from the depreciation charge for Transmission and Distribution provided in respect of the capital cost of these line extensions.

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(m) Customers' contribution to line extensions (continued)**

Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed. Contributions received in respect of jobs not yet started or completed at the year-end are grouped with creditors, accrued charges and provisions. The capital costs of customer line extensions are included in property, plant and equipment.

(n) Employee benefits*Profit sharing scheme*

The Company operates a profit sharing scheme and the profit share to be distributed to Unionized employees each year is based on the terms outlined in the Union Agreement. Employees receive their profit share in cash. The Company accounts for profit sharing as an expense, through the statement of comprehensive income. The Company also has a Gainsharing plan for Non Unionized employees that are accounted for in the same manner as profit sharing.

(o) Income tax

The charge for the current year is based on the results for the year as adjusted for disallowed expenses and non-taxable income. It is calculated using the applicable tax rates for the period.

Deferred income tax is provided using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on the enacted tax rate at the statement of financial position date. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

(p) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

(q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

(i) 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 of 50% of the current month's billings is made to record unbilled energy sales at the end of each month. This estimate is reviewed periodically to assess reasonableness and adjusted where required. The provision for unbilled sales is included in accrued income.

GRENADA ELECTRICITY SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition (continued)

(ii) Interest income

Interest income is recognised on an accrual basis.

(iii) Dividend income

Dividend income is recognised on the cash basis consistent with International Accounting Standards (IAS)10.

(r) Dividends

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the statement of changes in equity.

Dividends that are proposed and declared after the statement of financial position date are not shown as a liability on the statement of financial position but are disclosed as a note to the financial statements.

(s) Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. Transactions entered into with related parties in the normal course of business are carried out on commercial terms and conditions during the year.

(t) Finance charges

Finance charges are recognised in the statement of comprehensive income as an expense in the period in which they are incurred.

(u) Provision for bad and doubtful debts

Provision is made based on 2% of annual gross sales. Accounts are written off against the provision when they are considered to be bad. The total provision at 31st December, 2012 amounted to EC\$7,288,926 (2011 - EC\$6,323,491). Included therein is a specific provision of \$2,579,819 on customer accounts and \$587,122 on other debtors.

GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provision for unbilled sales

Revenue from sales of electricity is based on meter readings which are done on a rotational basis each month. The Company, recognising that a number of customers would not be billed in the consumption month, has decided to include in its sales 50% of the month's billings to represent unbilled sales.

The provision and adjustment with comparatives at 31st December, 2012 are calculated as follows:

	2012 \$	2011 \$
Sales revenue for December after discounts	<u>16,606,180</u>	<u>15,928,076</u>
50% of above = provision at 31/12/12	8,303,090	7,964,038
= provision at 31/12/11	<u>7,964,038</u>	<u>6,829,854</u>
Increase in provision during the year	<u>339,052</u>	<u>1,134,184</u>

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The items which may have the most effect on these financial statements are set out below.

Impairment of financial assets

Management assesses at each statement of financial position date whether assets are impaired. An asset is impaired when the carrying value is greater than its recoverable amount and there is objective evidence of impairment. Recoverable amount is the present value of the future cash flows. Provisions are made for the excess of the carrying value over its recoverable amount.

Property, plant and equipment

Management exercises judgment in determining whether future economic benefits can be derived from expenditures to be capitalized and in estimating the useful lives and residual values of these assets.

Impairment of inventory and trade receivables

Provision is made for slow-moving and obsolete stock on an annual basis.

Provision is made for doubtful debts based on 2% of annual gross sales plus a specific provision for debts identified as doubtful.

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
Balance at 1st January, 2011						
Cost	1,467,468	23,786,116	202,549,297	9,284,571	9,372,376	246,459,828
Accumulated depreciation	-	(15,064,605)	(119,753,969)	(7,987,068)	(5,702,264)	(148,507,906)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>8,721,511</u>	<u>82,795,328</u>	<u>1,297,503</u>	<u>3,670,112</u>	<u>97,951,922</u>
For year ended 31st December, 2011						
Opening book value	1,467,468	8,721,511	82,795,328	1,297,503	3,670,112	97,951,922
Additions for the year	-	6,729,679	6,386,139	796,959	1,953,674	15,866,451
Disposals for the year	-	(58,886)	-	-	(28,254)	(87,140)
Adjustment to accumulated depreciation	-	-	147,310	-	-	147,310
Depreciation charge for year	-	(848,962)	(12,150,352)	(896,488)	(905,594)	(14,801,396)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$14,543,342</u>	<u>\$77,178,425</u>	<u>\$1,197,974</u>	<u>\$4,689,938</u>	<u>\$99,077,147</u>
Balance at 31st December, 2011						
Cost	1,467,468	30,435,037	208,935,436	9,641,350	10,803,161	261,282,452
Accumulated depreciation	-	(15,891,695)	(131,757,011)	(8,443,376)	(6,113,223)	(162,205,305)
Less: Customer contribution to line extensions	-	-	-	-	-	(8,448,785)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$14,543,342</u>	<u>\$77,178,425</u>	<u>\$1,197,974</u>	<u>\$4,689,938</u>	<u>\$90,628,362</u>



GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

4. PROPERTY, PLANT AND EQUIPMENT

For year ended 31st December, 2012

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
Opening book value	1,467,468	14,543,342	77,178,425	1,197,974	4,689,938	99,077,147
Additions for the year	-	17,511	6,108,957	485,117	1,103,286	7,714,871
Disposals for the year	-	-	-	(97)	(17,164)	(17,261)
Depreciation charge for year	-	(529,116)	(10,515,759)	(723,789)	(1,068,530)	(12,837,194)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$14,031,737</u>	<u>\$72,771,624</u>	<u>\$959,205</u>	<u>\$4,707,530</u>	<u>\$93,937,564</u>

Balance at 31st December, 2012

Cost	1,467,468	30,452,548	215,044,394	9,274,361	11,833,924	268,072,695
Accumulated depreciation	-	(16,420,811)	(142,272,770)	(8,315,156)	(7,126,394)	(174,135,131)
Less: Customer contribution to line extensions	-	-	-	-	-	(7,894,632)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$14,031,737</u>	<u>\$72,771,624</u>	<u>\$959,205</u>	<u>\$4,707,530</u>	<u>\$86,042,932</u>



GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

5. SUSPENSE JOBS IN PROGRESS

This represents capital injections with respect to requested customers' suspense jobs not completed at year-end.

6. CAPITAL WORK IN PROGRESS

	2012 \$	2011 \$
Generation	1,228,744	1,091,581
Computers and software upgrades	1,016,847	1,132,346
Building and construction	8,275	-
Tools and equipment	65,781	-
Furniture and equipment	57,672	42,113
Motor Vehicle	-	40,596
Distribution	<u>1,135,217</u>	<u>549,966</u>
	<u>3,512,536</u>	<u>2,856,602</u>

7. DEFERRED EXCHANGE LOSS

This represents the difference arising on the revaluation of the balance of the European Investment Bank Grenlec 111 Loan at the exchange rate of ECC\$3.7356 to one Euro at the statement of financial position date. The average rate existing on the dates the draw downs were received was ECC\$3.3417 to one Euro.

8. FINANCIAL ASSETS

(a) Available for sale

536 ordinary shares in the Republic Bank (Grenada) Limited	28,140	29,480
Government of Grenada - Treasury Bills	<u>848,000</u>	<u>847,868</u>
	<u>876,140</u>	<u>877,348</u>

(b) Loans and receivables

Fixed deposit – Republic Bank (Grenada) Limited	9,289,006	9,054,813
Fixed deposit – Grenada Co-operative Bank Limited	8,650,790	8,299,241
Fixed deposit – Bank of Nova Scotia	1,093,775	1,067,693
Fixed deposit – RBTT Bank Grenada Limited	4,586,267	4,424,363
US\$ certificate of deposit- Cayman National Bank	<u>2,755,879</u>	<u>2,735,668</u>
	<u>26,375,717</u>	<u>25,581,778</u>

GRENADA ELECTRICITY SERVICES LIMITED



**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

8. FINANCIAL ASSETS (continued)

Included in the above is an amount of \$14,005,229 for Hurricane Insurance Reserve invested in Treasury Bills and fixed deposits held with the Bank of Nova Scotia, Republic Bank (Grenada) Limited, RBTT Bank Grenada Limited, Cayman National Bank and the Grenada Co-operative Bank Limited.

9. INVENTORIES

The following is a breakdown of stock on hand:

	2012 \$	2011 \$
Motor vehicle spares	832,218	825,863
Distribution	5,650,889	5,893,527
Generation spares	7,083,101	7,100,803
Fuel and lubricating oil	861,128	694,344
General stores	2,136,663	2,105,828
Stationery	-	101,915
	<u>16,563,999</u>	<u>16,722,280</u>
Less: Obsolescence provision	<u>1,056,111</u>	<u>1,071,288</u>
	<u>15,507,888</u>	<u>15,650,992</u>

10. TRADE AND OTHER RECEIVABLES

Customers' accounts	32,302,020	28,147,282
Less: Provision for doubtful debts	<u>6,701,804</u>	<u>5,687,769</u>
	25,600,216	22,459,513
Other debtors	2,219,748	2,777,730
Less: Provision for doubtful debt	<u>587,122</u>	<u>635,122</u>
	1,632,626	2,142,608
Provision for unbilled sales	8,303,090	7,964,038
Prepayments	<u>668,244</u>	<u>609,945</u>
	<u>36,204,176</u>	<u>33,176,104</u>

As at December 31st, 2012 the ageing analysis of customers' accounts is as follows:

	30 days	31- 60 days	61-90 days	Over 90 days	Total
2012	<u>\$14,376,737</u>	<u>\$5,786,091</u>	<u>\$2,431,363</u>	<u>\$9,707,829</u>	<u>\$32,302,020</u>
2011	<u>\$15,225,860</u>	<u>\$4,007,076</u>	<u>\$1,107,090</u>	<u>\$7,807,256</u>	<u>\$28,147,282</u>

GRENADA ELECTRICITY SERVICES LIMITED



**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)**

11. SEGREGATED RETIREMENT INVESTMENTS

To offset the liability created from the defined contribution plan the Company makes short-term investments in certificates of deposits at various commercial banks. In practice, these funds are not available to the company for normal operations but are not governed by a Trust deed.

A balance of \$1.28 million Segregated Retirement Investment is held in a Government of Grenada/ Grenlec certificate of deposit at the Bank of Nova Scotia. This can only be drawn by the Company upon the retirement or resignation of employees who were employed prior to its privatization in 1994.

12. CASH AND CASH EQUIVALENTS

	2012	2011
	\$	\$
Cash on hand	4,800	4,800
Bank of Tampa	793	22,225
Bank of Nova Scotia	252,773	208,504
Republic Bank (Grenada) Limited	45,889	45,347
FirstCaribbean International Bank Limited	530,465	219,490
Grenada Co-operative Bank Limited	<u>3,237,799</u>	<u>1,123,497</u>
	4,072,519	1,623,863
Bank overdraft (note 15)	<u>(7,002,513)</u>	<u>(4,625,338)</u>
Cash and cash equivalents in the statement of cash flows	<u>(2,929,994)</u>	<u>(3,001,475)</u>

13. STATED CAPITAL

Authorised		
25,000,000 ordinary shares of no par value		
Issued and fully paid		
19,000,000 ordinary shares of no par value	<u>32,339,840</u>	<u>32,339,840</u>

14. CUSTOMERS' DEPOSITS

All customers are required in accordance with the Electricity Supply Act (ESA) Section 11 of 1994 to provide a security deposit which is normally equivalent to two (2) months consumption. Interest accrued is credited to customers' accounts in the first billing cycle of the year. The cash deposit is refunded with accumulated interest when the account is terminated.

Given the long term nature of the customer relationship, customer deposits are shown in the statement of financial position as non-current liabilities (i.e. not likely to be repaid within twelve (12) months of the statement of financial position).

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

15. BORROWINGS

Long-term	2012	2011
	\$	\$
(i) European Investment Bank (EIB)	8,995,239	9,525,256
(ii) National Insurance Scheme	6,504,022	8,114,653
(ii) Grenlec ECSE Bonds	<u>23,847,500</u>	<u>28,617,000</u>
	39,346,761	46,256,909
Less: Current portion	<u>7,401,213</u>	<u>7,160,196</u>
Total long-term	<u>31,945,548</u>	<u>39,096,713</u>
Short-term		
Bank overdraft	7,002,513	4,625,338
Borrowings current portion	<u>7,401,213</u>	<u>7,160,196</u>
Total short-term	<u>14,403,726</u>	<u>11,785,534</u>
Total borrowings	<u>46,349,274</u>	<u>50,882,247</u>

(A) European Investment Bank (EIB)

This loan bears an average interest rate of 5.75% per annum and is repayable over fifteen (15) years in annual instalments of Euro 376,450.44 inclusive of interest. The loan is secured by a first fixed charge on Wartsila generator set II.

(B) National Insurance Scheme

The loan bears interest at the rate of 7% per annum and is repayable over ten (10) years by quarterly instalments of \$535,650.84 inclusive of interest. The loan is secured by a first fixed charge on Wartsila generator set I.

(C) Grenlec ECSE Bonds

On December 17, 2007, the company raised EC\$47,695,000 in capital through a bond issue. The bond facility bears interest at a rate of 7% per annum and is repayable by quarterly instalments of \$1,192,375 (inclusive of interest) over ten (10) years. Repayment commenced March 20th, 2008. This bond is secured under a Debenture Trust Deed which creates a fixed and floating charge on the Company's property, present and future, with the exception of those secured under other agreements and the Carriacou assets. The Debenture requires the Company to meet financial ratios; current, earnings coverage and equity /debt. The financial ratios were met by the Company for 2012.



GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

16. PROVISION FOR RETIREMENT BENEFITS

The Company operates a defined contribution plan for its employees. Payment of benefits accrued is made upon the resignation or retirement of employees.

17. PROVISION FOR HURRICANE INSURANCE RESERVE

	2012 \$	2011 \$
Balance at 1 st January, 2012	12,000,000	10,000,000
Add: Provision for the year	<u>2,000,000</u>	<u>2,000,000</u>
Balance at 31 st December, 2012	<u>14,000,000</u>	<u>12,000,000</u>

18. AMOUNT DUE TO RELATED PARTIES

WRB Enterprises Inc.	<u>140,219</u>	<u>189,969</u>
----------------------	----------------	----------------

- i) The following transactions were carried out with WRB Enterprises, Grenada Private Power Limited and the National Insurance Scheme:

a) Sale of electricity - NIS	<u>358,151</u>	<u>341,845</u>
b) Management services- WRB Enterprises Inc.	<u>600,000</u>	<u>600,000</u>
c) Loan repayments- NIS	<u>2,142,603</u>	<u>2,142,603</u>
d) Payment of dividends:		
NIS	<u>1,057,920</u>	<u>1,057,920</u>
Grenada Private Power Limited	<u>4,560,000</u>	<u>4,560,000</u>



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

18. AMOUNT DUE TO RELATED PARTIES (continued)

Related Party Transactions

ii) Compensation of key management personnel of the Company:

	2012	2011
	\$	\$
Salaries and other benefits	<u>2,709,750</u>	<u>3,368,762</u>
Past employment benefit provisions	<u>485,725</u>	<u>584,196</u>
iii) Loans receivable from key management personnel	<u>59,135</u>	<u>87,462</u>

19. TRADE AND OTHER PAYABLES

Trade creditors	9,652,332	9,577,350
Sundry creditors	1,174,856	579,447
Accrued expenses	<u>6,827,400</u>	<u>7,259,281</u>
	<u>17,654,588</u>	<u>17,416,078</u>

20. OTHER INCOME

Sundry revenue	2,460,483	3,120,876
Gain on disposal of fixed assets	<u>118,207</u>	<u>40,188</u>
	<u>2,578,690</u>	<u>3,161,064</u>



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

21. FINANCE COST

	2012 \$	2011 \$
Bank loans/Bond interest	2,931,067	3,818,767
Other bank interest	88,629	19,711
Other	<u>373,912</u>	<u>370,801</u>
	<u>3,393,608</u>	<u>4,209,279</u>

22. TAXATION

Current year

Income taxes in the statement of comprehensive income vary from amounts that would be computed by applying the statutory tax rate for the following reasons:

Profit before taxation	<u>20,376,134</u>	<u>12,925,989</u>
Tax at applicable statutory rate (30%)	6,112,840	3,877,797
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	(479,916)	(519,435)
Effect of allowances	(3,674,995)	(3,719,829)
Effect of expenses not deductible for tax purposes	<u>3,902,211</u>	<u>4,485,433</u>
Tax expense	<u>5,860,140</u>	<u>4,123,966</u>

Deferred Tax

Deferred tax (asset)/liability is due to the acceleration of (accounting depreciation)/tax depreciation.

There was a deferred tax asset of \$1,015,827 at 31st December, 2012 which was not recognised as the asset will not be realized in the future.

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

23. CONTINGENT LIABILITIES

At the statement of financial position date the Company was contingently liable to the Government of Grenada for customs bonds in the amount of \$50,000.

24. DIVIDENDS

During the year ended December 31st, 2012, a dividend of 48 cents per ordinary share amounting to \$9,120,000 was declared and paid.

25. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, operational risk, liquidity risk and market risk (including foreign exchange and interest rate risk). The Company's overall risk management policy is to minimise potential adverse effects on its financial performance and to optimise shareholders value within an acceptable level of risk. Risk management is carried out by the Company's Management under direction from the Board of Directors.

The Board of Directors has established committees which are responsible for developing and monitoring the Company's risk management policies in their specified areas. These committees report to the Board of Directors on their activities. The committees and their activities are as follows:

Audit Committee

The Audit Committee has oversight for the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and risk management procedures.

Loans Committee

The Loans Committee is comprised of members of management who are responsible for approving staff loan applications and ensuring that only those that meet the requirements set out in the Staff Loan and Procedure Policy are approved.

The Company's exposure and approach to its key risks are as follows:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from the Company's trade receivables and financial investments.

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

25. FINANCIAL RISK MANAGEMENT (continued)

Credit risk with respect to trade receivables is substantially reduced due to the policies implemented by management. Deposits are required from all customers upon application for a new service and management performs periodic credit evaluations of its general customers' financial condition.

With respect to credit risk arising from other financial assets, that of cash and cash equivalents and financial investments, the Company places these funds with highly rated financial institutions to limit its exposure.

The Company's maximum exposure to credit risk equals the carrying amount of its financial assets. Based on the above, however, management does not believe significant credit risk exists at December 31st, 2012.

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 senior management within each business unit. 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 authorization 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 as outlined below.



GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012**

(continued)

25. FINANCIAL RISK MANAGEMENT (continued)

Insurance risk

Prudent management requires that a company protect its assets against catastrophe and other risks. In order to protect its customers and investors the Company has fully insured its plant and machinery, buildings, computer equipment and furniture against all perils. The Company's Transmission and Distribution systems are uninsured and to mitigate this risk the Company sets aside funds on an annual basis in a hurricane reserve.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management monitors the Company's liquidity reserve which comprises overdraft facilities and cash and cash equivalents on the basis of expected cash flows and is of the view that the Company holds adequate cash and credit facilities to meet its short term obligations.

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

25. FINANCIAL RISK MANAGEMENT (continued)

The table below summarises the Company's exposure to liquidity risk:

Balance at 31 st December, 2012	Current	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	4,072,519	-	-	-	4,072,519
Loans and receivable financial assets	-	-	-	26,375,717	26,375,717
Income tax prepaid	195,102	-	-	-	195,102
Segregated retirement investments	-	-	-	19,613,931	19,613,931
Prepayments	668,244	-	-	-	668,244
Trade and other receivables	24,312,453	5,786,091	2,431,363	3,006,025	35,535,932
Inventories	15,507,888	-	-	-	15,507,888
	<u>44,756,206</u>	<u>5,786,091</u>	<u>2,431,363</u>	<u>48,995,673</u>	<u>101,969,333</u>
Current liabilities					
Amount due to related company	140,219	-	-	-	140,219
Short-term borrowings	14,403,726	-	-	-	14,403,726
Trade payables and accrued expenses	13,604,797	912,203	311,328	2,826,260	17,654,588
Consumers' advances for construction	-	-	-	1,085,814	1,085,814
Current portion of provision for retirement benefits	-	-	-	500,000	500,000
Provision for profit sharing	-	-	-	4,281,209	4,281,209
	<u>28,148,742</u>	<u>912,203</u>	<u>311,328</u>	<u>8,693,283</u>	<u>38,065,556</u>
NET LIQUIDITY SURPLUS	<u>16,607,464</u>	<u>4,873,888</u>	<u>2,120,035</u>	<u>40,302,390</u>	<u>63,903,777</u>





GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012
(continued)

25. FINANCIAL RISK MANAGEMENT (continued)

	Balance at 31 st December, 2011	Current	31-60 days	61-90 days	Over 90 days	Total
		\$	\$	\$	\$	\$
Current Assets						
Cash and cash equivalents		1,623,863	-	-	-	1,623,863
Loans and receivable financial assets		-	-	-	27,608,052	27,608,052
Segregated retirement investments		-	-	-	17,034,570	17,034,570
Prepayments		609,945	-	-	-	609,945
Trade and other receivables		23,189,898	4,007,076	1,007,090	4,362,095	32,566,159
Inventories		15,650,992	-	-	-	15,650,992
		<u>41,074,698</u>	<u>4,007,076</u>	<u>1,007,090</u>	<u>49,004,717</u>	<u>95,093,581</u>
Current liabilities						
Amount due to related company		189,969	-	-	-	189,969
Short-term borrowings		11,785,534	-	-	-	11,785,534
Income tax payable		2,980,505	-	-	-	2,980,505
Trade payables and accrued expenses		-	591,666	310,748	4,254,410	17,416,078
Consumers' advances for construction		-	-	-	724,380	724,380
Current portion of provision for retirement benefits		-	-	-	1,500,000	1,500,000
Provision for profit sharing		-	-	-	3,086,921	3,086,921
		<u>27,215,262</u>	<u>591,666</u>	<u>310,748</u>	<u>9,565,711</u>	<u>37,683,387</u>
NET LIQUIDITY SURPLUS		<u>13,859,436</u>	<u>3,415,410</u>	<u>696,342</u>	<u>39,439,006</u>	<u>57,410,194</u>

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

25. FINANCIAL RISK MANAGEMENT (continued)

Market risk

(i) *Foreign exchange risk*

Foreign exchange risk is the potential adverse impact on the Company's earnings and economic value due to movements in exchange rates.

The Company has a limited exposure to foreign exchange risk arising primarily from a Euro loan and purchases of plant, equipment and spares from foreign suppliers.

Borrowings other than for the Euro loan have been transacted in EC\$ or formally fixed to the United States Dollar (US\$) to limit exposure to fluctuations in foreign currency rates, since there is a fixed exchange rate between the Eastern Caribbean dollar and the United States dollar. Additionally, most purchases are transacted in United States dollars.

The Company has not entered into forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates.

The following demonstrates the sensitivity to a reasonably possible change in exchange rates with all other variables held constant.



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2012

(continued)

25. FINANCIAL RISK MANAGEMENT (continued)

FINANCIAL LIABILITIES

	2012		2011	
	+2.5%	-2.5%	+2.5%	-2.5%
	EC \$	EC \$	EC \$	EC \$
Reasonably possible change in currency rate	+2.5%	-2.5%	+2.5%	-2.5%
Loans payable				
EIB (EURO loan)				
Principal repayments for the year	851,244.88	851,244.88	738,038.08	738,038.08
Effect on principal repayment of adjustment to EURO	<u>872,526.00</u>	<u>829,963.76</u>	<u>756,489.03</u>	<u>719,587.13</u>
CURRENCY EXPOSURE	<u>\$(21,281.12)</u>	<u>\$21,281.12</u>	<u>\$(18,450.95)</u>	<u>\$18,450.95</u>

Reasonably possible change in currency rate	+2.5%	-2.5%	+2.5%	-2.5%
EIB Euro loan Interest payment	515,613.77	515,613.77	591,047.31	591,047.31
Effect on interest payment of adjustment to EURO	<u>528,504.11</u>	<u>502,723.43</u>	<u>605,823.49</u>	<u>576,271.13</u>
Effect on profit before tax/equity	<u>\$(12,890.34)</u>	<u>\$12,890.34</u>	<u>\$(14,776.18)</u>	<u>\$14,776.18</u>

	2012	2011
	EURO	EURO
Repayment for the year		
Interest	138,026.29	162,758.65
Principal	<u>227,872.45</u>	<u>203,226.70</u>
	<u>365,898.74</u>	<u>365,985.35</u>

See note 2 (d) for exchange rates for the Euro at 31st December 2012 and 2011 respectively.

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The company holds primarily fixed rate financial instruments and is therefore not significantly exposed to interest rate risk.