

ST LUCIA ELECTRICITY SERVICES LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2014

	Unaudited March 31, 2014 EC\$ 000s	Unaudited March 31, 2013 EC\$ 000s	Audited December 31, 2013 EC\$ 000s
Assets			
Non-Current			
Property, plant and equipment	337,369	343,121	341,886
Intangible assets	15,064	15,003	15,589
Retirement benefit asset	3,430	9,354	3,430
Investments	170	168	170
Total non-current assets	356,033	367,646	361,075
Current			
Inventories	10,954	18,636	12,016
Income tax refundable	-	7,414	-
Trade, other receivables and prepayments	79,803	83,725	82,197
Cash and cash equivalents	36,718	32,545	29,858
Total current assets	127,475	142,320	124,071
TOTAL ASSETS	483,508	509,966	485,146
Equity and liabilities			
Shareholders' equity			
Stated capital	80,163	80,163	80,163
Retained earnings	128,421	95,973	122,781
Retirement benefit reserve	3,430	9,354	3,430
Self insurance reserve	21,701	-	21,156
Total shareholders' equity	233,715	185,490	227,530
Liabilities			
Non-Current			
Borrowings	153,073	167,797	153,072
Consumer deposits	15,700	14,872	15,545
Deferred tax liabilities	37,743	29,055	37,743
Consumer contributions	-	33,211	-
Retirement benefit liability	1,786	1,402	1,786
Total non-current liabilities	208,302	246,337	208,147
Current			
Borrowings	13,542	14,519	14,878
Trade and other payables	26,021	53,677	29,935
Dividends payable	339	9,943	332
Income tax payable	1,589	-	4,324
Total current liabilities	41,491	78,139	49,469
Total liabilities	249,793	324,476	257,616
TOTAL EQUITY & LIABILITIES	483,508	509,966	485,146

Approved on behalf of the Board of Directors on _____ April, 2014

Director

Director

ST LUCIA ELECTRICITY SERVICES LIMITED
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Unaudited March 31, 2014 EC\$ 000s	Unaudited March 31, 2013 EC\$ 000s	Audited December 31, 2013 EC\$ 000s
Cash flows from Operating Activities			
Net Income Before Tax	8,836	6,268	35,943
Adjustments for			
Depreciation	7,560	8,359	30,680
Amortization of intangible assets	541	505	1,976
Finance charges	2,836	3,362	13,190
Movement in allowance for impairment	25	25	1,205
Gain on Disposal of property, plant and equipment	-	-	(13)
Amortization of consumer contributions	-	(508)	-
Post-retirement benefits	-	-	(135)
Operating Income before Working Capital Changes	19,798	18,011	82,846
Decrease in inventories	1,062	532	7,152
Decrease/(increase) in trade and other receivables	2,369	(6,169)	(5,822)
Increase in trade and other payables	(3,914)	(10,522)	(16,493)
Cash Generated from Operations	19,315	1,852	67,683
Interest received	404	129	899
Finance costs paid	(2,595)	(2,444)	(13,921)
Income tax paid	(5,386)	-	-
Net Cash Generated from/(Used in) Operating Activities	11,738	(463)	54,661
Cash Flows from Investing Activities			
Acquisition of property, plant and equipment	(3,043)	(925)	(25,760)
Proceeds on disposal of property, plant and equipment	-	-	15
Acquisition of intangible assets	(16)	(454)	(2,450)
Net Cash Used in Investing Activities	(3,059)	(1,379)	(28,195)
Cash Flows from Financing Activities			
Repayment of borrowings	(1,942)	(1,737)	(15,053)
Dividends paid	7	(1,155)	(18,788)
Consumer contributions received	-	548	-
Consumer deposits received, net	116	46	548
Net Cash Used in Financing Activities	(1,819)	(2,298)	(33,293)
Increase/(Decrease) in Cash and Cash Equivalents	6,860	(4,140)	(6,827)
Cash and Cash Equivalents - Beginning of Period	29,858	36,685	36,685
Cash and Cash Equivalents - End of Period	36,718	32,545	29,858

ST LUCIA ELECTRICITY SERVICES LIMITED
STATEMENT OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014

	Unaudited March 31, 2014 EC\$ 000s	Unaudited March 31, 2013 EC\$ 000s	Audited December 31, 2013 EC\$ 000s
Revenue			
Energy Sales	77,197	79,503	328,734
Fuel Surcharge Recovered	-	1,172	1,172
Other Revenue	568	336	3,207
	<u>77,765</u>	<u>81,011</u>	<u>333,113</u>
Operating Expenses			
Diesel Generation	50,236	54,159	216,666
Transmission and Distribution	8,790	8,931	34,606
Fuel Surcharge	-	1,236	1,348
	<u>59,026</u>	<u>64,326</u>	<u>252,620</u>
Gross Income	18,739	16,685	80,493
Administrative Expenses	<u>(7,069)</u>	<u>(7,061)</u>	<u>(31,426)</u>
Operating Profit	11,670	9,624	49,067
Other Gains	<u>2</u>	<u>6</u>	<u>66</u>
Profit Before Finance Costs and Taxation	11,672	9,630	49,133
Finance Costs, Net	<u>(2,836)</u>	<u>(3,362)</u>	<u>(13,190)</u>
Profit Before Taxation	8,836	6,268	35,943
Taxation	<u>2,651</u>	<u>1,630</u>	<u>9,715</u>
Net Profit for the Period from Continuing Operations	<u><u>6,185</u></u>	<u><u>4,638</u></u>	<u><u>26,228</u></u>
Other Comprehensive Income:			
Items that will not be reclassified to profit or loss:			
Re-measurements of defined benefit pension plans, net of tax	-	-	(872)
Other Comprehensive Income for the Year	<u>-</u>	<u>-</u>	<u>(872)</u>
Total Comprehensive income for the Year	<u><u>6,185</u></u>	<u><u>4,638</u></u>	<u><u>25,356</u></u>
Earnings Per Share	<u>\$ 0.27</u>	<u>\$ 0.20</u>	<u>\$ 1.14</u>

SECURITIES ACT 2001
SECURITIES (ACCOUNTING AND FINANCIAL REPORTS) RULES NO. 1 OF 2002

IN EXERCISE of the powers conferred on it by sections 98, 161 (a) and 162 of the Securities Act 2001, the Commission makes the following procedural rules and specifies the form of annual reports and periodic reports to be filed by reporting issuers.

CITATION AND COMMENCEMENT

1. These Rules may be cited as the Securities (Accounting and Financial Reports) Rules No.1 of 2002 and shall come into force on the date issued by the Commission.

ANNUAL REPORTS

2. Quarterly Reports to be submitted to the Commission

- (1) The Commission may require a reporting issuer to submit a quarterly financial report within thirty days of the end of each of the first three quarters of the financial year. Included in this report shall be the financial statement schedules, exhibits and all other papers and documents.
- (2) At the request of the reporting issuer the Commission may extend, from time to time, the period within which such reporting issuer is, in accordance with the provisions of the Securities Act 2001, obliged to furnish any document or information.
- (3) This report shall be in form ECSRC – Q as specified in Schedule 3. It must contain the information specified in paragraphs 1-8 of Schedule 3.

**Schedule 3
FORM ECSRC - Q**

(Select One)

Quarterly Report
For the period ended: 31 March, 2014

Or

TRANSITION REPORT

N/A

(Applicable where there is a change in reporting issuer's financial year)

For the transition period from _____ to _____

Issuer Registration Number: LUCELEC09091964SL

St. Lucia Electricity Services Limited

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

Saint Lucia
(Territory or jurisdiction of incorporation)

John Compton Highway, Sans Soucis. Castries. Saint Lucia
(Address of principal executive Offices)

Reporting issuer's:

Telephone number 1-758-457 4400

Fax number: 1-758-457-4409

Email address: lucelec@candw.lc

N/A (Former
name, former address and former financial year, if changed since last report)

(Provide information stipulated in paragraphs 1 to 8 hereunder)

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

CLASS	NUMBER
Ordinary Shares	22,400,000
Non-voting Ordinary Shares	520,000

SIGNATURES

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

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

Name of Chief Executive Officer:

Name of Director:

Signature

Signature

Date

Date

Name of Chief Financial Officer:

Signature

Date

INFORMATION TO BE INCLUDED IN THE REPORT

1. Financial Statements

- a) Condensed Statement of Financial Position as at March 31, 2014 is attached;
- b) Condensed Statement of Comprehensive Income for the Three Months Ended March 31, 2014 and the corresponding period in the previous financial year are attached; and
- c) Condensed Statement of Cash Flows for the Three Months Ended March 31, 2014 and the corresponding period in the previous financial year are attached.

2. Management's Discussion and Analysis of Financial Condition and Results of Operations

a) Liquidity

Under the provisions of the Electricity Supply Act (ESA) Cap 9.02 Revised Laws of Saint Lucia the base tariffs for 2014 were re-set to reflect the new average fuel price of the previous 12 months, reducing the average tariff from EC\$1.015 to EC\$0.987, a decline of 2.7% over the prior year. As fuel prices for the first quarter of 2014 were lower than the average price paid in 2013, the final price of electricity charged to customers was further reduced.

During the quarter, the Caribbean tourism sector received the news that the Air Passenger Duty (APD) charged to passengers on flights from London will be revised from April 2015, where all flights more than 2000 miles will attract a standard rate. As it currently stands, passengers on flights to the Caribbean pay a higher duty than those on flights to Hawaii, which placed the Caribbean at a significant disadvantage, when compared to the United States as a competing tourist destination. Although total tourist arrivals to Saint Lucia increased in 2013, the island recorded a 6.4% decline in arrivals from the UK market partly due to the impact of the ADP. This reform is considered a victory for the region that lobbied for the change. Saint Lucia stands to benefit from the anticipated increase in tourist arrivals from that major market.

The VAT office is current with its payment of VAT refunds to LUCELEC. During the quarter, the VAT office paid \$0.8M representing refunds for November and December 2013 and January 2014.

At the end of the March, 75% of the 2014 estimated fuel consumption was hedged, while 50% was hedged for the first quarter of 2015. These hedges are expected to continue to reduce fuel price volatility during the current year.

b) Capital Resources

In December 2013, the Board of Directors approved the 2014 capital budget which totalled \$34 Million, of which 45% will consist of strategic projects and 55% ongoing programmes. Some of the major capital works identified for 2014 are:

1. the replacement of the interbus transformers at the Soufriere and Praslin Substations (\$3.7 Million),
2. the refurbishing of the switchgear at the Castries Substation (\$1.5 Million),
3. the replacement of the SCADA system (\$1.6 Million),
4. the installation of smart meters (\$2.6 Million),
5. Generation overhauls (\$3.1 Million) and
6. Renewable energy initiatives such as geothermal, waste-to-energy and solar (\$5.9 Million).

The new interbus transformers for the Soufriere and Praslin Substations have been manufactured, tested and are expected to arrive in St. Lucia by the end of May. The contractor for the installations has been approved and final negotiations are scheduled for early May.

The overhaul of generation engine # 4, which commenced in 2013, continued this year. It is expected that the overhaul will be completed at the beginning of the second quarter at an estimated cost of \$1.5 Million.

The Company is covenanted to its financiers to a 2:1 debt/equity gearing. The comparable positions for the current and prior periods are indicated below.

	31 March, 2014	31 March, 2013
	EC\$ 000s	EC\$ 000s
Borrowings		
Current	13,542	14,519
Long Term	153,073	167,797
TOTAL	166,615	182,316
Shareholders' Equity		
Share Capital	80,163	80,163
Retained Earnings	128,421	95,974
Retirement Benefit Reserve	3,430	9,354
Self Insurance Reserve	21,701	-
TOTAL	233,715	185,491

The Company does not foresee potential violation of those covenants.

Results of Operations

Total revenues of \$77.8M represented a 4% decline when compared to the corresponding period last year. This was attributable to lower unit sales and a lower price of electricity charged as a result of lower fuel costs.

Unit sales of 79.3M kWhs were 1.8% lower than the same period last year. Declines recorded in the Domestic (2.0%), Commercial (1.7%) and Hotel (3.3%) sectors were partially offset by increases in the Industrial (2.5%) and Streetlight (0.7%) sectors.

Gross profit of EC\$18.7M was 12.3% higher than last year's position of EC\$16.7M, as a result of savings in operating costs. This favourable result also positively impacted the profit before tax of \$8.8M, which represented an increase of 41% over the corresponding period last year (\$6.3M).

System reliability performance (SAIDI) for the year to date improved to 2.09 against last year's performance of 2.28 hours and against the 2014 target of 2.25 hours..

The year-to-date fuel efficiency achieved was 4.34 kWh/litre, which was in line with last year's performance and better than the 2014 target of 4.31 kWh/litre.

System losses of 8.69% at the end of the period was better when compared to the 9.51% recorded in the same period last year but slightly below the target of 8.61% for the year.

3. Disclosure of Risk Factors.

- a) In 2014, the Company will focus on five of the eight strategic objectives set in 2013. These are System Improvement and Enhancement (includes renewable energy), Corporate Diversification, Preparing for Regulatory Reform, Developing a Culture of Customer Care and Implementation of the Human Resource Strategic Plan.
- b) The Company is the sole authorised commercial generator, transmitter, distributor and seller of electricity in Saint Lucia. Plans for regulatory reform continued in 2014, following the launch in 2013 of the Eastern Caribbean Energy Regulatory Authority (ECERA) supported by the World Bank. Further uncertainty in the future regulatory landscape is being created by the likely establishment of the National Utilities Regulatory Commission (NURC) in 2014 to cater to both the water and energy sectors. The commission will be responsible for setting tariffs and ensuring service quality standards by all utility companies. It is anticipated that the 'liberalized' energy sector will attract other power producers.
- c) With universal access to electricity being achieved in Saint Lucia, the Company's future growth potential is, to a significant extent, subject to factors and

conditions outside of its direct control. Management has commenced the process of putting in place the requisite legal, operational and structural systems that will allow the Company to explore other revenue opportunities outside its core business area. The Board of Directors has approved the incorporation of a subsidiary holding company to implement diversification plans and these will be put into effect later in the year.

- d) System Losses continue to be a concern for the Company especially given the implications for the cost of electricity, unrecognized revenues and ultimately reduced shareholder returns. In order to mitigate these losses investigations are continually undertaken where significant drops in customer consumption patterns are noticed, electricity theft cases are prosecuted and sales trends are analyzed.
- e) In 2013, the Government of Saint Lucia (GOSL) confirmed that it was operationalizing the Petro Caribe Agreement which had been signed in 2005. The GOSL believes that this will give it greater flexibility to manage and stabilize the prices of petroleum products in the local market. Officials of Petro Caribe recently visited the island and met separately with the GOSL, representatives of Buckeye and LUCELEC. The Company continues to monitor the situation.
- f) The hurricane season is due to start on June 1, 2014. As is customary, the Company has begun its preparatory work in order to ensure that damage which could interrupt service delivery is minimized in the event of any adverse weather conditions.

The Company continues to pursue its policy of self-insurance of its Transmission and Distribution assets. The Fund comprises cash resources of \$22 Million. The Company also has access to a line of credit of \$10 Million. The Company is in the process of establishing a separate legal entity to manage the Self Insurance fund and work with the relevant authorities continues in this regard.

- g) The Company's return on rate base for 2013 of 12.6% was lower compared to the 2012 achievement of 14.3%. This fell below the maximum allowable return of 14.5% set by the Electricity Supply Act (ESA). As average contributed capital increases through an increase in retained profits and profits dwindle, the result is a diminishing return on rate base. Management will be focusing on cost management through increased efficiencies as a means of mitigating this risk.
- h) As a result of a head office decision to reduce their sovereign and sub sovereign debt throughout the Caribbean Region, one of our counterpartys rescinded the credit line which supported our fuel hedging activity. This was confirmed in March 2014.

4. Legal Proceedings

There were no legal proceedings during the quarter under review that would have a material effect on the Company's financial position

Changes in Securities and Use of Proceeds

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

NOT APPLICABLE

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

- Offer opening date (provide explanation if different from date disclosed in the registration statement)
- Offer closing date (provide explanation if different from date disclosed in the registration statement)
- Name and address of underwriter(s)
- Amount of expenses incurred in connection with the offer
- Net proceeds of the issue and a schedule of its use
- Payments to associated persons and the purpose for such payments

NOT APPLICABLE

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

NOT APPLICABLE

5. Defaults Upon Senior Securities

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

NONE

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

NONE