LUCELEC
annualreport 2008

performance & power

empowered to make things better

Annual Report '08

Performance & Power

Empowered To Make Things Better

Theme

Performance can only be measured by
the reality of the world in which it exists.

Real Power withstands the test
of time and circumstance and delivers
satisfaction to People

Performance can only be measured by the reality of the world in which it exists. Real Power withstands the test of time and circumstance and delivers satisfaction to people.

At LUCELEC, we remain steadfast in our commitment to provide a reliable source of energy. Continuing to rise above the challenges of fluctuating global fuel prices, we have met the ever-increasing demand for power and remain dedicated to living our mission.

Above all, our ongoing focus has been the delivery of quality reliable service to the whole of St. Lucia by maintaining operational flexibility and developing the creative strategies needed to succeed in these rapidly changing global market conditions.

Our management team continues to champion this focus, embracing the appropriate performance philosophies and benchmarks while instilling a culture of efficiency, respect and responsibility within the organization.

This, combined with our engineering and operational strengths, has enabled us to consistently meet our mandate to provide a safe, reliable and cost effective service to St. Lucia, a reasonable return on investment for our shareholders, value for our customers and a positive, empowering environment for our employees.

It is all about Power, Performance and People. We generate, transmit and distribute energy; our customers' role is to conserve. Together, one light at a time, we can make it better!

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EMPOWERED TO MAKE THINGS BETTER

Mission Statement & Corporate Data

MISSION STATEMENT

We will provide affordable energy and services that are safe, reliable, and environmentally responsible.

We will meet the expectations of our shareholders and employees while being a catalyst for social and economic development in Saint Lucia.

VISION

A world-class provider of energy and other services by 2015.

REGISTERED OFFICE

Head Office
St. Lucia Electricity Services Limited
Sans Soucis
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

Mc Namara & 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 Limited
Bridge Street
P. O. Box 1862
Castries
Saint Lucia

Performance

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: 92.44%

SYSTEM AVERAGE INTERRUPTION DURATION INDEX (SAIDI)
SAIDI is the total customer hours of interruption divided by the total number of customers served. It is calculated by summing the products of the duration of each outage in hours, times the number of customers affected and dividing the result by the total customer base.

Target: 9.5 hours
Performance: 7.72 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 3
Performance: 2

SYSTEM LOSSES
System losses are 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: 9.97%
Performance: 10.25%

SPECIFIC FUEL CONSUMPTION
The number of units (kWh) of electricity produced from each gallon of fuel consumed.

Target: 19.52kWh
Performance: 19.72kWh

WORK HOURS LOST
Work hours lost as a percentage of nominal work hours.

Target: 2.50
Performance : 2.14

SAFETY AUDIT RATING
A percentage rating assigned during the company's annual safety audit exercise.

Target: 97.5%
Performance: 97.4%

CUSTOMER SERVICE PERCEPTION VS EXPECTATIONS
Customer perception of service quality expressed as a percentage of customer expectation of service quality.

Target: 75%
Performance: 78.7%

RETURN ON EQUITY (ROE)
ROE measures how well the company is using shareholders' invested money. It tells you the percentage return the company can earn for each dollar of shareholders' equity and is calculated by taking the net profit for the year and dividing by the average shareholders' equity for that year.

Target: 17.5%
Performance: 17.6%

2009 TARGETS
TARIFF CHANGE VS INFLATION:
<97%

SAIDI
7.5 hours

RIA
Maximum 2

SYSTEM LOSSES
9.97%

SPECIFIC FUEL CONSUMPTION
19.75 kWh

WORK HOURS LOST
2.20

SAFETY AUDIT RATING
98%

CUSTOMER SERVICE PERCEPTION VS EXPECTATIONS:
80%

RETURN ON EQUITY
17.9%

The Potential Impacts of the Global Financial Crisis on LUCELEC and Its Contemplated Responses

Marius St. Rose

Commercial electric power is, (simultaneously):

a. a social good that is essential to basic living and to the enhancement of the quality of life;

b. a facilitating good or service that is critical to the functioning of the modern economy and society;

c. after food and housing, a major consumer expenditure item in the household budget and absorbs on average about 10 % of the average household income;

d. with household food and transport costs, a main driver of demands for wage and salary increases;

e. a good barometer of economic activity through the movements in its demand;

f. depending on its cost-benefit impacts, a significant determinant of poverty and economic competitiveness and a contributor to increases in the cost of living; and

g. enshrined both symbolically and functionally in our national motto: The Land, The People, The Light.

The LUCELEC team, at all its decision, management and operating levels is always conscious of this awesome responsibility. The Company's continual response even in spite of such challenges as unprecedented volatility and/or escalations in the price of its main raw material, fuel, is to be pragmatic in ensuring that Saint Lucia is supplied with a safe, reliable, readily available, optimally generated and distributed, competitively priced source of power to all customers who desire it whilst striving to earn the statutorily determined rate of return. In spite of the many daunting challenges even LUCELEC's most strident critics would admit that the Company has performed well in meeting its goals. But LUCELEC's aim will always be to continually do better, even in normal situations, and to confront any new challenges as they emerge. The current global financial crisis is one such new challenge particularly as the Company was embarking on significant technology transformation and plant expansion both of which would be subject to increased risk in the normal environment, more so in this dramatically emerging one.

The crisis could impact LUCELEC directly and indirectly and affect its operational and financial situations in the short, medium and long term.

The direct and immediate impacts on the asset holding side were minimal as LUCELEC did not have any funds and reserves invested extra-regionally and in affected institutions and instruments. The Company's reserves for staff pensions and self insurance are safely invested in regional institutions that have not reported any impairment of their external assets that could impact on our Company's financial asset holdings. The credit tightening associated with the crisis did impact LUCELEC as it sought long term financing for the technology transformation of its plant to respond to the escalating and volatile cost of fuel. The immediate result was a slight tightening of rates but with the market having no appetite for LUCELEC's preferred fixed rate commitments beyond five years. However, what was achieved was much better than what well-rated sovereign paper was being discounted at on the markets and this achievement is the result of the Company's record of sound, responsible and prudent management with excellent independent credit worthiness and rating in the market place.

The continuing effect on the Company's operations would be dependent on the extent of the delayed effect of the crisis on the domestic economy; the global efforts being made and the speed of their success; Saint Lucia's own efforts to improve productivity and its international cost competitiveness and attractiveness; the price of the Company's major raw materials, fuel and lubricants; consumer efforts at cost-effective conservation; and on the responses by the Company to mitigate the effects of income-induced demand and supply price changes.

The current crisis can be expected to impact negatively on at least four of the five sectoral drivers of domestic economic activity: tourism, construction, industry and finance through reduced inflows in terms of volumes of, and value from visitors, foreign investments and migrants' remittances. If the effects of the global crisis are properly managed domestically it could have a positive effect on domestic agriculture if greater efforts are made at attaining food self-sufficiency to conserve foreign exchange and relieve unemployment. Those five drivers will impact on the dependent sectors of the economy such as commerce and distribution, banking and finance, government and utilities including power which constitute a disproportionately large share of the overall economy. The specific effect on the power sector will depend on the interplay of the impact of the crisis on domestic incomes on the one hand and the success of efforts to maintain or reduce the tariff on power on the other.

LUCELEC intends to aggressively and proactively address the existing and emerging challenges confronting it including, in particular, the volatile and rapidly escalating cost of its fuel inputs which manifested during 2008.

In the short to medium term LUCELEC will pursue fuel price hedging strategies to help smooth and stabilize its fuel cost during the transition period while it converts from light fuel oils (grade 2 fuel oils) to the significantly cheaper heavy fuel oils (grade 6 fuel oils). Such hedging would allow the Company to offer a flat unit price based on a fixed cost of fuel for a longer period, say six months to a year. But this would need to have the support of the government and the major customers particularly in the tourism and industrial sectors. This is because hedging has a cost and in the medium term does not necessarily reduce the cost of fuel as customers would have to accept that there may be occasions when the hedged price of fuel is higher than the current price. After the conversion is made (over the next two years) hedging would not have as much of an impact as the HFO is significantly cheaper and subject to less price volatility.

The Company will continue to promote conservation among customers to keep the costs of power under control and to ensure that this scarce and expensive commodity is not wasted but, more so, used efficiently by customers to improve the efficiency of production and/or to optimize consumer utility and satisfaction. Neither the consumer nor the country gains when power is wasted and/or inefficiently used and what is not good for country and consumer cannot be good for the Company in the long run.

The continuing search for alternative renewable energies is driven by concerns associated with world health issues, environmental degradation and global warming on the one hand and the escalating and volatile price for oil, the world's main fuel, on the other hand. The rapidly increasing and twelve month trebling of the price of oil to a high of US$147 a barrel made many renewable energy options feasible. In the case of Saint Lucia among the renewable options that are still more attractive to HFO is possible geothermal depending on a feasible assessment of the available capacity and quality of the steam. Wind farms, another renewable energy option, are very land intensive in relation to reliable output and need to be carefully assessed in terms of alternative uses for the appropriate lands in a very small, land scarce, densely populated economy such as Saint Lucia.

Ultimately the cost of power is determined by the costs of varying combinations of three main inputs: fuels, labour and capital. Different power generation technologies use different combinations of these inputs. Our present arrangement is fuel intensive, simple and was justified in the commencement days particularly when fuel prices were very low (US$10 a barrel). The challenge is that when a technology has been adopted it is difficult to change it but given current costs it is desirable that this be done. And the Company is in the process of doing that. But then, it must be recognized that, the alternative options are very capital intensive and therefore the necessary capital would have to be appropriately rewarded if the Company is to attract it.

With the reduction in the proportion of fuel costs in the cost of producing electricity, the current cost of existing capital plus the incremental level and cost of the new capital required for transformation and expansion, will make the cost of capital the dominant costs in the production of electricity and hence in the tariff determination. The strategy going forward, therefore, would be to try to optimize the level and cost of the capital required such that LUCELEC leverages on its equity as much as is consistent with satisfying its existing financial covenants and maintaining its strong credit rating, based on excellent credit worthiness, to allow it to have the easiest access at the lowest cost possible to the now more discriminating and costly capital markets.

There is a great deal of popular misconception about the role of owners equity in the tariff determination formula and the notion that the Company's profit is "guaranteed".

In accounting and financial terms a business enterprise's capital is sourced from debt (borrowed funds such as loans and bonds from third parties that have priority claims on the Company's assets in the event of a liquidation); and equity (from the owners or investors who bear the residual risk of business failure).

The difference between the value of assets and debt is defined as owners' equity. The return that LUCELEC is allowed to aim for from its operations in the subsequent year is based not on owners' equity but on capital contributed by the owner shareholders and includes original capital and retained earnings. The tariff determination does not include capital appreciation or revaluation surpluses as would apply to the typical business enterprise. At present LUCELEC's debt and equity financing is:

Debt or Borrowed Funds = $ 127.5M
Owners Equity = $ 144.6M

or a debt/ equity ratio of 47:53 compared with Barbados Light and Power that is 24:76. Thus the comparable return that LUCELEC investors earned on their capital was 10.0 %, compared with 10.1% (inclusive of a substantial tax credit in 2007) for Barbados' power utility.

The Company is allowed, by law, to budget for its subsequent year's level of profits based on its share capital of $80.2M and its retained earnings of $64.4M. For emphasis: *LUCELEC is allowed to aim for a return ONLY on that part of its capital that it contributed or retained in the Company and NOT on any gains on such capital as is typical of all other business enterprises.*

LUCELEC is never guaranteed its ***total*** profits; it has to earn it. It earns it through superior and efficient performance and from increases in consumer demand. The process to determine the tariff for the subsequent year is to use the performance indicators of the current year to project for the next year and on this basis to aim to earn the statutory rate of return. If the Company's efficiency and standards fall relative to that of the previous year then it will not be able to achieve the legal return. Similarly, if demand falls below the projections then the Company's profit also falls. For instance, it is the comparative sluggish demand for power in 2008 that has allowed the Company to just meet its targeted return but to leave little more for distribution through rebates to the industrial and tourism sectors. This policy framework which is executed very efficiently by a competent management and a team of professionals has allowed LUCELEC's non-fuel costs to grow at a lower rate than that of the local consumer price index over the last twelve years and we are very proud of this achievement which, if allowed, we intend to sustain.

This formula and compliance arrangements remove the lags, uncertainties and costs associated with the typical regulatory regime (which is the reason why it was removed in the original instance) and achieves efficiency and the sharing of such derived benefits with all customers. Our performance under this arrangement compares very favourably with an alternative arrangement of RPI-X depending on what X is determined by the regulator. In places where this arrangement applies, the returns to shareholders are much higher than what LUCELEC has earned.

The first ten per cent of LUCELEC's profits is guaranteed to allow the Company to recover in subsequent years if it failed to do so in any year as a result of serious interruptions in its operations e.g. hurricanes. This guarantee is provided in recognition of the fact that power utilities' investments are large, expensive, lumpy, long term and are for very specialized fixed assets which do not have a ready market in which to dispose of them and if so it would only be at considerable cost and depreciation. Moreover, unlike other business enterprises LUCELEC has a mandated obligation to supply all with power at regulated standards whether it is feasible and profitable to do so or not. It is this basic guarantee that allows and compensates LUCELEC's investors to make power available (at below the true cost of supplying them) to the multitude of low volume customers in the many remote areas in Saint Lucia and also to have the spare and hence idle capacity to always ensure that power supplies to customers are not interrupted.

The returns to LUCELEC's investors are more like fixed cost payments on injected or retained capital with a guaranteed floor of 10%. But the allowable returns are open-ended to allow the Company scope and incentive to search for efficiencies which if attained are then equally shared between investors and designated customers for these efficiency gains that exceed a return of approximately 15%.

The Board suffered a major loss in November with the sudden and untimely passing of one of our long standing colleagues, Mr. Joel Huggins. He served the Board with distinction and modesty over two interrupted periods amounting to nine years during which he represented the Company on the three-man LUCELEC Review Commission of 2000 appointed by Government and LUCELEC. We mourn his passing, share the pain and loss with his family, will always be encouraged by his contributions to LUCELEC and to the regional power sector, and will honour his memory.

Finally, I would like, once again, to thank my Board colleagues, management and staff and our many various stakeholders: customers, shareholder investors and lenders, government regulator, suppliers, and the general public for their support of, and empathy for, the Company during this challenging year, and look forward to the continuance of this cooperation and understanding as we face, together, more than ever, the many more challenges that lie ahead.

Marius St. Rose
CHAIRMAN

Board of Directors

Board of Directors

- **Marius St. Rose, OBE Acc. Dir. – Chairman**
  Mr. St. Rose is an Economic, Management and Financial Consultant. He joined the Board of Directors of the Company in July 1996, representing minority shareholders and has a M. Sc. (Economics) and a Diploma in Management Studies. He chairs the Human Resource and Major Investments and Initiatives committees of the Board.

- **Trevor M. Louisy – 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 Human Resource Committee.

- **Isaac Anthony**
  Mr. Anthony is the Permanent Secretary Ministry of Finance/Director of Finance, 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 is the Chairman of the Audit Committee and a member of the Governance and Major Investments and Initiatives committees.

- **Joel Huggins Acc. Dir. (up to November 14, 2008)**
  Mr. Huggins was appointed to the Board of Directors in January 2005, representing minority shareholders. He was the Managing Director of Dominica Electricity Services Limited and a member of the Audit Committee. Mr. Huggins held a B. Sc. in Mechanical Engineering. Mr. Joel Huggins died on November 14, 2008.

- **Stephen Mc Namara**
  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 Governance Committee and a member of the Major Investments and Initiatives Committee.

- **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 from the Edinburgh Business School of Herriott Watt University. Mr. Mathurin is a member of the Audit Committee.

- **Michal Andrews Acc. Dir.**
  Mrs. Andrews is a self-employed Tax and Value Added Tax (VAT) Consultant. She was appointed to the Board by First Citizens Bank Limited on June 29, 2006. Mrs. Andrews holds a B. Sc. in Accounting, a Diploma from Harvard University – International Taxation and is a Fellow of the Chartered Association of Certified Accountants. Mrs. Andrews is a member of the Governance Committee.

- **Larry Howai**
  Mr. Howai is the Chief Executive Officer of First Citizens Bank Limited. First Citizens Bank Limited appointed him to the Board of Directors on January 2, 2007. Mr. Howai holds a B. Sc. in Economics and is a Certified Management Accountant. Mr. Howai is a member of the Human Resource and Major Investments and Initiatives committees.

- **Christopher G. Huskilson**
  Mr. Huskilson is the President and Chief Executive Officer of Emera Inc. He was appointed to the Board

of Directors by Emera St. Lucia Limited (formerly known as CBPF St. Lucia Limited) on January 24, 2007. Mr. Huskilson holds a B. Sc. (Engineering) and a M. Sc. (Engineering) from the University of New Brunswick. Mr. Huskilson is a member of the Audit and Human Resources committees.

- **Raymond R. Robinson**
  Mr. Robinson is the Vice President - Integrated Operations, Emera Inc. He was appointed to the Board of Directors by Emera St. Lucia Limited (formerly known as CBPF St. Lucia Limited) on January 24, 2007. Mr. Robinson holds a B. Sc. (Electrical Engineering). Mr. Robinson is a member of the Governance and Major Investments and Initiatives committees.

- **Irving John**
  Mr. John is the Chairman of the Castries City Council/ Mayor of Castries. He was appointed to the Board of Directors by the Castries City Council on March 5, 2007. Mr. John graduated from the University of Reno, Nevada, Aviation Department, qualifying as a commercial pilot with a twin engine rating, specializing in agricultural crop spraying. Mr. John is the principal partner in the firm of John's Utility Services which has been providing meter reading services to the Company from February 2002. Mr. John is a member of the Human Resource Committee.

Directors' Report

The Directors present their report for the year ended December 31, 2008.

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 43rd Annual Shareholders Meeting were:

Non-Executive Directors:

- Marius St. Rose
- Matthew Lincoln Mathurin
- Isaac Anthony
- Irving John
- Joel Huggins (up to Nov. 14, 2008)
- Stephen Mc Namara
- Michal Andrews
- Christopher G.Huskilson
- Raymond R. Robinson
- Larry Howai

Executive Director:

- Trevor Louisy

Mr. Joel Huggins, one of the Directors representing minority shareholder interests died on November 14, 2008.

Financial Results

The Company sold 302 million kWh of electricity earning total revenues of EC$303.2M, an increase of 25% over the previous year, attributable to the increase of 1.4% in sales units during the year and higher fuel prices.

Net profit for the year was EC$24.9M, which was a decline of 14.3 % compared to the previous year.

The Company achieved Earnings per share of EC$2.12 which was 14.5% lower than in 2007 and the dividend distribution was EC$1.34 a 5.6% decline.

Assets acquired during the year amounted to EC$27.6.M, and loan draw downs were EC$20M to finance the current year's capital programme covering system enhancements, additional fuel storage and the first phase of the Automated Metering Infrastructure.

Dividends

The Board of Directors declared a dividend for the financial year ended December 31, 2008 of 70% of the Company's adjusted after tax net profits, having paid an interim dividend in December 2008 of $0.65 per ordinary share.

The total dividend for the 2008 financial year amounted to EC$1.34 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

Three Directors attended training hosted by the Eastern Caribbean Securities Exchange (ECSE) in collaboration with the Institute of Chartered Secretaries and Administrators/ Chartered Secretaries Canada (ICSA/CSC) on the Directors' Education and Accreditation Programme (DEAP).

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, 2008 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

Despite the turmoil in the economic and financial spheres, the overall Company performance was commendable with seven of the nine corporate targets being met or surpassed, one between target and threshold and one outside the threshold.

Operations Review 2008

GENERAL

Financial and economic uncertainty, compounded by widely fluctuating oil prices were among the main issues that characterised a very eventful year. After increasing steadily in the early part of the year, crude oil prices soared to over US$147 a barrel in June resulting in a fuel surcharge of EC$0.34 for July and all-time high unit rates of EC$1.12 and EC$1.22 for domestic and commercial customers respectively. Crude oil prices declined fairly rapidly thereafter, driven by economic recession in much of the developed world. This downturn was precipitated by major crises in the U.S. financial and banking sectors and the ripple effects had significant impact on the global economy.

Despite the turmoil in the economic and financial spheres, the overall Company performance was commendable with seven of the nine corporate targets being met or surpassed, one between target and threshold and one outside the threshold.

There was no increase in the non-fuel component of the base tariff despite high inflation levels and as such the target for Tariff Change vs. Inflation was easily achieved. There was also an amount of EC$2.4M made available via the tariff mechanism for redistribution to the Hotel and Industrial customers in 2009.

The performance in the area of SAIDI (System Average Interruption Duration Index) exceeded the target as a number of new initiatives gathered momentum. The 7.72 hours recorded was an improvement of about 19% in system reliability performance when compared to the previous year.

Safety was not compromised in pursuit of efficiency as for the third successive year the target for RIA (Reportable Injury Accidents) was achieved. The challenge is to strive for an accident free year by 2010.

It was essential that the fuel efficiency target be met in a year when fuel prices rose to unprecedented figures. This was achieved rather comfortably in the end, but it required modification to our generating spinning reserve philosophy which did not impact our system reliability.

As usual the Safety Audit is completed in January of the following year. The Auditor was impressed with the continued improved performance and is convinced that a performance rating of 100% is virtually within the reach of all the departments and thus the Company. Despite the effort the performance fell just short of the target.

The performance for Return on Equity slightly exceeded target despite 2008 posing some significant financial challenges and sales growth being lower than budget.

The Company's efforts at reducing Line Losses failed to achieve the desired result, as losses remained stubbornly high and the performance in this case was above the threshold.

On a more positive note, and of great significance, the results of the Customer Satisfaction Survey yielded a very favourable rating notwithstanding widespread discontent with the high fuel surcharges in the middle of the year.

Another encouraging result was the performance in Work Hours Lost which also exceeded the target.

The year also saw reorganization of the Company with the formation of the Business Development Unit and restructuring of some departments within the Technical Division. Both the Business Unit and the restructuring, specifically in the Transmission and Distribution and System Control departments, will help to ensure that the Company is properly positioned to meet future challenges.

During 2009 the Company will persist in its drive to achieve excellence through continued pursuit of the corporate targets which have served it so well in the past. The present economic crisis will require greater vigilance in the management of all aspects of our operations and to this end, increased efficiencies will be sought wherever possible without compromising safety, reliability or relationships with stakeholders including customers and Government.

The lack of progress in reducing losses will be given high priority in 2009. A Loss Reduction Working Group (LRWG) was formed towards the end of 2008 and it is expected that in conjunction with new initiatives that will leverage advanced technologies, some positive results will be produced.

There is no doubt that the high degree of performance attained during the year would not have been possible without LUCELEC's dedicated staff at all levels who continue to give of their best in spite of trying times. Their efforts resulted in improved levels of service to customers and by extension to the country as a whole. They are the Company's most valuable resource and efforts will be made to ensure that the working environment continues to improve and suitable training is provided to equip staff with the knowledge and skills necessary to perform their jobs in a manner that will exceed the high expectations of all stakeholders.

BUSINESS DEVELOPMENT UNIT

The Business Development Unit (BDU) was formulated in September 2008 to identify new revenue streams and to develop and ensure proper implementation of all new major capital projects of the Company.

In 2009 the Unit will continue working on the various major projects that were started in 2008. Of critical importance is the development of a fuel price hedging programme that aims to provide a measure of stability in the price of the fuel utilized in the production of electricity. The BDU is also working on a major project to convert the Cul de Sac Power Station (CDSPS) to operate on Heavy Fuel Oil (HFO). The project is expected to span 22 months and upon completion should provide some relief against escalating global fuel prices and help reduce energy costs.

OUTLOOK

During 2009 work will continue on the expansion of the Company's generating capacity to meet the expected growth in the demand for electricity. Efforts during the year will focus on the siting of a new power station in the south of the island, the acquisition of land in the south eastern part of the island and the compilation of wind data from the area for the development of a 12 megawatt (MW) wind farm. Although wind energy is intermittent and cannot be considered as firm capacity, it will serve to reduce fossil fuel consumption and carbon (CO2) emissions.

The BDU has commenced work on an initiative regarding grid tied small photovoltaic systems. The project is expected to elucidate concerns on safety, power quality, protection, interconnection, and metering.

PLANNING

The performance of the Planning Department in 2008 was very encouraging.

Sales growth in 2008 was lower than forecasted (1.4% compared to 2.1%) owing mainly to the downturn in the economy. The hotel and industrial sectors were the main contributors to growth.

A study of the generation and transmission system was undertaken in two phases. Phase 1 addressed the technical and economic study for the period 2008 to 2028, while Phase 2 addressed the impact of the various recommendations from Phase 1 on the tariff. Coming out of this study, plans commenced for the conversion of the Wartsila units to burn Heavy Fuel Oil, and the construction of a new 66/11kV substation at Ti Rocher.

As part of the development of a Geographic Information System (GIS) the department completed data collection and labelling of structures on the primary distribution network and put in place a system to maintain the integrity of this data. The department also undertook training of staff attached to the operating departments in the use of GIS.

The Distribution Planning Section (DPS) continued its programme of developing projects designed to provide improvements in three fundamental areas - system reliability, system losses and the distribution network. To satisfy these core objectives projects for feeder upgrades and supply redundancies were conceptualized and designed. Designs for providing a reliable power supply to Island Global Yachting (IGY) marina at Rodney Bay were completed, out of which two parallel underground feeders with a total capacity of 5 MVA originating off the Reduit substation were commissioned and installed. These circuits are also capable of supporting the existing network in the Rodney Bay and Bonne Terre areas.

OUTLOOK

For the next five years annual average growth rates of 2.37% on sales and 2.3% on demand are projected. The projected increase in demand will have implications on the production and delivery infrastructure, both requiring some strengthening and expanding to cater for a sustainable, reasonably cost and reliable power supply.

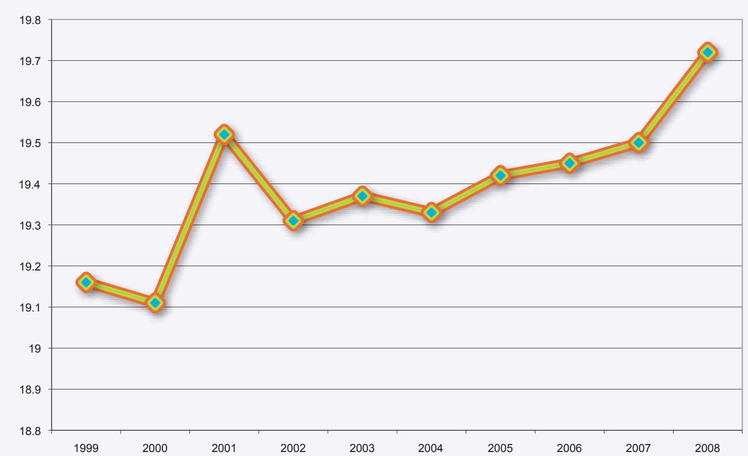
In 2009 the Planning Department will produce more proposals for the further development of the generation, transmission and distribution systems. These will include: the design and construction of a new substation in the north-east of Castries; the purchase of land for the construction of a new substation in the north of the island; commencement of civil and other infrastructural works to facilitate the conversion to HFO; the installation of 9.3km of 66kV underground cables between the Cul-de-Sac Substation and the Castries Substation; the purchase of land on the south-east coast to commence testing and construction of a wind farm as part of initiatives to include renewables in the generation mix to diversify LUCELEC's energy portfolio; the development of GIS applications for T&D and Customer Service; and the commencement of work on an enterprise-wide GIS.

With the restructuring that commenced in 2008, the Planning Department will be integrated into the Business Development Unit but some of the areas such as GIS, Wayleaves, Laboratory Services and Distribution Planning will be reassigned to other departments.

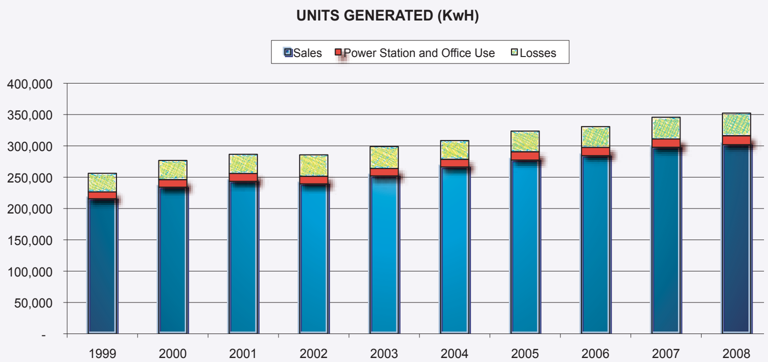
GENERATION

During 2008 the Generation Department functioned exceptionally well achieving an overall plant availability factor of 91.27% and improving overall fuel efficiency

SPECIFIC FUEL CONSUMPTION (kWhs/Gallon)



(19.72kWh) during the year due, in part, to the operation of newer, more efficient plant and a strict operational regime. A total of 352.34 million electricity units were generated during 2008 compared with 345.70 million in 2007, an increase of 1.9%. The system peak demand increased to 54.1MW from 52.7MW in the previous year and forced outages decreased



to 20 from 27 in the previous year. Total available capacity for 2008 was 76MW.

During the year the department undertook one 60,000 hour major overhaul on CDSPS #7. A major challenge was the unavailability of spares in a timely manner from the manufacturer to complete the overhaul as scheduled. This resulted in increased downtime of the unit. A large number of inspections at 500 and 1000 hour intervals were performed on all plant in compliance with the maintenance programme to ensure availability and reduce the risks of breakdowns. Particular attention was given to the maintenance of the auxiliary equipment for the engines as the aging of the equipment increases their maintenance requirements.

During the year the department successfully upgraded the existing Distributed Computerized Control System for monitoring and controlling the plant. The project to install two additional bulk fuel tanks at Cul de Sac Power Station was completed after several delays. Other small station

improvement projects were implemented to increase the overall effectiveness of the department in meeting its operating requirements.

The garage dispatched its services with a high level of professionalism and ensured that all Company vehicles were in excellent working condition during the year.

Training for all levels of staff within the department in the areas of Diesel Mechanics, LUCELEC Safety Rules, Supervisory Management, Turbochargers and First Aid was provided during the year. However there have been some challenges in identifying suitable training for the more technical aspects of the jobs and thus the Company was forced to rely on the services offered by the engine manufacturer.

OUTLOOK

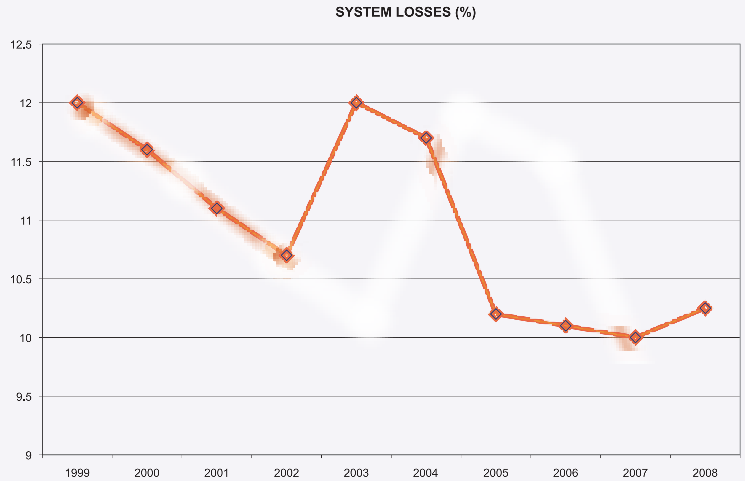
During 2009 one area of focus for the Generation Department will be the further development of its human resources as the department continues to strive for excellence in operations at all levels.

Major overhauls will include a 30,000 hour on CDSPS #1 and 80,000 hour overhauls on CDSPS #5 and CDSPS #6. Other planned inspections will be completed on all the units to ensure that they meet the specifications for safe operations.

The department will collaborate with other divisions in the conversion of the plant to use Heavy Fuel, expected to commence in 2009.

TRANSMISSION & DISTRIBUTION

2008 was an excellent year for the Transmission & Distribution Department. All of the department's targets were achieved except in the area of system losses. More than 95% of the work planned for the year was completed within budget. Changes in the staff structure at the supervisory and junior levels helped to make the maintenance department more effective and more responsive to customer requests. This would have contributed to the Company achieving its target in the area of Customer Service. There were fewer safety violations and no reportable injury accidents for the department. Reliability improved dramatically over last year although it is becoming increasingly difficult to improve at rates experienced in the past.



The Department's emphasis for 2008 was the reinforcement of the distribution system, particularly the low voltage distribution, and the installation of additional field switches, fuses and fault indicators to enhance reliability. The implementation of an upgraded VHF radio system which started in 2007 was delayed further because the required license and frequency assignment were obtained only in September 2008. It is expected that the upgrade to the VHF radio system will be completed very early in 2009.

The roll out of an advanced metering infrastructure (AMI) was delayed but by year end, 1,300 smart meters as well as the server and head-end software had been installed. Already, the meters can be read remotely. Work on an interface to the Customer Information System is in progress and it is expected that LUCELEC will be in a position to bill at least 4,000 customers through automatic meter reading by the end of the first quarter of 2009, and a further 10,000 customers by the end of 2009.

Significant effort was put into identifying faulty meters and cases of meter tampering in collaboration with the Customer Service Department. A number of fixed capacitors were installed and more optimal sharing of load across feeders was achieved. However, these initiatives along with others across the technical departments were unable to achieve the target for system losses. The solid state smart meters being deployed as part of the AMI and the various analyses that the system facilitates, will be among the major factors in the efforts at reducing system losses in 2009.

Line extensions costing approximately $1M were completed to provide new connections to prospective customers who were outside the normal connecting distance. Also, a number of street lamps were installed throughout the island in response to requests by customers as well as for illuminating major and minor roads. A greater attempt was made to meet the needs for community lighting to the satisfaction of customers.

OUTLOOK

In 2009 the Department's emphasis will continue to be on enhancing its responsiveness to customers. This will involve recruitment of some additional staff, some further restructuring, and training. Also, work will commence on achieving a more healthy balance between in-house and contractors' resources.

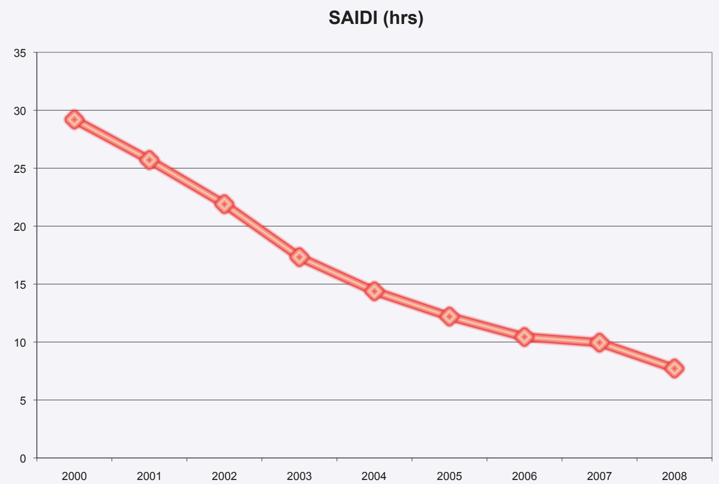
The Department will be integrally involved in implementing major projects conceptualized by the Planning Department and assisting other departments in initiatives such as distribution automation. The necessary tools and testing equipment will be procured to take live line work to another level and systems will be put in place to make use of maintenance management software to enhance the department's effectiveness as well as keeping the GIS data accurate.

AMI will continue to be the major project pursued and very shortly the Company will begin to benefit from this initiative.

SYSTEM CONTROL

As the nerve centre of the technical operations, the System Control Department worked closely with the Generation and Transmission and Distribution departments to ensure performance targets were met for reliability, safety and efficiency.

In particular, the SAIDI performance of 7.72 hours, a significant improvement over the 2007 figure, proved that efforts to improve system reliability are continuing to reap rewards. Fortunately, no natural disasters tainted the performance figures as was the case in 2007. It is anticipated that the 2008 annual service continuity report, which provides benchmarking of system performance against some Caribbean and North American utilities, will show LUCELEC making significant progress in comparison to previous years.



Distribution automation got underway with the installation of the first few autoreclosers on the 11kV system. Also, the number of fault finders continued to grow in 2008, further improving fault locating times.

OUTLOOK

In 2009, more Distribution Automation initiatives will be pursued. The interfacing of all such devices into the existing SCADA system via GPRS communications will provide the means to achieve additional improvement in system reliability in 2009.

Some enhancing of and adjustments to the human resource structure within the Department will serve to improve existing operations as well as provide resources to cope with the new responsibilities associated with the department taking on the functions of Protection and Communications. System losses will continue to be a major area of focus in 2009.

BUILDING SERVICES

The Building Services Section performed its duties very successfully during the year. All LUCELEC buildings and facilities were maintained to the highest standards. The Section also undertook a range of activities and projects that were intended to improve the working environment and to provide increased levels of safety and security at a number of LUCELEC offices and substations.

OUTLOOK

The Building Services Section has an extensive capital works and routine maintenance programme for 2009. Under the capital works programme refurbishment, renovations and reinforcement works will be undertaken at the main Administration Offices at Sans Souci, as well as the Transmission & Distribution and Stores buildings at Cul De Sac. The department also expects to upgrade the security systems, extend the garage, construct a new storage shed and rehabilitate additional sections of the road infrastructure at the Cul De Sac complex. The infrastructure and physical facilities at the Vieux Fort Administration building, Vieux Fort Transmission & Distribution complex and some of the substations will also be rehabilitated and improved.

The section's routine maintenance programme has been designed to ensure that all LUCLEC buildings and facilities will be maintained in keeping with the Company's tradition of excellence that goes back many years.

CUSTOMER SERVICE

The negative impact of increasing world oil prices on the cost of electricity this year, proved to be a considerable challenge for the department. In the face of significant disquiet among customers over the unprecedented cost of electricity between the months of April and September, the department concentrated its efforts on providing customers with the necessary information to facilitate efficient energy use and to encourage the implementation of cost control measures in the home and office.

Direct bill delivery services to community post offices island wide, which commenced in late 2007, progressed very successfully in 2008. Customer satisfaction levels increased whilst the frequency of customer complaints in relation to delayed or non-receipt of bills reduced dramatically. The availability of electricity bills to customers several days sooner than in previous years served to enhance the Company's efficiency efforts and facilitate earlier bill payment.

The reach of the Company's bill payment services was extended to the rural communities of Saltibus and La Ressource in Dennery. Customers now have the option of paying their bills at the offices of Credit Cooperatives in their communities. Seven other such entities already provide this service to their membership and residents in surrounding areas.

By year-end on-line bill payment services were available to customers of FirstCaribbean International Bank (FCIB) and Scotiabank. This complements the service available to customers of Bank of St. Lucia. Whereas service utilisation is relatively low at this time, the level of subscription is expected to increase in due course with appropriate marketing.

The Company registered a significant improvement in performance on the customer survey. A satisfaction rating of 78.7% was achieved in 2008 versus a performance of 71% in 2007. This remarkable achievement exceeded the 2008 corporate target of 75%. Notwithstanding this, there will be sustained focus on addressing the areas which remain a source of concern for customers with a view to achieving even greater performance in the coming years.

OUTLOOK

In January 2009 the Customer Service Department will begin Phase 1 of a project to replace its current Customer Information System (CIS), which has been in use from 1996, with a more efficient and technologically superior system that will facilitate the advancement of the Company's strategic direction. The department will work with a Consultant to select an appropriate CIS vendor and the actual software replacement will take place during Phase 2 of the project, which is expected to commence by September 2009. The department will be able to pursue its customer relationship management goals more vigorously in the future and utilise all available resources and technologies in doing so.

The Customer Service Department in conjunction with the Transmission & Distribution Department has embarked on an Automatic Metering Infrastructure (AMI) project, which will materialise more fully during the course of 2009, albeit on a phased basis. This advanced technology is projected to significantly improve meter reading efficiency and accuracy, enhance customer service delivery, and will allow the department to realise cost savings in the areas of meter reading and disconnections.

The department will continue to extend the reach of its services to customers island-wide using various means. With bill payment facilities already available at local supermarkets, banks and credit co-operatives, the department will seek to advance its plans to provide such services via the internet.

HUMAN RESOURCES

During 2008 the Human Resources Department achieved 100% of the targets set for the year. This included a comprehensive Job Analysis exercise which led to the preparation of Job Specifications for all jobs in the Company, followed by the completion of Job Evaluations for all grades. This exercise was the first of its kind to be conducted at LUCELEC and is the basis upon which a new performance management system will be developed. A Compensation & Benefits Survey was also completed for the junior staff, as a similar one had been done previously for the senior levels.

All the Company's retirees over the years were honoured with a Special Luncheon and gifts.

Concerted efforts were made to improve employee morale by resolving staff complaints quickly and effectively, enhancing the employee recognition programme at all levels, and providing opportunities to act in and gain promotions to higher positions of authority when vacancies arose.

The Staff Appreciation Night held in January had record attendance and was followed by the Company's first ever Family Fun Day. Increased emphasis was placed on staff recognition with a well received quarterly award programme for outstanding employees. The first ever Retirees Luncheon was held in September and received wide spread approval. It will be made an annual event.

The department was involved in a record number of pension matters on behalf of the trustees of the respective schemes and work continued with the Pension Amalgamation Task Force on the creation of the new Defined Contribution Scheme for all new employees who joined the Company during the year. The Scholarship Scheme for the children of employees continued during the year with 21 students receiving Company support in 2008.

Training programmes continued for all levels of staff and at year end 91% of the total staff body had received some form of training. Career development charts for all employees were updated and training plans for the year were successfully implemented.

The first recipient of the Bernard C. Theobalds Scholarship successfully completed his Mechanical Engineering degree at the University of the West Indies and returned to work with the Company at mid-year. Another employee in the Finance & Accounting department was provided with study leave to complete a degree in Management Studies and has been reintegrated into the department. During the summer months and other short vacation periods during the year, the department again coordinated work attachments for 60 students from secondary schools and the Sir Arthur Lewis Community College.

The Company once again excelled in the area of Safety, achieving an annual safety audit rating of 97.4%. Safety month was held in March and focused on healthy lifestyles and safe working conditions. This may well have contributed to the excellent performance in the Work Hours Lost target. Regular workplace inspections continued in order to improve general safety awareness and address concerns and hazards before they became larger problems. A special committee was formed to look at health and wellness issues for the staff. There were notable improvements in security across the Company as well, with a new door access system and additional security cameras installed at various locations.

Negotiations with the Seamen, Waterfront & General Workers' Trade Union began during the last quarter of 2008, after a long hiatus from the previous year.

At the end of the year there were 214 permanent employees. Two new senior staff joined the Company in September when the positions of Finance & Accounts Manager and Internal Audit Manager were filled.

OUTLOOK

The results of the job evaluation project will be reviewed in 2009 and implemented where possible. Work will begin on the new performance management programme which is expected to lead to increased motivation, increased productivity, job satisfaction and ultimately better performance at all levels. Training will be given continued attention with management staff being exposed to leadership development and other staff receiving training in key skills as agreed in the Company's training plan. Safety initiatives will continue and further improvements are expected in this area, as well as with security and the environment. Other department initiatives will include the review of the HR Information System, the use of psychometric testing in recruitment and further employee morale surveys. Continued cordial industrial relations are expected.

INFORMATION SYSTEMS

The systems supervised by the IS Department achieved a high reliability rating for 2008. Amongst other things, during 2008 the department was involved in further improvements to the network infrastructure. At each of the main sites, efforts were made to increase data storage capacity to terabyte levels with the addition of storage servers for each of the primary locations. An additional communications link connecting the Sans Souci and Cul De Sac offices has facilitated improved communication between these locations allowing for load balancing and an initial level of redundancy. The communication infrastructure was further improved with the deployment of secure remote VPN access for select staff and Blackberry integration of email services as well. The department provided additional assistance for the successful deployment of door access control at various key points within the company. This is expected to be expanded further with the existing base infrastructure now fully functional.

OUTLOOK

In 2009 the IS Department will continue to assist other units in their respective deployments as they implement IT based solutions aimed at achieving their goals. The preliminary ground work has been completed in the areas of the new Customer Information System (CIS), automated meter infrastructure via wireless communications and security for SCADA remote automation amongst other projects. These projects will provide significant benefits to both customers and LUCELEC as all aspects of the customer relationship are impacted.

Within the core IT operations, emphasis will be placed on improving more of the backbone infrastructure to accommodate the proposed additional services. This will include further improving communications availability via redundancy, increasing network capacity, and increasing accessibility with the deployment of additional wireless networks and terminal services. Efforts will also be made to further improve the reliability of systems by addressing specific identified risks including both internal and external threats.

Additional licensing and other components will be acquired as the Department attempts to address various areas requiring improvement within the IT system. End users can expect to see a seamless transition with the implementation of all these systems throughout the year to their benefit. The Department will also seek to improve response times in dealing with the wide array of issues which may be encountered as users rely more and more on technology. Training in 2009 will be an additional focus to continue to develop the skill sets in security and advanced database management necessary to successfully implement newer technologies.

CORPORATE COMMUNICATIONS

2008 saw LUCELEC's public corporate profile raised to new heights. The Company received more coverage in the local media with the majority of it extremely positive. That the Company achieved a Customer Satisfaction rating of 78.7% in a survey done just a few months after fuel prices and the unit rate for electricity reached record highs in 2008, speaks volumes for the favourable public profile that LUCELEC enjoyed. A September 19, 2008 Mirror Newspaper Editorial summed up the corporate profile that had been developed for the Company. A section read: "*LUCELEC must be complimented for the various initiatives it has been taking, especially in recent times, all aimed at lessening the impact of increased prices for electricity on its consumers. These have ranged from rebates, to a vigorous public service campaign advising on steps that can be taken to reduce electricity consumption and consequently minimize the impact of prices. That an electricity company would so go out of its way, as it were, to offer this kind of advice freely, must speak of its own conscience and social responsibility and recognition that in the present circumstances, we are really in this fight together.*"

Other successes for the department in 2008 included a 10-part series of radio programmes and newspaper columns explaining the Company's customer-side operations, excellent relations with the media, improvements to the Company newsletter, development of a greater awareness among staff of the Company's mission, vision, and strategic priorities, and the successful co-hosting of the CARILEC CEOs conference.

The department also oversaw the Company's corporate social responsibility thrust and disbursed $0.4M in donations through the LUCELEC Trust. The Company also sponsored, to the tune of $0.3M, various national and community activities throughout the year. The media coverage of some of the major donations and sponsorships contributed to the Company's high and positive media profile.

OUTLOOK

During 2009 the Department will highlight LUCELEC's people-centred and caring approach to its customers and the community, develop among the Company's various publics a sense of involvement in LUCELEC, link the LUCELEC brand with efficiency, reliability, safety, and customer care, and continue to provide consistent and relevant information on LUCELEC, electricity and energy. Every effort will be made to strengthen relationships with organizations, interest groups and opinion shapers.

During the first quarter a communications audit will be undertaken. The results of this audit will feed into other initiatives such as the redevelopment of the Company website and Electronic Information Centre (EIC), and the development of a Communication Policy as well as an Information and Document Management policy and associated procedures. All of these will go towards improving internal communication and how the Company communicates with its various publics.

In 2009 the Company's philanthropic and sponsorship efforts will be more meaningful and targeted. Interventions, through the LUCELEC Trust and otherwise, will focus primarily on providing support to programmes and institutions that seek to target youth at risk and crime prevention.

FINANCE & ACCOUNTS

During the year the department finalised its restructuring to enable a higher quality of service to internal and external stakeholders.

The new structure reflected the core responsibilities of the department headed by a senior staff member in the functional areas of Management Accounting, Financial Accounting, Stores & Purchasing and Enterprise software support. Day to day management is effected by the Finance & Accounts Manager who joined in September, 2008.

All key reporting and statutory targets were met during the year and a large measure of progress was made on the effective and efficient utilisation of the new enterprise software.

Additional information and support was provided to the various departments to enable them to successfully accomplish Corporate and department objectives.

OUTLOOK

In 2009 the department will seek to focus on the provision of a greater extent of quality information for use by management and the Board in setting targets and objectives and measuring performance.

Areas of focus will include project analysis and evaluation, earnings and cash flow forecasting, performance evaluation, enhanced procedures for higher quality budget preparation and monitoring. User training will be enhanced so as to allow greater access to relevant, timely information and the ability to carry out analyses on a regular basis.

Formal and structured management of the Company's risk profile will also be a critical task during the year requiring constant monitoring and the development of strategies and tasks to mitigate these to the greatest extent possible.

INTERNAL AUDIT

The post of Internal Audit Manager was filled on September 15, 2008. Consequently much of the period was spent obtaining an understanding of the Company and ensuring that all required documentation relating to the organization of the Department was in place. The Department reviewed and updated its Charter and developed an Internal Audit policy. They set out the purpose and responsibility of the Department as well as the expectations of management in the internal auditing process. The Department also reviewed and updated the Charter for the Audit Committee.

With the increased focus on Risk Management by the Company, the Department organized a Business Risk and Controls Seminar for all management staff. This was followed by a similar seminar in December 2008 for members of the Audit Committee to ensure that both management and the Audit Committee had a common understanding of the risks facing the organization.

With the support and guidance of the Department, management then proceeded to identify and assess the business risks in the various departments. The results of this exercise will be used to inform the Department's work plan for 2009.

OUTLOOK

In 2009, it is expected that all high risk areas in the Company will be audited. It is also expected that the manpower of the Department will be increased so as to ensure sufficient audit coverage, continuity and the achievement of the Company's objectives.

FINANCIAL OPERATIONS

Sales & Revenues

Following an increase of 4.7% in 2007, unit sales registered growth of 1.4% for the year, reflecting the many challenging issues that the Company faced during the year.

Factors which adversely impacted the growth rate included the one-off spurt in sales from Cricket World Cup in 2007; escalating and fluctuating fuel costs which forced customers to implement various energy saving measures;

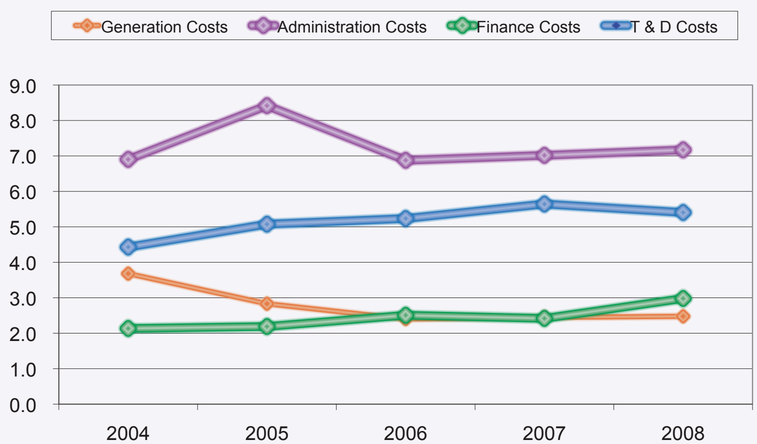
and the general lower level of economic activity which was exacerbated in the second half of the year.

This resulted in declines of 1.5% in the Domestic sector, and 1.4% in the Commercial sector. Growth of 6.6% was registered in the Hotel sector reflecting new and renovated properties coming on stream, and an 18% improvement in the comparatively small Industrial sector driven largely by activities in the Water sector.

Total revenues were EC$303.2M an increase of EC$60.7M (25%) over the previous year. This was due in large part to the significant increases in fuel prices during the first half of the year. During the year the Company revised its estimate for unbilled revenue to a more realistic 46% (2007 – 57%) which negatively impacted revenue by EC$2.1M.

Fuel costs increased significantly and the average price per gallon for the year was EC$9.9089, an increase of EC$2.7227 (37.9%) over the previous year. This item remains the single largest cost item and represents 78.1% of operating costs (2007 – 71%). Base tariff prices remained constant with overall tariff variations reflecting changes in fuel prices.

Cost Per Unit Sold (EC Cents)



Generation costs were higher by 10.5% largely reflecting the higher fuel costs during the year. The department however continued its scheduled maintenance and efficiency programmes, realizing higher fuel efficiency and lower costs related to breakdowns and inspections. Depreciation costs increased by EC$1.2M, reflecting the investment in generation capacity during 2007 and additional fuel storage capacity.

Transmission and Distribution costs were flat year on year despite higher depreciation charges of EC$0.7M. Labour increases were offset by expenditure savings in major areas.

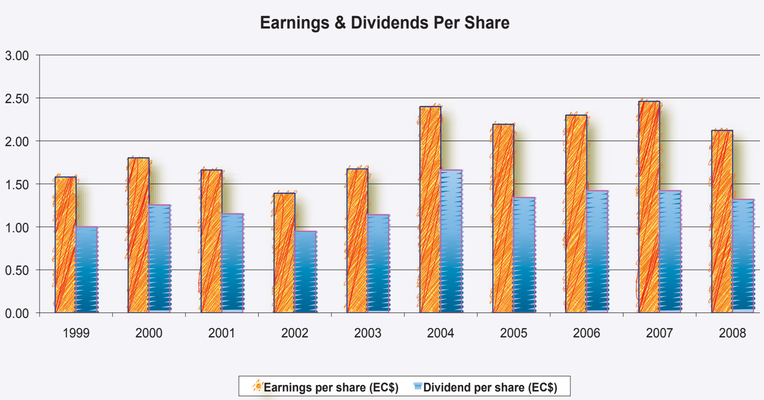
Administrative expenditures increased by EC$0.2M (1.1%) mainly due to strategic initiatives such as the company-wide Job Evaluation exercise and Job Market survey. These investments will assist in ensuring that employee positions and remunerations are fair and, at a minimum, comparable with the best employers in the island. A Fixed Assets Appraisal study and Post Implementation review of the new enterprise system were also carried out. There were added costs for Public Relations and Communications as this was now functioning as a new section of the Company and great efforts were made to drive energy conservation messages and general customer education.

Finance costs increased significantly by EC$1.8M as interest costs for capital expansion programmes which were brought into service were no longer capitalised.

PROFIT

Profit before tax was EC$35.8M a decline of EC$2.3M (6.0%), representing a return on sales of 11.8% (2007 – 15.7%). Profit after tax out turned at EC$24.9M a decline of EC$4.1M (14.3%). Taxes were impacted by an additional tax charge of EC$1.8M levied in respect of insurance premiums paid to overseas insurance companies. Excluding this one-off item, the effective tax rate increased slightly to 25.5% (2007 –

23.9%) reflecting the lower levels of capital expenditure and tax allowances in 2008.



The Earnings per share registered at EC$2.12 (2007 - EC$2.48) reflecting the lower net profit for the year. Dividends for the year is EC$1.34 per share (2007 -EC$1.42). With Company's share price trading at EC$25 during the year this equates to an after tax return of 5.4% (2007 – 5.7%) which is almost double the minimum interest rate on savings of 3% as mandated by the Eastern Caribbean Central Bank.

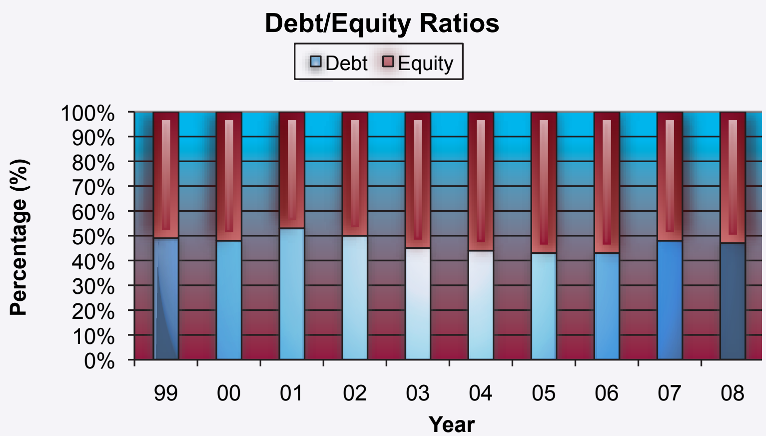
The rate of Return on Equity was 17.6% compared to the previous years' figure of 21.4%.

There was a capital appreciation in the book value of the shares of 4.8% (2007 – 4.6%). The Price Earnings ratio was 11.8 times compared to 9.8 times in 2007.

In accordance with the provisions of the Electricity Supply Act, an amount of EC$2.4M (2007 - EC$4.8M) has been set aside out of net profits for distribution as rebates to Hotel and Industrial customers during 2009.
Based on historical values, the net profit for the year translated to 8.3% on Return on Fixed Assets and 6.5% on Total Assets. The return on Fixed Assets would be 6.9% based on estimated appraised (current) values.

CAPITAL EXPENDITURE

This amounted to EC$28.3M for the year compared to EC$51.8M in 2007. The 2007 figure reflected the purchase of the new generator. Expenditure for the year focused on investments to improve the T&D system, installation of additional field switches, fuses and fault indicators, the commencement of the first phase of the Automated Metering Infrastructure, the installation of auto reclosers, upgrading of the Company VHF Radio system and the installation of additional fuel storage capacity.



WORKING CAPITAL MANAGEMENT

Despite the significant increases in customers bills during the year the Company managed to obtain an overall reduction in total trade and other receivables. In the face of the challenges the Days Sales Outstanding registered at 42 days on electricity accounts, a significant reduction on the 50 days achieved at the end of 2007.

This area will continue to receive focus in 2009 as well as obtaining favourable financing terms, efficiently managing suppliers credit and investment options that will generate additional returns on cash resources.

CAPITAL FINANCING

The Company obtained additional loan funding of EC$20M for its capital programme, and is concluding arrangements for the financing of the conversion of 6 of its generators to use Heavy Fuel Oil commencing in 2009.

ASSET APPRAISAL

The study was concluded during the year, reflecting significant current value in existing assets. The report will be used primarily for establishing asset values so as to assist in determining required levels for the Self Insurance Fund and levels of commercial insurance.

SELF INSURANCE

An amount of EC$1.6M (2007 - $2M) was set aside during the year for payment into the fund. The fund will stand at EC$7.2M in cash resources in addition to the available standby facility of EC$10M. Initially the Fund will substitute for commercial cover on the Company's T&D assets, and other assets in the future.

CREDIT RATING

Following its annual surveillance review, the CariCRIS credit rating agency reconfirmed the Company's CariBBB (Adequate) credit rating on local and foreign currency on the regional scale (comprising countries from the Bahamas to Costa Rica). This compares very favourably with the Government of St. Lucia's rating of CariBBB+ which is also in the "Adequate" category.

RISK MANAGEMENT

Formal procedures were put in place for the oversight and management of the Company's risks. This responsibility now rests within the office of the Financial Controller. During 2009 this will receive the continuous attention of management and the Board as the Company seeks to mitigate these risks.

OUTLOOK

Based on the severe worldwide economic downturn, which has widened and broadened in recent months, it is expected that the performance for 2009 will be marginal with a projected growth in sales of 1.6%.

Local and international economic recession, by all accounts, will exist for most if not all of 2009. Like all countries of the world St. Lucia is expected to be impacted by these events and with a small and open economy it is critical that proper measures be put in place to lessen the effects.

During 2009 the Company will take further measures aimed at securing its efficiency and profitability such as cost containment and reduction, improvements in key target areas of operations and activities and generally safeguarding its resources.

Despite this, the Company will continue to focus on its obligations to its customers and the country as a whole so as to facilitate the needed growth as necessary.

Managment Team


Trevor Louisy


Earl Estrado


Victor Emmanuel


Goodwin d'Auvergne


Gillian French


Francis Daniel


Jevon Nathaniel


Gilroy Pultie


Wynn Alexander


Nicole Duboulay


Jennifa Flood-George


Roger Joseph


Gary Eugene


Ziva Phillips


Callixta Branford

Management Team

MANAGEMENT TEAM

TREVOR LOUISY
B.Sc. (Electrical Engineering)
Managing Director

EARL ESTRADO
CGA
Financial Controller

VICTOR EMMANUEL
B. Eng. (Electrical Engineering), M.Sc. (Information Systems Engineering)
Business Development Manager

GOODWIN D'AUVERGNE
B.Sc. (Electrical Engineering)
Chief Engineer (Ag.)

GILLIAN FRENCH
LLB (Hons) L.E.C. MRP (Telecommunications)
General Counsel/Company Secretary

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 Engineering), Certified Diploma Accounts & Finance
Transmission & Distribution Manager

WYNN ALEXANDER
B.Sc. (Computer Science), M. Eng., Diploma Financial Management
Information Systems Manager

NICOLE DUBOULAY
BA (Psychology), MBA (Human Resource Management), M.Sc. (Training and Performance Management)
Human Resources Manager

JENNIFA FLOOD-GEORGE
B.Sc. (Management Studies/Psychology)
Customer Service Manager

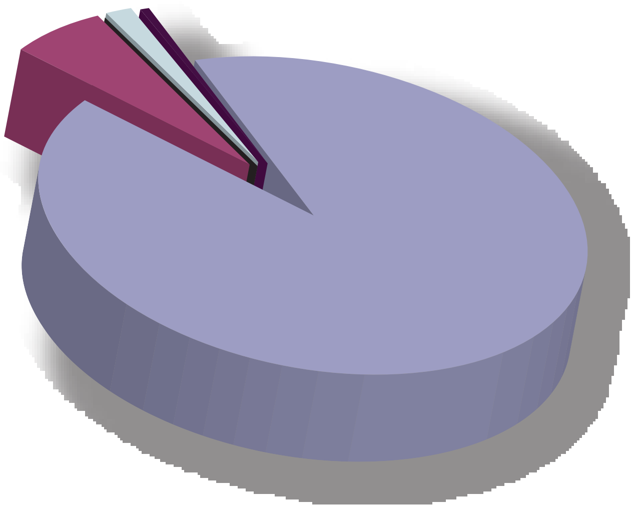
ROGER JOSEPH
MA (International Communication & Development), Diploma Mass Communication
Corporate Communications Manager

GARY EUGENE
M. Eng. (Electronics Engineering)
System Control Engineer (Ag.)

ZIVA PHILLIPS
FCCA, B. Sc. (Economics and Accounting)
Finance and Accounts Manager

CALLIXTA BRANFORD
CGA
Internal Audit Manager

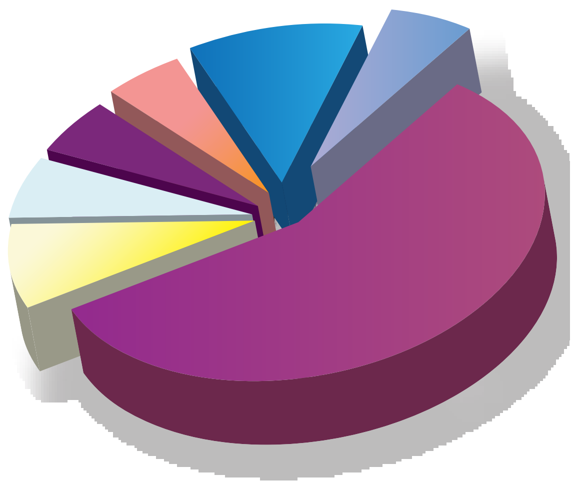
Where the LUCELEC $ came from



	2008 EC$ 000	2007 EC$ 000
Financial Statistics		
Capital Investment	28,344	51,219
Operating Revenue	303,199	242,512
Fuel Surcharge Costs	57,915	10,846
Finance Costs	8,997	7,201
Net Profit after Taxation	24,869	29,012
Ordinary Dividend Declared	15,705	16,642
Return on Rate Base	17.77%	21.42%
Return on Equity	17.54%	21.39%
Earnings per Share (EC$)	2.12	2.48
Ordinary Dividend per Share (EC$)	1.34	1.42
Ordinary Dividend as % of Net Profit after Tax	63%	57%
Debt/Equity Ratio	47/53	48/52
Operating Statistics		
Sales (MWh)	301,975	297,841
Customers	57,718	56,209
Peak Demand (MW)	54.1	52.7
Available Capacity (MW)	76.0	76.0

Financial Highlights

How the LUCELEC $ was spent



People

Investing in people has always been a fundamental aspect of LUCELEC's way of doing business. Whether it's our staff – current or retired, our contractors, our customers, our communities, our young people or our children, LUCELEC has always been a powerful partner in providing people with opportunities to achieve excellence in performance. Through our various philanthropic and sponsorship initiatives, we're lighting up lives at home, in the classroom, on the playground, in sports and in communities. In short, LUCELEC cares - about people, about communities - because we believe in people, and we know what the power of caring can accomplish.

LUCELEC provided books, equipment, furniture and all materials for a new library for the the Ave Maria School.

National Schools Science Fair 2008 - Budding Scientists.

Students in the Vide Bouteille Kindergarten Readiness Centre say thanks.

Several institutions benefit from this donation of 25 computers and associated equipment.

Education

LUCELEC provides power for the future by contributing to efforts to expand learning opportunities and life experiences for students from pre-school to university. We're making sure that as many children as possible get the chance of an early start in school by supporting the expansion and rehabilitation of the Kindergarten Readiness Centre at the Vide Bouteille Infant School and funding an entire Library for the Ave Maria Infant School. Through donations of equipment (computers, photo copiers, printers, filing cabinets and other materials) to schools across the island we facilitate and improve the learning environment.

Through our scholarship programme for children of employees we've put hundreds through their entire secondary school education, and we've made one more engineer available to the country through our Bernard C. Theobalds scholarship programme that funds an entire first degree programme for one young St. Lucian every three years at the University of the West Indies.

We assist in rewarding excellence through our support for graduation ceremonies and schools' sports meets. We're helping to grow the scientists, innovators and inventors of tomorrow through our investment in the National Schools Science Fair. And well away from the central business district, we're preparing the business leaders of tomorrow through our on-going Gold sponsorship of the Junior Achievement Programme at the Choiseul Secondary School.

In many ways, we're powering the future.

LUCELEC supports St. Lucia's Football World Cup 2010 qualification bid.

Participants in the 2008 National Youth Summer Camp - Cleaning Up the City.

2008 OECS Female Volleyball Champions - St. Lucia

Michael Fedee Memorial Football Tournament - In the heat of battle.

Youth & Sport

Youth. Sports. Energy. Power. They form powerful combinations. Schools. Clubs. National associations. They all need help. And help we did.

We supported sporting activities in 17 schools across the island. We put our power behind St. Lucia's hosting of the OECS Female Volleyball Championship, St. Lucia's Football World Cup 2010 Qualification bid, the Micoud Women's Football League, the Michael Fedee Memorial Castries Big Four Football Tournament, the Lancers Football Fiesta, the Valley Soccer Academy, the Rocket Athletic Club, the Survivors Track & Field Club and the St. Lucia Bridge Association.

We made sure that youthful energies were channelled in the right directions through our support for the Department of Youth & Sports' 2008 National Summer Camp, the Sir Arthur Lewis Community College 2008 Sports Youth Clinic for underprivileged children, the participation of 20 needy children from Vide Boutielle Primary in the 2008 Options Summer Camp, and the donation of sporting equipment for a summer workshop for underprivileged children in Marchand and its environs.

People and Power. We help combine them to deliver excellence in Performance.

Water quality testing in the rain forest.

Caribbean SEA watershed camp

Water quality testing at a river mouth

Investigating the waters of Marigot Bay

Environment

Beyond our strict adherence to all regulations pertaining to emissions, and well within the standards, we actively encourage and support the preservation, protection, and sustainable use of the environment. For example, LUCELEC has been working with the Caribbean Student Environmental Alliance (Caribbean SEA) in a Ridge to Reef watershed programme involving students from Forestierre, Dennery, Marigot, Belvedere and Canaries. In this programme the students learn how to investigate the health of their home watersheds from the ridge down to the reef. The goal is to train students and their leaders to critically examine their watersheds, investigate the health of the water, and then undertake some positive action to restore any problems the students discover. In a very real way, LUCELEC is working with students to help clean up our water, from the freshwater rivers all the way to the coral reefs.

Kweyol Music Festival 2008

Jazz on the Square 2008

Dance Workshop - Guadeloupe

Luther & George - classical combination

Arts & Culture

Every year LUCELEC provides financial and other support to not only community festivals and events, but also to major national events such as Carnival, St. Lucia Jazz, and the Jounen Kwéyòl Music Festival. 2008 was no exception. We did those. And supported several others, like the first ever St. Lucia Music Awards that celebrated the talents of our local musicians; Kingdom Night that added a gospel dimension to St. Lucia Jazz; a St. Lucia School of Music 20th Anniversary concert that combined the musical genius of St. Lucia's legendary saxophonist Luther Francois and his, perhaps even more illustrious, cousin from Ghana classical pianist Dr. George Francois; and participation in a dance workshop in Guadeloupe for members of the Christylights Dance Academy. So in dance, music, Carnival, and our Creole heritage, LUCELEC is helping to paint the tapestry of art and culture, indigenous and otherwise, that provides the backdrop for the psyche of our people.

NCF Donation

New Hot Water systems for the Marian Home

Pre-braille education - Kids In Sight Project

National Trust donation

Charitable

LUCELEC's charitable donations span the entire gamut of projects – large or small, towards education or health, and to benefit young or elderly.

Some of our larger donations in 2008 went to the Pigeon Island National Landmark for the restoration of the electrical system, our annual contribution of $25,000 to the National Community Foundation for supporting requests for medical attention, and the refurbishment and repair of the entire hot water system at the Marian Home for the elderly.

Other smaller, but no less important, interventions included support for: the St. Lucia Arthritis and Lupus Association's Chronic Disease Self Management Programme; prostate testing as part of a Male Health Awareness Campaign organised by the Ciceron Health Centre; cholesterol testing for 40 mothers through the St. Lucia Diabetic & Hypertensive Association; the Salvation Army; the Lions Club in aid of the Kids In Sight Project administered by St. Lucia Blind Welfare Association; the Poppy Appeal Fund to raise funds to assist ex-servicemen, their dependents and widows; the Adelaide & Frances Memorial Home for the poor & elderly; Christmas hampers for the elderly, shut-ins, and incapacitated in the communities of Augier and Micoud; hampers for children and their families in Canaries, Mongouge, Choiseul, Malgretoute, Micoud and the Malgretoute Home in Soufriere, through the Streams of Power Ministries Youth Aflame team; and a Christmas party for 200 children in Choiseul through the Belle Vue Development Committee.

LUCELEC has the power to change lives, and that we did, throughout 2008!

Community clean up

Celebrating success - Fond St. Jacques Independence Day 2008 activities.

Rural electrification programme.

Race to the finish! - Fond St. Jacques Independence Day 2008 activities.

Communities

Our support for communities extend well beyond our rural electrification programme, on which we spent approximately $1M, to bring electricity to areas where it may not be economically viable to do so. But that is a commitment to our mandate to provide safe, affordable power to anyone who wants it. Additionally we support community activities throughout the year – whether it is to provide additional temporary lighting to ensure safety during these activities, or by providing sponsorship for improving facilities, hosting developmental and community team building initiatives. At Independence, National Day, Emancipation Day, community clean ups, and all other national and community events, LUCELEC's powerful presence can be seen and felt. We are pleased to bring communities together and encourage community spirit, sharing, caring, and cooperation.

Financial Statements

KPMG
P.O. Box 1101
Castries
St. Lucia

Morgan Building
L'Anse Road
Castries
St. Lucia

Telephone: +1 (758] 453 1471
Telephone: +1 (758) 453 0625
Telefax: +1 (758) 453 6507
email: kpmg@kpmg.lc

INDEPENDENT AUDITORS' REPORT

To the Members of St. Lucia Electricity Services Limited

Report on the Financial Statements

We have audited the accompanying financial statements of St. Lucia Electricity Services Limited (the Company), which comprise the balance sheet as at December 31, 2008, and the statements of changes in equity, income, and cash f ows 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 the financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and consistently applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
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 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 opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008, and its financial performance and its cash f ows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

KPMG Eastern Caribbean
March 27, 2009

Castries, St. Lucia

Balance Sheet | December 31, 2008 | with comparative figures for 2007

(Expressed In Eastern Caribbean Dollars)

	Notes	2008	2007 Restated (Note 30)
Assets			
Non-Current			
Property, plant and equipment	6	$ 298,774,746	299,106,723
Intangible assets	7	3,723,679	4,017,566
Retirement benefit asset	8	8,847,000	7,768,000
Available-for-sale financial assets	9	5,642,575	3,452,103
Total non-current assets		316,988,000	314,344,392
Current			
Inventories	10	15,739,800	14,003,002
Trade and other receivables	11	41,939,612	46,266,628
Cash and cash equivalents	12	10,847,374	3,148,936
Total current assets		68,526,786	63,418,566
TOTAL ASSETS		$ 385,514,786	377,762,958
Equity and liabilities			
Shareholders' equity			
Share capital	13	$ 80,162,792	80,162,792
Retained earnings		64,462,307	58,330,104
Total equity attributable to shareholders		144,625,099	138,492,896
Retirement benefit reserve	8	8,847,000	7,768,000
Total shareholders' equity		153,472,099	146,260,896
Liabilities			
Non-Current			
Borrowings	14	110,753,706	107,287,841
Consumer deposits	15	11,682,301	11,310,789
Deferred tax liabilities	16	28,695,406	30,580,018
Consumer contributions	17	28,428,097	24,546,839
Total non-current liabilities		179,559,510	173,725,487
Current			
Borrowings	14	16,743,060	22,083,887
Trade and other payables	18	25,748,467	25,276,702
Income tax payable		1,740,497	1,247,351
Dividends payable		8,251,153	9,168,635
Total current liabilities		52,483,177	57,776,575
Total liabilities		232,042,687	231,502,062
TOTAL EQUITY AND LIABILITIES		$ 385,514,786	377,762,958

Approved by:

__________ Director   __________ Director

The accompanying notes on pages 49 to 83 are an integral part of these financial statements

Statement of Changes in Equity | December 31, 2008 | with comparative figures for 2007

(Expressed In Eastern Caribbean Dollars)

	Notes		Stated Capital	Retained Earnings	Retirement Benefit Reserve	Total
Balance at December 31, 2006		$	80,162,792	53,932,292	2,850,000	136,945,084
Prior years' adjustment			-	(1,282,200)	4,274,000	2,991,800
Balance at December 31, 2006 as restated	30		80,162,792	52,650,092	7,124,000	139,936,884
Profit for the year as previously reported			-	28,858,183	-	28,858,183
Prior years' adjustment	30		-	154,000	-	154,000
Profit for the year as restated			-	29,012,183	-	29,012,183
Transfer to retirement benefit reserve	30		-	(644,000)	644,000	-
Transfer of tariff reduction rebate			-	(805,958)	-	(809,958)
Transfer to tariff reduction reserve	19		-	(5,239,813)	-	(5,239,813)
Ordinary dividends	20		-	(16,642,400)	-	(16,642,400)
Balance at December 31, 2007 as restated			80,162,792	58,330,104	7,768,000	146,260,896
Profit for the year			-	24,869,338	-	24,869,338
Transfer to retirement benefit reserve			-	(1,079,000)	1,079,000	-
Transfer of tariff reduction rebate	19		-	473,945	-	473,945
Transfer to tariff reduction reserve	19		-	(2,427,280)	-	(2,427,280)
Ordinary dividends	20		-	(15,704,800)	-	(15,704,800)
Balance at December 31, 2008		$	80,162,792	64,462,307	8,847,000	153,472,099

The accompanying notes on pages 49 to 83 are an integral part of these financial statements

Statement of Income | December 31, 2008 | with comparative figures for 2007

(Expressed In Eastern Caribbean Dollars)

	Notes	2008	2007 Restated (Note 30)
Revenue			
Energy sales		$ 244,669,087	231,676,426
Fuel surcharge recovered		57,448,282	10,178,415
Other revenue		1,082,005	657,327
		303,199,374	242,512,168
Operating expenses			
Diesel generation		146,862,856	132,861,048
Transmission and distribution		30,590,946	30,400,927
Fuel surcharge	25	57,914,734	10,845,671
		235,368,536	174,107,646
Gross income		67,830,838	68,404,522
Administrative expenses		(23,464,445)	(23,216,812)
Operating profit		44,366,393	45,187,710
Other gains	21	462,282	150,812
Profit before finance costs and taxation		44,828,675	45,338,522
Finance costs		(8,997,221)	(7,201,036)
Profit before taxation		35,831,454	38,137,486
Taxation	22	(10,962,116)	(9,125,303)
Net profit for the year		$ 24,869,338	29,012,183
Earnings per share	23	$ 2.12	2.48

The accompanying notes on pages 49 to 83 are an integral part of these financial statements

Statement of Cash Flows | December 31, 2008 | with comparative figures for 2007

(Expressed In Eastern Caribbean Dollars)

	Notes		2008	2007
Cash flows from operating activities				Restated (Note 30)
Profit before taxation		$	35,831,454	38,137,486
Adjustments for:				
Depreciation	6		28,456,497	26,652,824
Amortisation of intangible assets	7		1,011,936	518,166
Finance costs expensed			8,997,221	7,201,036
Gain on disposal of property, plant and equipment	21		(189,527)	(39,205)
Amortization of consumer contributions	17		(1,534,186)	(1,527,675)
Pension benefits			(1,079,000)	(644,000)
Adjustment to plant and equipment	6		(505,574)	-
Operating profit before working capital changes			70,988,821	70,298,632
Change in trade and other receivables			4,327,016	(11,949,245)
Change in inventories			(1,736,798)	1,277,863
Change in trade and other payables			471,765	4,091,652
Cash generated from operations			74,050,804	63,718,902
Interest received			52,061	306,221
Finance costs paid			(9,233,050)	(7,506,045)
Income tax paid			(12,353,582)	(5,714,877)
Net cash from operating activities			52,516,233	50,804,201
Cash f ows from investing activities				
Acquisition of available for sale financial asset			(2,000,000)	(764,674)
Acquisition of property, plant and equipment	6		(27,625,711)	(47,393,087)
Proceeds on disposal of property, plant and equipment			196,292	39,260
Acquisition of intangible assets	7		(718,049)	(4,400,700)
Net cash used in investing activities			(30,147,468)	(52,519,201)
Cash flows from financing activities				
Proceeds from borrowings			20,000,000	45,163,432
Repayment of borrowings			(21,881,666)	(22,605,796)
Dividends paid			(16,622,282)	(18,380,527)
Decrease in tariff reduction reserve			473,945	(805,958)
Transfer of tariff reduction rebate	19		(2,427,280)	(5,239,813)
Consumer contributions received	17		5,415,444	3,596,988
Consumer deposits received net			371,512	1,003,286
Net cash (used in)/from financing activities			(14,670,327)	2,731,612
Net increase in cash and cash equivalents			7,698,438	1,016,612
Cash and cash equivalents at beginning of year			3,148,936	2,132,324
Cash and cash equivalents at end of year		$	10,847,374	3,148,936

The accompanying notes on pages 49 to 83 are an integral part of these financial statements

1. Reporting Entity

St. Lucia Electricity Services Limited (the Company) was incorporated under the laws of St. 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 St. Lucia on October 22, 1997. The Company operates under the Electricity Supply Act, 1994 (as amended), and has an exclusive licence for the exercise and performance of functions relating to the supply of electricity in St. Lucia. The Company is listed on the Eastern Caribbean Securities Exchange. The Company's registered office is situated at Sans Soucis, John Compton Highway, Castries, St. 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 27, 2009.

(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 presented in Eastern Caribbean dollars has been rounded to the nearest dollar.

(d) *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRSs requires management to make judgements, 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 (f): Measurement of defined benefit obligations.
- Note 3 (g): Estimation of unbilled sales and fuel surcharge.
- Note 4: Determining fair values.
- Note 27: 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 amortised cost in

3. Significant Accounting Policies (Cont'd)

(a) *Foreign currency (Cont'd)*

the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary 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 the statement of income 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 f ow hedges which are recognized directly in equity.

(b) *Financial instruments*

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans, trade and other payables, consumer deposits and consumer contributions.

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 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 f ows.

Accounting for finance income and expense is discussed in note 3 (h).

Trade Receivables

Trade receivables are carried initially at fair value and subsequently measured at amortised 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 the difference between the asset's carrying amount and the present value of estimated future cash f ows, discounted at the effective interest rate. The amount of the provision is recognised in the statement of income. Trade 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 amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income 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 12 months after the balance sheet date.

Consumer Deposits

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

3. Significant Accounting Policies (Cont'd)

(b) Financial instruments (Cont'd)

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

Consumer Contributions

In certain specified circumstances, consumers requiring line extensions are required to contribute 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 consumer contributions is deducted from the depreciation charge provided in respect of the capital cost of these line extensions. Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed. The capital costs of consumer line extensions are included in property, plant and equipment.

Available-for-sale financial assets

The Company's investment in equity securities and certain debt 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 monetary items (see note 3(a)), are recognized directly in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to the statement of income.

(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 f ow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

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 net within "other gains" in the statement of income.

(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 f ow 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 the statement of income as incurred.

3. Significant Accounting Policies (Cont'd)

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

(iii) Depreciation

Depreciation is recognized in the statement of 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:

• Building	2 1/2 - 12 1/2% per annum
• Plant and machinery	5 - 14% per annum
• Motor vehicles	20 - 33 1/3% per annum
• Furniture and fittings	10 - 25% per annum
• Computer software and hardware	12 1/2 - 25% per annum

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

(d) 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. Allowance is made for slow-moving and damaged goods. Goods in transit are stated at invoice cost.

e) 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 f ows 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 f ows 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.

All impairment losses are recognised in the statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

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)

e) Impairment (Cont'd)

(ii) Non-financial assets

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 f ows are discounted to their present value using a pre-tax discount rate that ref ects 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 inf ows from continuing use that are largely independent of the cash inf ows 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 the statement of income. 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.

(f) 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 pension 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 the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the statement of income.

The Company recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

(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

3. Significant Accounting Policies (Cont'd)

(f) Employee benefits (Cont'd)

(ii) Pension benefits assumptions (Cont'd)

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 outf ows 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.

(g) 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 of 46% of 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 reviewed periodically to assess reasonableness and adjusted where required. The provision for unbilled sales is included in accrued income.

In addition to the normal tariff rates charged for energy sales, a fuel surcharge is calculated which is based on the difference between the cost of fuel used to generate energy sales in the current month and the average fuel price for the 12 months preceding January of the current year. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month. The provision for unbilled fuel surcharge is included in accrued income.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(h) 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 the statement of income. Interest income is recognised as it accrues in statement of income, 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 the statement of income using the effective interest method. Foreign currency gains and losses are reported on a net basis.

3. Significant Accounting Policies (Cont'd)

(i) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

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

(j) 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.

(k) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2008 and have not been applied in preparing these financial statements:

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Company's Financial Controller in order to assess each segment's performance and to allocate resources to them. Currently the Company has no reportable segments.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

3. Significant Accounting Policies (Cont'd)

(k) New standards and interpretations not yet adopted (Cont'd)

- Revised IAS 1 *Presentation of Financial Statements (2007)* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Company's 2009 financial statements, is expected to have an impact on the presentation of the financial statements.

- Amendments to IAS 32 *Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Company's 2009 financial statements with retrospective application required, are not expected to have any impact on the financial statements.

- Amendment to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be ref ected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2, which will become mandatory for the Company's 2009 financial statements with retrospective application required, are not expected to have any impact on the financial statements.

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the 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.

(i) 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.

(ii) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash f ows, discounted at the market rate of interest at the reporting date.

4. Determination of Fair Values (Cont'd)

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash f ows, 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.

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.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Audit Committee assesses financial and control risks to the Company. The committee reports regularly to the Board of Directors on their activities.

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 ref ect 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.

The Company's Audit Committee oversees how management monitors compliance with its risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

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 inf uenced mainly by the individual characteristics of each customer. The demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, have less of an inf uence on credit risk. Geographically there is no concentration of 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 of 1994 (as amended) and include providing discretion to the Company to require a deposit from any consumer as security for sums due from time to time. Such deposit shall not exceed an estimated two month's supply of electricity. 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.

5. Financial Risk Management (Cont'd)

Credit risk (Cont'd)
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 components of this allowance is a specific loss component that relates to individually significant exposures. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Investments
The 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.

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$5 million and EC$3 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 lines and related 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.

Currency risk
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 that match the cash f ows generated by the underlying operations of the Company.

The exchange rate of the Eastern Caribbean dollar (XCD) to the United States dollar (USD) has been formally pegged at XCD2.70 = USD1.00 since 1974.

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'

5. Financial Risk Management (Cont'd)
Currency risk (Cont'd)

Capital management (Cont'd)
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 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.

6. Property, Plant and Equipment

Property, plant and equipment comprise:

		Land and Buildings	Plant and Machinery	Motor Vehicles	Furniture and Fittings	Work in Progress	Total
Cost							
Balance at December 31, 2006	$	84,325,002	429,929,027	3,529,800	9,125,836	10,920,640	537,830,305
Additions		38,610	754,159	242,180	220,682	46,137,456	47,393,087
Transfers		562,607	49,622,929	-	354,373	(50,539,909)	-
Disposals		-	(710)	(147,000)	(95,502)	-	(243,212)
Balance at December 31, 2007		84,926,219	480,305,405	3,624,980	9,605,389	6,518,187	584,980,180
Adjustment		-	(1,861,426)	-	-	2,417,056	555,630
Additions		263,335	-	264,779	791,775	26,305,822	27,625,711
Transfers		956,028	24,703,500	-	-	(25,659,528)	-
Disposals		-	(284,998)	(531,304)	(141,430)	-	(957,732)
Balance at December 31, 2008		86,145,582	502,862,481	3,358,455	10,255,734	9,581,537	612,203,789
Accumulated Depreciation							
Balance at December 31, 2006		22,930,752	226,212,192	2,966,786	7,354,060	-	259,463,790
Charge for the year		2,006,298	23,725,591	253,638	667,297	-	26,652,824
Eliminated on disposals		-	(710)	(147,000)	(95,447)	-	(243,157)
Balance at December 31, 2007		24,937,050	249,937,073	3,073,424	7,925,910	-	285,873,457
Adjustment		421	47,849	-	1,786	-	50,056
Charge for the year		2,017,327	25,560,687	297,835	580,648	-	28,456,497
Eliminated on disposals		-	(282,218)	(531,304)	(137,445)	-	(950,967)
Balance at December 31, 2008		26,954,798	275,263,391	2,839,955	8,370,899	-	313,429,043
Carrying amount							
December 31, 2008	$	59,190,784	227,599,090	518,500	1,884,835	9,581,537	298,774,746
December 31, 2007	$	59,989,169	230,368,332	551,556	1,679,479	6,518,187	299,106,723
December 31, 2006	$	61,394,250	203,716,835	563,014	1,771,776	10,920,640	278,366,515

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

6.1 During the current year the company effected the following balance sheet reclassifications:

1. Expenditure incurred on wayleave rights from work-in-progress to intangible assets.
2. Expenditure incurred on separately identified computer software from plant and machinery to intangible assets.
3. Expenditure incurred on deferred expenses to work-in-progress.

The comparative figures were also reclassified to be consistent with the current year financial statement presentation.

6.2 Borrowing costs amounting to $100,000 (2007 - $1,484,503) were capitalized during the year.

7. Intangible Assets

		Computer Software	Wayleave rights	Total
Cost				
Balance at January 1, 2007	$	-	135,032	135,032
Additions		4,026,400	374,300	4,400,700
Balance at December 31, 2007		4,026,400	509,332	4,535,732
Additions		256,145	461,904	718,049
Balance at December 31, 2008		4,282,545	971,236	5,253,781
Accumulated Amortisation				
Balance at January 1, 2007		-	-	-
Amortisation for the year		518,166	-	518,166
Balance at December 31, 2007		518,166	-	518,166
Amortisation for the year		1,011,936	-	1,011,936
Balance at December 31, 2008		1,530,102	-	1,530,102
Carrying amount				
December 31, 2008	$	2,752,443	971,236	3,723,679
December 31, 2007	$	3,508,234	509,332	4,017,566
December 31, 2006	$	-	135,032	135,032

Wayleave 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.

8. Retirement Benefit Asset

Grade I Employees
The Company contributes to a defined benefit pension scheme with Sagicor Life Inc. for Grade I employees.

Grade II Employees
The Company contributes to a defined benefit pension scheme with Colonial Life Insurance Company for Grade II employees.

The most recent actuarial valuation of these two schemes is dated December 31, 2006. The plans were valued using the "Projected Unit Credit" method of valuation.

Grade III Employees
For its senior employees, 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 January 1, 2009. 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	
	2008	2007	2008	2007
	%	%	%	%
Discount rate	7.5	7.0	7.0	7.0
Expected return on plan assets	8.0	7.0	7.5	7.5
Future salary increases	6.5	6.0	5.5	5.5
Future pension increases	3.0	3.0	0.0	0.0

8. Retirement Benefit Asset (Cont'd)

The amounts recognized in the balance sheet at December 31, 2008 are determined as follows:

		Grade III		Grade II		Grade I		Total	
		2008	2007	2008	2007	2008	2007	2008	2007
Present value of funded obligations	$	(13,128,000)	(12,347,000)	(9,736,000)	(8,982,000)	(9,614,000)	(9,283,000)	(32,478,000)	(30,612,000)
Fair value of plan assets		11,582,000	17,333,000	13,055,000	12,005,000	11,984,000	11,287,000	36,621,000	40,625,000
Unrecognised actuarial loss/(gain)		6,545,000	(492,000)	(1,944,000)	(1,918,000)	103,000	165,000	4,704,000	(2,245,000)
Defined benefit asset	$	4,999,000	4,494,000	1,375,000	1,105,000	2,473,000	2,169,000	8,847,000	7,768,000

The amount of $8,847,000 (2007 - $7,768,000) is recognized 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.

8. Retirement Benefit Asset (Cont'd)

The movements in the defined benefit obligation for the year ended December 31, 2008 were as follows:

	Grade III		Grade II		Grade I		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Defined benefit obligation as at January 1	$ 12,347,000	11,592,000	8,982,000	8,772,000	9,283,000	8,409,000	30,612,000	28,773,000
Services and interests costs	1,650,000	1,628,000	1,071,000	1,030,000	839,000	813,000	3,560,000	3,471,000
Members' contributions	-	-	178,000	170,000	245,000	192,000	423,000	362,000
Benefits paid	(176,000)	(171,000)	(363,000)	(422,000)	(588,000)	(258,000)	(1,127,000)	(851,000)
Expense allowance	-	-	(36,000)	(34,000)	(43,000)	(42,000)	(79,000)	(76,000)
Actuarial gain	(693,000)	(702,000)	(96,000)	(534,000)	(122,000)	169,000	(911,000)	(1,067,000)
Defined obligation benefit as at December 31	$ 13,128,000	12,347,000	9,736,000	8,982,000	9,614,000	9,283,000	32,478,000	30,612,000

The movements in the plans' assets for the year ended December 31, 2008 were as follows:

	Grade III		Grade II		Grade I		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Fair value of plan assets at January 1	$ 17,333,000	15,866,000	12,005,000	10,979,000	11,287,000	10,469,000	40,625,000	37,314,000
Contributions paid - company	821,000	718,000	397,000	409,000	300,000	235,000	1,518,000	1,362,000
Contributions paid - members	-	-	178,000	170,000	245,000	192,000	423,000	362,000
Expected return on plan assets	1,236,000	1,130,000	896,000	819,000	843,000	790,000	2,975,000	2,739,000
Benefits paid	(176,000)	(171,000)	(363,000)	(422,000)	(588,000)	(258,000)	(1,127,000)	(851,000)
Expense allowance	-	-	(36,000)	(34,000)	(43,000)	(42,000)	(79,000)	(76,000)
Actuarial loss	(7,632,000)	(210,000)	(22,000)	84,000	(60,000)	(99,000)	(7,714,000)	(225,000)
Fair value of plan assets at December 31	$ 11,582,000	17,333,000	13,055,000	12,005,000	11,984,000	11,287,000	36,621,000	40,625,000

8. Retirement Benefit Asset (Cont'd)

Plan assets consist of the following:

	Grade III		Grade II		Grade I		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Equity securities	98%	93%	-	-	-	-	-	-
Other (Deposit administration account)	2%	7%	100%	100%	100%	100%	100%	100%
Total	100%	100%	100%	100%	100%	100%	100%	100%

The actual return on plan assets for the year ended December 31, 2008 was as follows:

	Grade III		Grade II		Grade I		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Current service cost	$ 740,000	769,000	453,000	428,000	187,000	210,000	1,380,000	1,407,000
Interest on defined benefit obligations	910,000	859,000	618,000	602,000	652,000	603,000	2,180,000	2,064,000
Expected return on plan assets	(1,236,000)	(1,130,000)	(896,000)	(819,000)	(843,000)	(790,000)	(2,975,000)	(2,739,000)
Amortized net gain	(98,000)	-	(48,000)	(13,000)	-	-	(146,000)	(13,000)
Net pension costs	$ 316,000	498,000	127,000	198,000	(4,000)	23,000	439,000	719,000

8. Retirement Benefit Asset (Cont'd)

The credit is recognized in the following line items in the statement of income:

		2008	2007
Administrative expenses	$	23,464,445	23,216,812

Movement in asset recognised in the balance sheet was as follows:

		2008	2007
At beginning of year	$	7,768,000	7,125,000
Total expenses as shown above		(439,000)	(719,000)
Contributions paid		1,518,000	1,362,000
At end of year	$	8,847,000	7,768,000

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

		Grade III		Grade II		Grade I		Total	
		2008	2007	2008	2007	2008	2007	2008	2007
Cumulative amount as at January 1	$	(492,000)	-	(1,918,000)	(1,314,000)	165,000	(103,000)	(2,245,000)	(1,417,000)
Recognised during the period		7,037,000	(492,000)	(26,000)	(604,000)	(62,000)	268,000	6,949,000	(828,000)
Cumulative amount as at December 31	$	6,545,000	(492,000)	(1,944,000)	(1,918,000)	103,000	165,000	4,704,000	(2,245,000)

8. Retirement Benefit Asset (Cont'd)

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

Grade III

	2005	2006	2007	2008
Defined benefit obligation	-	11,592,000	12,347,000	13,128,000
Fair value of plan assets	-	(15,866,000)	(17,333,000)	(11,582,000)
(Surplus)/deficit	-	(4,274,000)	(4,986,000)	(1,546,000)
Experience adjustment on plan liabilities	-	-	702,000	(693,000)
Experience adjustment on plan assets	-	-	(210,000)	(7,632,000)

Information for 2005 is not available (see note-30).

Grade II

	2005	2006	2007	2008
Defined benefit obligation	8,377,000	8,772,000	8,982,000	9,736,000
Fair value of plan assets	(10,249,000)	(10,979,000)	(12,005,000)	(13,055,000)
(Surplus)/deficit	(1,872,000)	(2,207,000)	(3,023,000)	(3,319,000)
Experience adjustment on plan liabilities	(117,000)	(34,900)	(534,000)	(96,000)
Experience adjustment on plan assets	(5,000)	(59,000)	84,000	(22,000)

Grade I

	2005	2006	2007	2008
Defined benefit obligation	7,741,000	8,409,000	9,283,000	9,614,000
Fair value of plan assets	(9,549,000)	(10,469,000)	(11,287,000)	(11,984,000)
(Surplus)/deficit	(1,808,000)	(2,060,000)	(2,004,000)	(2,370,000)
Experience adjustment on plan liabilities	(106,000)	(115,000)	169,000	(122,000)
Experience adjustment on plan assets	(31,000)	(31,000)	(99,000)	(60,000)

9. Available-for-sale Financial Asset

		2008	2007
Securities: available-for sale			
At beginning of year	$	3,452,103	2,687,429
Additions for year		2,190,472	764,674
At end of year	$	5,642,575	3,452,103

There were no disposals or impairment provisions with respect to the available-for-sale financial asset in 2008.

The available-for-sale financial asset as at December 31, 2008 has a stated interest rate of 4.86% (2007 – 5.05%).

The Company's exposure to credit, currency and interest rate risks related to the available-for-sale financial asset is disclosed in note 27.

The Company has established a "Self Insurance Fund" to assist in financing risk exposures on certain assets that are under-insured due to the non-availability of the relevant cover or prohibitive pricing. The Company will be setting aside funds on an annual basis and has, at December 31, 2008, subscribed for US$2.083m, 104,167.11 units (2007 – US$1.275m, 63,732.08 units) in a "US Dollar Money Market Fund" established by the Unit Trust Corporation of Trinidad and Tobago. The effective interest rate at December 31, 2008 was 4.86% (2007 - 5.05%).

10. Inventories

		2008	2007
Fuel inventories	$	3,130,863	1,792,459
Generation spare parts		7,384,013	7,521,508
Transmission, distribution and other spares		7,732,402	6,403,821
Gross inventories		18,247,278	15,717,788
Less: provision for impairment of inventories		(2,507,478)	(1,714,786)
	$	15,739,800	14,003,002

11. Trade and Other Receivables

		2008	2007
Trade receivables due from related parties	$	3,991,260	3,113,154
Other trade receivables		31,196,900	29,573,561
Less: provision for impairment of trade receivables		(4,637,186)	(4,735,190)
Trade receivables, net		30,550,974	27,951,525
Other receivables		1,519,415	3,072,904
Less: provision for impairment of other receivables		-	(442,987)
Other receivables, net		1,519,415	2,629,917
Accrued income		8,917,746	14,609,832
Prepayments		951,477	1,075,354
		9,869,223	15,685,186
	$	41,939,612	46,266,628

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 27.

12. Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

		2008	2007
Cash at bank and in hand	$	10,847,374	3,148,936

13. Share Capital

	2008	2007
Authorised:		
Voting ordinary shares	15,000,000	15,000,000
Non-voting ordinary shares	800,000	800,000

	2008	2007
Issued and fully paid		
11,200,000 (2007 – 11,200,000) voting ordinary shares	$ 77,562,792	77,562,792
520,000 (2007 – 520,000) non-voting ordinary shares	2,600,000	2,600,000
	$ 80,162,792	80,162,792

14. Borrowings

This comprises:

	Notes	2008	2007
Current			
Bank overdraft		$ 4,442	2,381,447
Bank borrowings		8,730,760	11,658,777
Related parties	24	8,007,858	8,043,663
		16,743,060	22,083,887
Non-current			
Bank borrowings		46,156,172	34,900,678
Related parties	24	64,597,534	72,387,163
		110,753,706	107,287,841
Total borrowings		$ 127,496,766	129,371,728

Borrowings include liabilities amounting to $127,024,089 (2007 - $120,258,718) and the bank overdraft, which 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. Also included in borrowings are loans guaranteed by the Government of St. Lucia amounting to $6,065,014 (2007 - $9,113,010).

14. Borrowings (Cont'd)

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

	2008 %	2007 %
Bank overdraft	9.00	9.00
Bank borrowings	6.07	6.07
Related parties	7.37	7.37

Maturity of non-current borrowings:

		2008	2007
Between 1 and 2 years	$	32,506,038	28,893,471
Between 2 and 5 years		32,195,567	31,213,149
Over 5 years		46,052,101	47,181,221
	$	110,753,706	107,287,841

The Company's exposure to interest rate, foreign currency, and liquidity risks related to borrowings is disclosed in note 27.

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 at December 31, 2008 (2007 – 3% per annum). Accrued interest of $2,990,988 (2007 - $3,158,560) is included in consumer deposits.

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% (2007 – 30%). The movement on the deferred tax liability account is as follows:

		2008	2007
At beginning of year	$	30,580,018	31,146,238
Reversed during the year		(1,884,612)	(566,220)
At end of year	$	28,695,406	30,580,018

16. Deferred Tax Liabilities (Cont'd)

Deferred tax liabilities are attributed to the following items:

		2008	2007
Property, plant and equipment	$	26,041,307	28,249,618
Pensions and retirement benefit asset		2,654,099	2,330,400
	$	28,695,406	30,580,018

17. Consumer Contributions

		2008	2007
At beginning of year	$	24,546,839	22,477,526
Contributions received		5,415,444	3,596,988
Amortisation for the year		(1,534,186)	(1,527,675)
At end of year	$	28,428,097	24,546,839

18. Trade and Other Payables

		2008	2007
Trade payables	$	9,215,876	9,120,049
Accrued expenses		9,597,714	7,149,942
Other payables		6,934,169	8,922,475
Related parties - shareholders		708	84,236
	$	25,748,467	25,276,702

The Company's exposure to foreign currency and liquidity risks related to trade and other payables is disclosed in note 27.

19. Tariff Reduction Reserve

Under the provisions of the Electricity Supply Amendment Act Nos. 12 of 2006 and 13 of 2006, a new mechanism is in effect for the computation of the Allowable Rate of Return and is based on a predetermined range of Return on Average Contributed Capital.

19. Tariff Reduction Reserve (Cont'd)

The range is limited to 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% and no cap. In the event that the Allowable Rate of Return is higher than the permitted maximum, 50% of the excess is distributable to hotel and industrial customers. The Act provides for the Minister, by Order, to include "customers in need of special protection". The distribution is computed as an adjustment to the base tariff based upon consumption in the previous financial year. In the event that the Rate of Return falls below the minimum of 10%, provision is also made in for the upward adjustment of the base tariff.

Under the provisions of these amendments, an amount of $2,427,280 (2007 - $5,239,813) is due to qualifying customers, and for this reporting period, has been included in trade and other payables.

20. Ordinary Dividends

				2008	2007
Interim -	$0.65	(2007 - $0.65) per share	$	7,618,000	7,618,000
Final -	$0.69	(2007 - $0.77) per share		8,086,800	9,024,400
			$	15,704,800	16,642,400

21. Other Gains, Net

		2008	2007
Gain on disposal of property, plant and equipment	$	189,527	39,205
Foreign exchange gain		272,755	111,607
	$	462,282	150,812

22. Taxation

		2008	2007
Current tax	$	12,846,728	9,691,523
Net change in deferred tax liabilities (Note 16)		(1,884,612)	(566,220)
	$	10,962,116	9,125,303

22. Taxation (Cont'd)

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

	2008	2007
Profit before taxation	$ 35,831,454	38,137,486
Tax at the statutory rate of 30% (2007 – 30%)	10,749,436	11,441,246
Tax effect of expenses not allowed for tax purposes	(20,119)	155,450
Tax effect of income not subject to tax	(460,256))	(2,716,797)
Tax effect of unadjusted differences	(1,121,086)	245,404
Withholding tax on insurances	1,814,141	-
Actual tax charge	$ 10,962,116	9,125,303

23. Earnings Per Share

Earnings per share have been calculated by dividing the profit for the year of $24,869,338 (2007 - $29,012,183) by the weighted average number of issued ordinary shares of 11,720,000 (2007 - 11,720,000).

24. 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 inf uence over the Company or
- Has joint control over the Company.

i. The party is a member of the key management personnel of the Company
ii. The party is a close member of the family of any individual referred to in (i) or (ii)
iii. 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,

24. Related Parties (Cont'd)

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:

- Short-term employee benefits
- Part-employment benefits
- Termination benefits

The Company is controlled by the following entities:

	2008	2007
	%	%
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 St. Lucia	12.44	12.44
	85.56	85.56

The remaining 14.44% (2007 – 14.44%) of the shares is widely held.

Transactions with shareholders during the year were as follows:

		2008	2007
Revenue			
National Insurance Corporation	$	3,009,836	2,986,406
Castries City Council		1,567,693	1,452,878
Government of St. Lucia and its corporations		22,856,121	21,767,289
	$	27,433,650	26,206,573
Finance Costs			
National Insurance Corporation	$	401,809	473,758
First Citizens Bank Ltd.		5,161,877	4,807,969
	$	5,563,686	5,281,727

24. Related Parties (Cont'd)

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

The Government of St. Lucia receives a 10% discount on tariff sales for all accounts other than street lighting.

Loans from shareholders at the year ended were as follows:

		2008	2007
National Insurance Corporation			
At beginning of year	$	5,470,720	6,382,507
Repayments during year		(942,553)	(948,707)
		4,528,167	5,433,800
Accrued interest		31,194	36,920
At end of year	$	4,559,361	5,470,720

		2008	2007
First Citizens Bank Limited			
At beginning of year	$	74,960,106	59,501,867
Draw-downs during year		-	22,163,434
Repayments during year		(7,210,106)	(7,031,304)
		67,750,000	74,633,997
Accrued interest		296,030	326,109
At end of year	$	68,046,030	74,960,106

The above loans are fully secured (Note 14).

Balances arising from supply of services at year end (Note 11) were as follows:

		2008	2007
National Insurance Corporation	$	208,931	243,733
Castries City Council		13,657	3,945
Government of St. Lucia		3,768,672	2,865,476
	$	3,991,260	3,113,154

Transactions with key management personnel

Some key management personnel hold positions in other entities that result in them having significant inf uence over the financial or operating policies of these entities. The aggregate value of transactions and outstanding balances relating to entities over which they have significant inf uence were as follows:

24. Related Parties (Cont'd)

Transactions with key management personnel (Cont'd)

Director/Shareholder	Company	Transactions	Transaction value 2008	Transaction value 2007	Prepayments 2008	Prepayments 2007
Stephen McNamara	McNamara & Co	Legal fees	179,753	146,769	-	-
		Payments on behalf of third parties.	432,668	478,310	240,000	240,000
Irving John	John's Service	Meter reading service fees	254,121	256,506	-	-
Christopher G. Huskilson	Emera Inc.	*With regards to Vieux Fort Energy Development Project*				
		Payments made by Emera Inc.	1,146,913	437,467	11,138	-
		Payments made by LUCELEC	202,299	137,665	-	-

25. Expenses by Nature

	2008	2007
Fuel cost over base	$ 57,914,734	10,845,671
Fuel at base price	124,823,975	113,028,726
Depreciation on property, plant and equipment	28,456,497	26,652,824
Amortisation of computer software	1,011,936	518,166
Repairs and maintenance	10,847,075	12,592,281
Employee benefit expense	17,702,257	16,130,910
Other operating expenses	20,108,712	19,303,553
Amortisation of consumer contributions	(1,527,705)	(1,527,675)
	$ 259,337,481	197,544,456

26. Employee Benefit Expense

	2008	2007
Wages and salaries	$ 16,769,435	15,235,092
Pension costs – defined benefit plans	123,000	220,000
Grade III employees – defined benefit plan	809,822	675,818
	$ 17,702,257	16,130,910

The number of permanent employees at December 31, 2008 was 214 (2007 – 203).

27. 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 2008	2007
Available for sale financial assets	9	$ 5,642,575	3,452,103
Trade and other receivables	11	41,939,612	46,266,628
Cash and cash equivalents	12	10,847,374	3,148,936
		$ 58,429,561	52,867,667

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

	Carrying Amounts 2008	2007
Business	$ 20,467,639	15,514,903
Residential	10,083,335	12,436,622
	$ 30,550,974	27,951,525

Impairment losses:

The aging of trade receivables at the reporting date was:

	Gross 2008	Impairment 2008	Gross 2007	Impairment 2007
Not past due	$ 16,628,963	18,588	17,515,416	-
Past due 30-60 days	5,862,499	36,150	6,308,578	30,811
Past due 60- 90 days	2,135,877	61,454	1,818,962	41,055
Over 90 days	10,560,821	4,520,994	7,043,759	4,663,324
	$ 35,188,160	4,637,186	32,686,715	4,735,190

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

	Carrying Amount 2008	2007
Balance at January 1, 2008	$ 4,735,190	4,392,850
Impairment loss recognised	814,652	342,340
Over provision for prior year	(912,656)	-
Balance at December 31, 2008	$ 4,637,186	4,735,190

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 is written off against the financial asset directly.

27. **Financial Instruments (Cont'd)**
Liquidity risk

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

December 31, 2008

		Carrying amount	Contractual cash flows	Under 1 year	1-2years	2-5 Years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans	$	(127,492,324)	(149,869,624)	(21,983,665)	(37,520,541)	(39,713,326)	(50,652,092)
Bank overdraft		(4,442)	(4,442)	(4,442)	-	-	-
Trade and other payables		(25,748,467)	(25,748,467)	(25,748,467)	-	-	-
Dividend payable		(8,251,153)	(8,251,153)	(8,251,153)	-	-	-
	$	(161,496,386)	(183,873,686)	(55,987,727)	(37,520,541)	(39,713,326)	(50,652,092)

December 31, 2007

		Carrying amount	Contractual cash flows	Under 1 year	1-2years	2-5 Years	More than 5 years
Non-derivative financial liabilities							
Secured bank loans	$	(126,990,281)	(170,784,212)	(27,724,950)	(23,423,365)	(50,802,438)	(68,833,459)
Bank overdraft		(2,381,447)	(2,381,447)	(2,381,447)	-	-	-
Trade and other payables		(25,276,702)	(25,276,702)	(25,276,702)	-	-	-
Dividend payable		(9,168,635)	(9,168,635)	(9,168,635)	-	-	-
	$	(163,817,065)	(207,610,996)	(64,551,734)	(23,423,365)	(50,802,438)	(68,833,459)

27. Financial Instruments (Cont'd)

Currency Risk

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

	XCD	Euro	USD	GBP	XCD	Euro	USD	GBP
	31 December 2008				31 December 2007			
Trade and other receivables $	41,939,612)	-	-	-	46,266,628	-	-	-
Secured bank loans	(52,538,926)	-	(27,589,473)	-	(30,821,185)	-	(35,472,927)	-
Trade payable and other payables	(20,700,767)	(314)	(1,805,041)	(36,091)	(21,458,323)	(10,498)	(857,261)	(286,881)
Balance sheet exposure $	(31,300,081)	(314)	(29,394,514)	(36,091)	(6,012,880)	(10,498)	(36,330,188)	(286,881)

The following significant exchange rates applied during the year:

		Reporting date			
		Average rate		Spot rate	
XCD		2008	2007	2008	2007
USD 1	$	2.717	2.717	2.717	2.717
Euro 1	$	4.007	3.627	3.836	3.900
GBP 1	$	5.054	5.303	3.940	5.291

27. 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 2008		Carrying Amount 2007	
Fixed rate instruments:					
Financial assets	$	16,489,949	4.08%	6,583,901	4.13%
Financial liabilities		(127,496,766)	6.07%	(129,371,728)	6.07%
	$	(110,006,817)		(122,787,827)	

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 balance sheet are as follows:

		Carrying amount as at December 31, 2008	Fair value as at December 31, 2008	Carrying amount as at December 31, 2007	Fair value as at December 31, 2007
Available for sale financial asset	$	5,642,575	5,642,575	3,452,103	3,452,103
Trade and other receivables		41,939,612	41,939,612	46,266,628	46,266,628
Cash and cash equivalents		10,847,374	10,847,374	3,148,936	3,148,936
Secured borrowings		(127,492,324)	(94,744,049)	(126,990,281)	(124,923,378)
Bank overdraft		(4,442)	(4,442)	(2,381,447)	(2,381,447)
Trade and other payables		(25,748,467)	(25,748,467)	(25,276,702)	(25,276,702)
Dividends payable		(8,251,153)	(8,251,153)	(9,168,635)	(9,168,635)
	$	(103,066,825)	(70,318,550)	(110,949,398)	(108,882,495)

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

Interest rates used for determining fair values
The interest rates used to discount estimated cash f ow are based on the interest rates of government securities at the reporting date.

28. Commitments

Capital commitments
Company had no capital commitments at December 31, 2008 (2007 - $410,000) in respect of work contracted.

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

		2008	2007
Not later than 1 year	$	100,000	100,000
Later than 1 year and not later than 5 years		-	-
	$	100,000	100,000

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

29. Self Insurance Fund

In prior years, the Company experienced difficulty in obtaining adequate and reasonably priced commercial insurance coverage primarily on the Transmission and Distribution assets. The Board of Directors therefore gave approval for the establishment of a Self Insurance Fund to provide coverage for its assets in the event of natural disasters or similar catastrophic events. The relevant enabling legislative process was completed during 2007. Consequently, the Company ceased commercial insurance cover of its Transmission and Distribution assets and on an annual basis has, and will continue to place amounts into the Fund which will be independently managed under the terms of a registered Trust Deed.

The amount of EC$5.6 million stated as "Available for sale financial assets" represents Fund amounts invested to date in the Unit Trust Corporation of Trinidad and Tobago. The Company also has access to a line of credit in the amount of EC$10 million which will be used, if required, in the event of damage to the Transmission and Distribution assets as disclosed in Note 5 (Liquidity Risk) to these financial statements.

30. Prior years' adjustment

In respect of its senior employees, the Company contributes to the regional CDC Caribbean Pension Scheme, which is administered by Sagicor Life Inc. In prior years, the company inadvertently omitted to account for and disclose the retirement benefit asset that resulted from actuarial valuations in accordance with the requirements of IAS 19. This resulted in the understatement of the Company's retirement benefit reserve at December 31, 2007 by $4,494,000, of which $4,274,000 relates to periods up to December 31, 2006.

The effect of the correction of this error is to:

(a) Increase the retirement benefit asset at December 31, 2006 by $4,274,000 and to increase the retirement benefit reserve by the same amount; and to increase the tax charge for the year by $1,282,000 and reduce the retained earnings at that date by the same amount.

(b) Increase the retirement benefit asset and the retirement benefit reserve at December 31, 2007, and the net profit for the year then ended by $220,000; and to increase the tax charge for the year and reduce the retained earnings at December 31, 2007 by $66,000.

31. Comparatives

Certain of the comparative figures have been reclassified to be consistent with the current year's financial statement presentation.

OPERATING STATISTICS

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Generating Plant (kW)										
Available Capacity	76,000	76,000	65,800	65,800	56,800	56,800	66,400	66,400	66,400	59,900
Firm Capacity	55,600	55,600	46,300	46,300	37,000	37,000	47,800	47,800	47,800	46,700
Peak Demand	54,100	52,700	49,800	49,200	46,600	44,900	43,400	43,300	43,300	41,000
Percentage growth in peak demand	2.7%	5.8%	1.2%	5.6%	3.8%	3.5%	0.2%	0.0%	5.6%	10.2%
Sales (kWh x 1000)										
Domestic	103,214	104,784	101,635	98,914	96,062	92,848	89,084	88,443	85,075	79,491
Commercial (including Hotels)	170,624	168,151	160,895	158,483	151,451	141,374	133,996	137,017	131,863	120,628
Industrial	18,626	15,789	12,982	12,522	12,345	13,185	12,673	12,954	13,250	12,271
Street Lighting	9,510	9,117	8,886	7,480	6,544	4,713	3,634	5,002	3,893	3,271
Total Sales	301,975	297,841	284,398	277,399	266,402	252,120	239,387	243,416	234,081	215,661
Power Station and Office Use (kWh x 1000)	14,256	13,185	13,071	13,172	12,076	11,793	11,970	12,522	12,069	10,800
Losses (kWh x 1000)	36,105	34,672	33,291	33,043	30,062	35,070	34,356	30,601	30,595	29,734
Units Generated (kWh x 1000)	352,335	345,698	330,760	323,614	308,540	298,983	285,713	286,539	276,745	256,195
Percentage growth in units generated	1.9%	4.5%	2.2%	4.9%	3.2%	4.6%	-0.3%	3.5%	8.0%	8.6%
Percentage growth in sales	1.4%	4.7%	2.5%	4.1%	5.7%	5.3%	-1.7%	4.0%	8.5%	8.5%
Percentage Losses (excl. prior year sales adjs.)	10.2%	10.0%	10.1%	10.2%	10.2%	11.7%	12.0%	10.7%	11.1%	11.6%
Number of Consumers at Year End										
Domestic	51,444	50,163	48,697	47,417	46,347	44,980	43,460	42,548	41,097	39,825
Commercial (Including Hotels)	6,169	5,938	5,714	5,474	5,307	5157	5,050	5,082	5,102	5,049
Industrial	98	101	95	95	96	102	106	112	116	115
Street Lighting (accounts)	7	7	3*	16	16	14	17	18	17	17
	57,718	56,209	54,509	53,002	51,766	50,253	48,633	47,760	46,332	45,006
Percentage growth	2.7%	3.1%	2.8%	2.4%	3.0%	3.3%	1.8%	3.1%	2.9%	4.7%
Average Annual Consumption Per Customer (kWh)										
Domestic	2,006	2,089	2,087	2,086	2,073	2,064	2,050	2,079	2,070	1,996
Commercial (including Hotels)	27,658	28,318	28,158	28,952	28,538	27,414	26,534	26,961	25,845	23,892
Industrial	190,065	156,327	136,653	131,811	128,594	129,265	119,558	115,661	114,224	106,709
Diesel fuel consumed (Imp. Gall.)	17,870,149	17,729,217	17,009,188	16,666,145	15,961,905	15,436,122	14,736,896	14,860,580	14,388,680	13,276,298

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

Financial Statistics 1999 - 2008

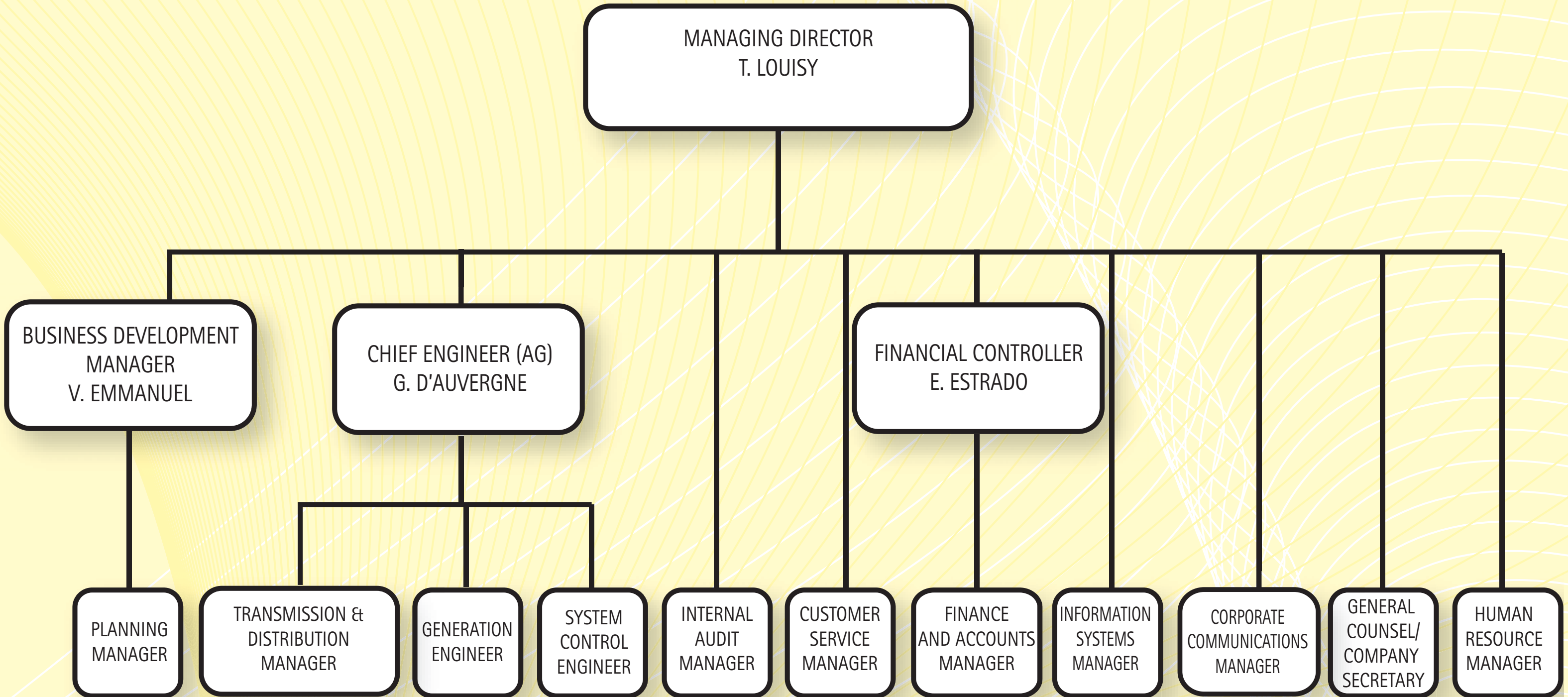
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Units Sold (kWh x 1000)	301,975	297,841	284,398	277,399	266,402	252,120	239,387	243,417	234,080	215,661
Tariff Sales (Cents per kWh)	81.0	77.8	67.4	40.8	41.7	41.0	41.0	41.3	41.2	40.8
Fuel Charge (Cents per kWh)	19.0	3.4	12.3	32.1	22.6	18.3	14.9	16.6	18.7	11.5
Operating costs (Cents per kWh)	85.7	66.2	65.2	59.2	47.8	44.6	42.3	42.7	43.6	36.4
Summarised Balance Sheet (EC$000's)										
Fixed Assets (Net)	292,916	296,606	267,447	267,872	223,932	236,991	250,360	243,001	248,243	234,159
Retirement Benefit Asset	8,847	7,768	2,850	2,637	2,395	1,983	1,520	1,083	843	-
Available for Sale Investment	5,643	3,452	2,687	1,961	1,266	610	-	-	-	-
Capital Work in Progress	9,582	6,518	11,055	9,297	49,930	15,896	5,654	19,957	13,485	3,869
Current Assets	68,527	63,419	54,460	60,000	54,878	43,519	44,873	47,879	45,196	51,731
Current Liabilities	(52,483)	(57,776)	(57,545)	(66,625)	(48,165)	(35,743)	(38,144)	(46,451)	(41,751)	(45,315)
Total	333,032	319,987	280,954	275,142	284,236	263,256	264,263	265,469	266,016	244,443
Share Capital	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163	80,163
Retained Earnings	64,462	58,330	53,932	46,028	49,081	40,831	35,038	30,279	24,529	18,187
Other Reserves & Consumer Contributions	37,275	32,315	25,328	24,332	24,515	25,250	24,628	23,708	23,761	22,340
Long Term Debt	110,754	107,288	81,360	84,916	88,848	75,927	83,988	91,983	99,216	88,047
Other Long Term Liabilities	40,378	41,891	40,171	39,703	41,629	41,085	40,446	39,336	38,347	35,706
Total	333,032	319,987	280,954	275,142	284,236	263,256	264,263	265,469	266,016	244,443

Financial Statistics 1999 - 2008 (Cont'd)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Summarised Income Statement (EC$000's)										
Operating Revenues										
Electricity	244,669	231,676	191,730	113,334	111,171	103,455	98,213	100,450	96,501	87,923
Fuel Surcharge	57,448	10,178	34,962	88,961	60,147	46,110	35,495	40,492	43,773	24,878
Other	1,082	657	943	848	545	749	481	842	837	715
Total	303,199	242,511	227,635	203,143	171,863	150,314	134,189	141,784	141,111	113,516
Operating Costs										
Fuel (Cost over Base)	57,915	10,846	34,712	89,170	60,114	45,669	35,673	40,367	43,289	24,678
Generation O&M	133,284	121,317	91,504	13,682	15,202	14,084	13,208	14,498	12,459	12,564
Transmission & Distribution	16,323	16,810	14,888	14,080	11,802	12,806	12,519	11,925	12,373	10,130
Administrative & Selling	21,844	21,180	19,558	23,352	18,387	19,482	20,344	18,305	16,356	14,054
Depreciation	29,468	27,171	24,763	23,885	21,905	20,493	19,608	18,893	17,639	16,974
Total	258,833	197,324	185,425	164,169	127,410	112,534	101,352	103,988	102,116	78,400
Operating Income	44,555	45,470	42,210	38,974	44,453	37,779	32,837	37,796	38,995	35,116
Interest Expense	8,997	7,201	7,131	6,074	5,686	7,344	8,805	9,360	7,574	8,259
Foreign Exchange (Gain) Loss/ Other	(462)	(151)	(503)	116	15	288	(37)	-	-	(5)
Net Income before Tax	35,831	38,137	35,582	32,784	38,752	30,147	24,069	28,436	31,421	26,862
Taxation	10,962	9,125	8,585	7,083	10,628	10,530	7,768	8,968	10,294	8,261
Net Income after Tax	24,869	29,012	26,997	25,701	28,124	19,616	16,301	19,468	21,127	18,601
Dividend Declared	15,705	16,642	16,642	15,715	19,462	13,361	11,105	13,478	14,711	11,819
Retained Earnings for Year	9,164	12,370	10,355	9,986	8,662	6,256	5,196	5,990	6,416	6,782
Retained Earnings beginning of Year	58,330	52,650	46,028	49,081	40,831	35,038	30,279	24,529	18,187	11,405
Transfer to Retirement Benefit & Reserves	(1,079)	(644)	636	(242)	(412)	(463)	(437)	(240)	(74)	-
Tariff Reduction Reserve	(1,953)	(6,046)	(3,087)	(4,557)	-	-	-	-	-	-
Prior Year Adjustment	-	-	(1,282)	(8,240)	-	-	-	-	-	-
Retained Earnings end of Year	64,462	58,330	52,650	46,028	49,081	40,831	35,038	30,279	24,529	18,187
Return on Rate Base	17.77%	21.42%	18.91%	19.67%	12.91%	10.52%	9.70%	11.08%	10.68%	10.47%
Earnings per share (EC$)	$2.12	$2.48	$2.30	$2.19	$2.40	$1.67	$1.39	$1.66	$1.80	$1.58
Dividend per share (EC$)	$1.34	$1.42	$1.42	$1.34	$1.66	$1.14	$0.95	$1.15	$1.26	$1.00
Debt/Equity Ratio	47/53	48/52	43/57	43/57	$0.79	$0.82	$1.00	$1.13	48/52	49/51

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

Organization Chart



Notes

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St. Lucia Electricity LUCELEC Services Ltd

Annual Report '08

PERFORMANCE & POWER

EMPOWERED TO MAKE THINGS BETTER

Registered Office, Head Office
St. Lucia Electricity Services Limited,
Sans Soucis, 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