



Accountants &
business advisers

GRENADA ELECTRICITY SERVICES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER, 2015

GRENADA ELECTRICITY SERVICES LIMITED



FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2015

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**GRENADA ELECTRICITY SERVICES LIMITED
DIRECTORS AND OFFICERS**

DIRECTORS:

(As at December 31, 2015)

G. Robert Blanchard Jr. –Chairman
Alister Bain
Robert Blenker
Wayne Burks
Robert Curtis
Anthea Debellotte
Ashton Frame
Linda George- Francis
Dwight Horsford
Ronald Roseman
Lawrence Samuel
Murray Skeete

GENERAL MANAGER/ CEO:

Collin Cover

SECRETARY:

Benedict Brathwaite

REGISTERED OFFICE:

Dusty Highway
Grand Anse
St. George's
Grenada

BANKERS:

Republic Bank (Grenada) Limited
Republic House
Grand Anse
St. George's, Grenada

Cayman National Bank
Grand Cayman
Cayman Islands

RBTT Bank Grenada Limited
Cnr. Cross & Halifax Streets
St. George's, Grenada

Bank of Nova Scotia
Cnr. Granby and Halifax Streets
St. George's, Grenada

FirstCaribbean International Bank (Barbados) Limited
Church Street
St. George's, Grenada

Grenada Co-operative Bank Limited
Church Street
St. George's

The Bank of Tampa
Florida, U.S.A.

ATTORNEYS-AT-LAW:

Grant Joseph & Company
Lucas Street
St. George's, Grenada

AUDITORS:

PKF
Accountants and business advisers
Pannell House
Grand Anse
St. George's, Grenada

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

We have audited the accompanying financial statements of Grenada Electricity Services Limited (the Company) which comprise the statement of financial position at December 31st, 2015 and the related statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as of December 31st, 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

GRENADA:

March 9th, 2016



Accountants & business advisers:

GRENADA ELECTRICITY SERVICES LIMITED



STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2015
(Expressed in Eastern Caribbean Currency Dollars)

ASSETS	Notes	2015 \$	2014 \$
Non-Current Assets			
Property, plant and equipment	4	72,882,900	77,555,062
Suspense jobs in progress	5	2,268,137	1,893,828
Capital work in progress	6	2,372,233	2,178,152
Deferred exchange (gain) / loss	7	(396,122)	205,560
Available-for-sale financial assets	8 (a)	<u>824,120</u>	<u>872,120</u>
		<u>77,951,268</u>	<u>82,704,722</u>
Current Assets			
Inventories	9	14,824,650	14,901,584
Trade and other receivables	10	21,378,671	30,255,489
Segregated retirement investments	11	-	6,134,198
Loans and receivables financial assets	8 (b)	39,775,932	37,327,224
Cash and cash equivalents	12	<u>16,614,231</u>	<u>12,885,921</u>
		<u>92,593,484</u>	<u>101,504,416</u>
TOTAL ASSETS		<u>170,544,752</u>	<u>184,209,138</u>
EQUITY AND LIABILITIES			
EQUITY			
Stated capital	13	32,339,840	32,339,840
Other reserves		8,040	8,040
Retained earnings		<u>69,607,254</u>	<u>61,247,152</u>
		<u>101,955,134</u>	<u>93,595,032</u>
Non-Current Liabilities			
Customers' deposits	14	14,039,360	12,890,373
Long-term borrowings	15	9,124,712	16,224,680
Deferred tax liability	23	430,047	-
Provision for hurricane insurance reserve	17	<u>20,000,000</u>	<u>18,000,000</u>
		<u>43,594,119</u>	<u>47,115,053</u>
Current Liabilities			
Amount due to related company	18	84,013	164,964
Short-term borrowings	15	6,576,914	7,687,615
Trade and other payables	19	10,493,031	16,674,611
Customers' contribution to line extensions		1,192,640	941,354
Provision for retirement benefits	16	326,755	12,791,719
Provision for profit sharing		5,178,075	5,038,532
Provision for income tax		<u>1,144,071</u>	<u>200,258</u>
		<u>24,995,499</u>	<u>43,499,053</u>
TOTAL LIABILITIES		<u>68,589,618</u>	<u>90,614,106</u>
TOTAL EQUITY AND LIABILITIES		<u>170,544,752</u>	<u>184,209,138</u>

The notes on pages 8 to 37 form an integral part of these financial statements

:Director

:Director



GRENADA ELECTRICITY SERVICES LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2015

(Expressed in Eastern Caribbean Currency Dollars)

	Notes	2015 \$	2014 \$
INCOME			
Sales - non fuel charge		79,580,943	77,070,194
- fuel charge		72,117,273	111,450,441
Unbilled sales adjustments	2(v)	(1,976,753)	(345,350)
Gross Sales		149,721,463	188,175,285
Other income	20	<u>1,557,640</u>	<u>1,762,736</u>
Total income		<u>151,279,103</u>	<u>189,938,021</u>
LESS: OPERATING EXPENSES			
Production expenses		15,689,589	13,834,297
Diesel consumed		60,428,191	99,348,393
Administrative expenses		17,363,216	18,595,857
Distribution services		16,883,737	16,232,219
Planning and engineering		2,749,682	2,578,336
Provision for hurricane insurance reserve		<u>2,000,000</u>	<u>2,000,000</u>
Total operating expenses		<u>115,114,415</u>	<u>152,589,102</u>
Operating profit		36,164,688	37,348,919
Less: Finance costs	21	<u>1,835,609</u>	<u>2,429,426</u>
Profit for year before allocations and taxation		<u>34,329,079</u>	<u>34,919,493</u>
ALLOCATIONS			
Less: Donations		1,716,454	1,745,975
Profit sharing		<u>6,672,981</u>	<u>6,326,481</u>
		<u>8,389,435</u>	<u>8,072,456</u>
Profit for year before taxation		25,939,644	26,847,037
Less: Provision for taxation	23	<u>7,699,542</u>	<u>7,606,135</u>
Profit for year after taxation		18,240,102	19,240,902
Other comprehensive income			
Revaluation of available-for-sale financial assets		-	(268)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>18,240,102</u>	<u>19,240,634</u>
EARNINGS PER SHARE			
		<u>0.96</u>	<u>1.01</u>

The notes on pages 8 to 37 form an integral part of these financial statements



GRENADA ELECTRICITY SERVICES LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2015**

(Expressed in Eastern Caribbean Currency Dollars)

	Stated Capital \$	Other Reserve \$	Retained Earnings \$	Total Equity \$
Balance at 1 st January, 2014	32,339,840	8,308	51,126,250	83,474,398
Dividends paid	-	-	(9,120,000)	(9,120,000)
Total comprehensive income for the year:				
Profit for the year after taxation	-	-	19,240,902	19,240,902
Revaluation of available-for-sale financial assets	-	(268)	-	(268)
Balance at 31 st December, 2014	32,339,840	8,040	61,247,152	93,595,032
Dividends paid	-	-	(9,880,000)	(9,880,000)
Total comprehensive income for the year:				
Profit for the year after taxation	-	-	18,240,102	18,240,102
Balance at 31 st December, 2015	<u>32,339,840</u>	<u>8,040</u>	<u>69,607,254</u>	<u>101,955,134</u>

The notes on pages 8 to 37 form an integral part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED



**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2015
(Expressed in Eastern Caribbean Currency Dollars)**

	2015 \$	2014 \$
OPERATING ACTIVITIES		
Profit for the year before taxation	25,939,644	26,847,037
Adjustments for:		
Depreciation	10,357,980	10,493,331
Profit on disposal of property, plant and equipment	<u>(10,240)</u>	<u>(30,580)</u>
Operating surplus before working capital changes	36,287,384	37,309,788
Decrease in trade and other receivables	8,876,817	5,091,021
(Decrease)/increase in trade and other payables	(4,781,307)	2,996,420
Decrease in provision for retirement benefits	(12,464,964)	(3,328,855)
Decrease in inventories	76,934	295,719
(Decrease)/increase in amount due to related company	(80,951)	72,993
Increase in provision for profit sharing	<u>139,543</u>	<u>509,838</u>
	28,053,456	42,946,924
Income tax paid	<u>(6,325,681)</u>	<u>(6,497,286)</u>
Cash provided by operating activities	<u>21,727,775</u>	<u>36,449,638</u>
INVESTING ACTIVITIES		
Decrease in available-for-sale financial assets	48,000	268
Disposal of property, plant and equipment	62,251	31,500
Increase in suspense jobs in progress	(374,309)	(211,210)
(Increase)/decrease in capital work in progress	(194,081)	724,162
Increase in loans and receivables financial assets	(2,448,708)	(6,417,021)
Decrease in segregated retirement investments	6,134,198	3,859,698
Increase/(decrease) in customers' contribution to line extensions	88,507	(597,630)
Purchase of property, plant and equipment	(5,826,336)	(5,543,828)
Decrease in other reserves	<u>-</u>	<u>(268)</u>
Cash used in investing activities	<u>(2,510,478)</u>	<u>(8,154,329)</u>
FINANCING ACTIVITIES		
Dividends paid	(9,880,000)	(9,120,000)
Increase in provision for hurricane insurance reserve	2,000,000	2,000,000
Repayment of borrowings	<u>(7,608,987)</u>	<u>(7,380,286)</u>
Cash used in financing activities	<u>(15,488,987)</u>	<u>(14,500,286)</u>
Net increase in cash and cash equivalents	3,728,310	13,795,023
Cash and cash equivalents - at the beginning of year	<u>12,885,921</u>	<u>(909,102)</u>
- at the end of year	<u>16,614,231</u>	<u>12,885,921</u>
REPRESENTED BY		
Cash and cash equivalents	<u>16,614,231</u>	<u>12,885,921</u>

The notes on pages 8 to 37 form part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2015

1. CORPORATE INFORMATION

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

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

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

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

The Company employed on average two hundred and thirty-two (232) persons during the year (2014- 226).

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of Preparation

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

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

(b) New accounting standards, amendments and interpretations

- (i) There are no new standards, amendments or interpretations that are effective for the first time for the financial year beginning on or after 1st January, 2015 that would be expected to have a material impact on the Company's financial statement.

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- (i) Amendments and interpretations issued but not effective for the financial year beginning 1st January, 2015 and not early adopted. These either do not apply to the activities of the Company or have no material impact on its financial statements.

IAS 1	Presentation of Financial Statements – Disclosure Initiative (amendments) – Effective for annual periods beginning on or after 1 st January, 2016.
IAS 16 & 38	Property, plant and equipment and Intangible Assets: Classification of acceptable methods of Depreciation and Amortisation (Amendments) – Effective for annual periods beginning on or after 1 st January, 2016.
IAS 24	Related Party Disclosures – Effective for annual periods beginning on or after 1 st January, 2016.
IAS 34	Interim Financial Reporting: Disclosures of information elsewhere in the Interim Financial Report – Effective for annual periods beginning on or after 1 st January, 2016.
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operation (Amendments) - Effective for annual periods beginning on or after 1 st January, 2014.
IFRS 7	Financial Instruments: Disclosures (Amendments) - Effective for annual periods beginning on or after 1 st January, 2016.
IFRS 9	Financial Instruments: Classification and Measurement - Effective for annual periods beginning on or after 1 st January, 2018.
IFRS 11	Joint Arrangements – Accounting for Acquisition of Interest in Joint Regulatory - Effective for annual periods beginning on or after 1 st January, 2016.
IFRS 14	Regulatory Deferral Accounts – Effective for annual periods beginning on or after 1 st January, 2016.
IFRS 15	Revenue from Contracts with Customers – Effective for annual period beginning on or after 1 st January, 2017.

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Property, Plant and Equipment*

Recognition and Measurement

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

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

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

Subsequent Expenditure

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing and other repairs and maintenance of property, plant and equipment are recognized in the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land and rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and available for use.

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Depreciation

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

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

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

(d) *Foreign Currencies Translation*

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

EC\$2.7169 to US\$1.00	-	(2014: EC\$2.7169)
EC\$3.04143 to €1.00	-	(2014: EC\$3.38034)

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

(e) *Financial Instruments*

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

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Financial Instruments (continued)*

Recognition and measurement

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

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

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

Financial assets

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

Loans and receivables

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

Available-for-sale

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

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Financial Instruments (continued)*

Fair Value

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

Impairment of financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) *Financial Instruments (continued)*

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

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

i. Financial assets measured at amortised cost

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

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

(ii) Financial assets measured at cost

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

Financial Liabilities

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

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

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Inventories

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

(g) Trade receivables

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

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receivables, being short-term, are not discounted. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default or delinquency in payment are considered indicators that the trade receivable is impaired.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank and short-term demand deposits with original maturity of three (3) months or less.

(i) Stated capital

Ordinary shares are classified as equity.

(j) Trade payables

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

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Borrowings

Borrowings are recognised at fair value net of transaction cost incurred. Borrowings are subsequently stated at amortized cost: any difference between the proceeds, net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve (12) months after the date of the statement of financial position.

(l) Customers' deposits

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

(m) Customers' contribution to line extensions

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

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

(n) Employee benefits

Profit sharing scheme

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

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Income tax

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

(p) Provisions

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

(q) Revenue recognition

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

(i) Sale of energy

Revenue from energy sales is based on meter readings, which are carried out on a rotational basis throughout each month. A provision of 50% of the current month's billings is made to record unbilled energy sales at the end of each month. This estimate is reviewed periodically to assess reasonableness and adjusted where required. The provision for unbilled sales is included in accrued income.

(ii) Interest income

Interest income is recognised on an accrual basis.

(r) Dividends

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

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

GRENADA ELECTRICITY SERVICES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)



2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Related parties

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

(t) Finance costs

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

(u) Provision for doubtful debts

Provision is made as follows:
100% on receivables ≥ 90 days
and 50% on receivables ≥ 60 days, both net of Government of Grenada balances.

Accounts are written off against the provision when they are considered to be uncollectible. The total provision at 31st December, 2015 amounted to \$5,236,249 (2014 - \$8,539,923).

(v) Provision for unbilled sales

The provision and adjustment with comparatives at 31st December, 2015 are calculated as follows:

	2015	2014
	\$	\$
Sales revenue for December after discounts	<u>11,473,502</u>	<u>15,427,007</u>
50% of above = provision at 31/12/15	5,736,751	7,713,504
= provision at 31/12/14	<u>7,713,504</u>	<u>8,058,854</u>
Decrease in provision during the year	<u>(1,976,753)</u>	<u>(345,350)</u>

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

Impairment of financial assets

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

Property, plant and equipment

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

Impairment of inventory

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

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**
(continued)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
Balance at 1st January, 2014						
Cost	1,467,468	30,463,658	220,345,202	9,312,152	12,743,107	274,331,587
Accumulated depreciation	-	(16,919,099)	(150,955,761)	(8,644,162)	(8,254,954)	(184,773,976)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$13,544,559</u>	<u>\$69,389,441</u>	<u>\$667,990</u>	<u>\$4,488,153</u>	<u>\$89,557,611</u>
For year ended 31st December, 2014						
Opening book value	1,467,468	13,544,559	69,389,441	667,990	4,488,153	89,557,611
Additions for the year	-	-	2,651,867	366,975	2,524,986	5,543,828
Disposals for the year	-	-	-	-	(920)	(920)
Depreciation charge for year	-	(496,543)	(7,243,348)	(454,400)	(2,299,040)	(10,493,331)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$13,048,016</u>	<u>\$64,797,960</u>	<u>\$580,565</u>	<u>\$4,713,179</u>	<u>\$84,607,188</u>
Balance at 31st December, 2014						
Cost	1,467,468	30,463,658	223,378,827	9,442,227	14,021,660	278,773,840
Accumulated depreciation	-	(17,415,642)	(158,580,867)	(8,861,662)	(9,308,481)	(194,166,652)
Less: Customer contribution to line extensions	-	-	-	-	-	(7,052,126)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$13,048,016</u>	<u>\$64,797,960</u>	<u>\$580,565</u>	<u>\$4,713,179</u>	<u>\$77,555,127</u>



GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**
(continued)

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
For year ended 31st December, 2015						
Opening book value	1,467,468	13,048,016	64,797,960	580,565	4,713,179	84,607,188
Additions for the year	-	65,484	3,560,594	797,611	1,402,647	5,826,336
Disposals for the year	-	-	(44,618)	-	(7,393)	(52,011)
Depreciation charge for year	-	(493,157)	(8,468,775)	(392,570)	(1,003,478)	(10,357,980)
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$12,620,343</u>	<u>\$59,845,161</u>	<u>\$985,606</u>	<u>\$5,104,955</u>	<u>\$80,023,533</u>
Balance at 31st December, 2015						
Cost	1,467,468	30,529,142	223,378,827	9,442,227	14,021,660	278,839,324
Accumulated depreciation	-	(17,908,799)	(163,533,666)	(8,456,621)	(8,916,705)	(198,815,791)
Less: Customer contribution to line extensions	-	-	59,845,161	985,606	5,104,955	80,023,533
NET BOOK VALUE	<u>\$1,467,468</u>	<u>\$12,620,343</u>	<u>\$59,845,161</u>	<u>\$985,606</u>	<u>\$5,104,955</u>	<u>\$72,882,900</u>



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015

(continued)

5. **SUSPENSE JOBS IN PROGRESS**

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

6. **CAPITAL WORK IN PROGRESS**

	2015 \$	2014 \$
Generation	1,324,002	895,916
Computers and software upgrades	345,187	100,832
Tools and equipment	-	28,697
Furniture and equipment	142,014	89,892
Distribution	232,485	1,062,815
Building and construction	17,350	-
Motor vehicles	<u>311,195</u>	<u>-</u>
	<u>2,372,233</u>	<u>2,178,152</u>

7. **DEFERRED EXCHANGE GAIN/ LOSS**

This represents the difference arising on the revaluation of the balance of the European Investment Bank Grenlec 111 Loan at the exchange rate of ECC\$3.04143 to one Euro at the statement of financial position date. The average rate existing on the dates the draw downs were received was ECC\$3.3417 to one Euro.

8. **FINANCIAL ASSETS**

(a) Available for sale

536 ordinary shares in the Republic Bank (Grenada) Limited	24,120	24,120
Government of Grenada - Treasury Bills	<u>800,000</u>	<u>848,000</u>
	<u>824,120</u>	<u>872,120</u>

(b) Loans and receivables

Fixed deposit – Republic Bank (Grenada) Limited	6,848,315	10,359,578
Fixed deposit – Grenada Co-operative Bank Limited	8,046,077	9,890,909
Fixed deposit – Bank of Nova Scotia	13,749,379	8,974,329
Fixed deposit – RBTT Bank Grenada Limited	8,407,705	5,372,792
US\$ certificate of deposit- Cayman National Bank	<u>2,724,456</u>	<u>2,729,616</u>
	<u>39,775,932</u>	<u>37,327,224</u>

GRENADA ELECTRICITY SERVICES LIMITED



**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

8. FINANCIAL ASSETS (continued)

Included in the above is an amount of \$19,953,422 for Hurricane Insurance Reserve invested in Treasury Bills and fixed deposits held with the Bank of Nova Scotia, Republic Bank (Grenada) Limited, RBTT Bank Grenada Limited, Cayman National Bank and the Grenada Co-operative Bank Limited.

9. INVENTORIES

	2015 \$	2014 \$
The following is a breakdown of stock on hand:		
Motor vehicle spares	952,596	961,219
Distribution	5,258,415	4,345,185
Generation spares	6,920,398	7,922,678
Fuel and lubricating oil	488,193	405,596
General stores	<u>2,231,066</u>	<u>2,295,714</u>
	15,850,668	15,930,392
Less: Obsolescence provision	<u>1,026,018</u>	<u>1,028,808</u>
	<u>14,824,650</u>	<u>14,901,584</u>

10. TRADE AND OTHER RECEIVABLES

Customers' accounts	15,288,237	28,457,422
Less: Provision for doubtful debts	<u>4,802,325</u>	<u>7,976,196</u>
	10,485,912	20,481,226
Other debtors	1,420,412	1,602,357
Less: Provision for doubtful debts	<u>433,924</u>	<u>563,727</u>
	11,472,400	21,519,856
Provision for unbilled sales	5,736,751	7,713,503
Prepayments	<u>4,169,520</u>	<u>1,022,130</u>
	<u>21,378,671</u>	<u>30,255,489</u>

As of the statement of financial position date, the aging analysis of customers' accounts is as follows:

	30 days	31- 60 days	61-90 days	Over 90 days	Total
2015	<u>\$8,523,574</u>	<u>\$2,309,585</u>	<u>\$303,655</u>	<u>\$4,151,423</u>	<u>\$15,288,237</u>
2014	<u>\$12,504,556</u>	<u>\$4,844,022</u>	<u>\$2,079,659</u>	<u>\$9,029,185</u>	<u>\$28,457,422</u>

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

11. SEGREGATED RETIREMENT INVESTMENTS

To offset the liability created from the defined contribution plans, the Company made short-term investments in certificates of deposits at various commercial banks.

In keeping with the Insurance Act of 2010, which makes provision for regulating the operation of pension fund plans, the Company undertook during 2014 to have both of its retirement plans established under Trusts and registered with the Grenada Authority for the Regulation of Financial Institution (GARFIN).

All investments held relating to the Management Trust were transferred by the end of 2014. As at 21st December 2015 the entire balance held of \$14,424,728 relating to the Non-Management Trust was transferred.

12. CASH AND CASH EQUIVALENTS

	2015	2014
	\$	\$
Cash on hand	6,200	4,900
Bank of Tampa	597,590	18,725
Bank of Nova Scotia	5,792,302	3,706,459
Republic Bank (Grenada) Limited	3,685,000	5,077,261
FirstCaribbean International Bank Limited	6,016,859	3,632,498
Grenada Co-operative Bank Limited	<u>516,280</u>	<u>446,078</u>
Cash and cash equivalents in the statement of cash flows	<u>16,614,231</u>	<u>12,885,921</u>

13. STATED CAPITAL

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

14. CUSTOMERS' DEPOSITS

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

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

15. BORROWINGS

	2015	2014
	\$	\$
(i) European Investment Bank (EIB)	5,239,806	6,690,489
(ii) National Insurance Scheme	922,820	2,913,306
(iii) Grenlec ECSE Bonds	<u>9,539,000</u>	<u>14,308,500</u>
	15,701,626	23,912,295
Less: Current portion	<u>6,576,914</u>	<u>7,687,615</u>
Total long-term	<u>9,124,712</u>	<u>16,224,680</u>

(i) European Investment Bank (EIB)

This loan bears an average interest rate of 5.75% per annum and is repayable over fifteen (15) years in annual instalments of Euro 365,898.74 (EC\$1,112,855.40 – converted as at the rate of December 31st, 2015) inclusive of interest and would mature at the end of June 2020. The loan is collateralized by a first fixed charge on Wartsila generator set II.

(ii) National Insurance Scheme

The loan bears interest at the rate of 7% per annum and is repayable over ten (10) years by quarterly instalments of \$535,650.84 inclusive of interest and would mature at the end of June 2016. The loan is collateralized by a first fixed charge on Wartsila generator set I.

(iii) Grenlec ECSE Bonds

The bond facility bears interest at a rate of 7% per annum and is repayable by quarterly instalments of \$1,192,375 (principal) plus variable interest over ten (10) years and would mature at the end of December 2017. This bond is collateralized under a Debenture Trust Deed which creates a fixed and floating charge on the Company's property, present and future, with the exception of those secured under other agreements and the Carriacou assets. The Debenture requires the Company to meet financial ratios; current, earnings coverage and equity /debt. The financial ratios were met by the Company for 2015.

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

15. BORROWINGS (continued)*(iv) CIBC First Caribbean International Bank Limited*

On February 29, 2016 the Company signed a Mortgage Debenture with CIBC FirstCaribbean International Bank (Barbados) Limited (the Bank) for a credit facility of up to XCD\$48,050,000.00.

The loan will bear interest at a rate of 4.75% per annum over the first five years and thereafter the interest will be the prime rate less 5.90% subject to a floor of 3.60% per annum. Presently the prime rate is 9.50% per annum. The loan is amortized over a twelve year period and repayable via 32 quarterly principal payments of XCD\$1,001,041.67 with a balloon payment of XCD\$16,016,666.56. Interest will be paid quarterly in arrears and accrue on an actual/365 day basis. The facility is collateralized under a first priority mortgage obligation and debenture charge over the fixed and floating assets of the Borrower stamped to cover XCD\$48,050,000.

Proceeds from the new mortgage debenture will be used to retire the Company's existing debt to EIB, the National Insurance Scheme and ESCE bonds.

16. PROVISION FOR RETIREMENT BENEFITS

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

The balance of \$326,755 at the statement of financial position date relates to amounts payable to the Trusts for December 2015.

17. PROVISION FOR HURRICANE INSURANCE RESERVE

	2015 \$	2014 \$
Balance at beginning of year	18,000,000	16,000,000
Add: Provision for the year	<u>2,000,000</u>	<u>2,000,000</u>
Balance at end of year	<u>20,000,000</u>	<u>18,000,000</u>



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015

(continued)

18. AMOUNT DUE TO RELATED COMPANY		
	2015	2014
	\$	\$
Amount due to WRB Enterprises, Inc.	<u>84,013</u>	<u>164,964</u>
19. TRADE AND OTHER PAYABLES		
Trade creditors	4,814,460	6,390,315
Sundry creditors	2,316,629	2,716,478
Accrued expenses	<u>3,361,942</u>	<u>7,567,818</u>
	<u>10,493,031</u>	<u>16,674,611</u>
20. OTHER INCOME		
Sundry revenue	1,547,400	1,732,156
Gain on disposal of fixed assets	<u>10,240</u>	<u>30,580</u>
	<u>1,557,640</u>	<u>1,762,736</u>
21. FINANCE COSTS		
Bank loans/Bond interest	1,321,722	1,966,009
Other bank interest	-	1,721
Other	<u>513,887</u>	<u>461,696</u>
	<u>1,835,609</u>	<u>2,429,426</u>

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2015

(continued)

22. RELATED PARTY TRANSACTIONS

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

	2015	2014
	\$	\$
a) Sale of electricity - NIS	<u>237,918</u>	<u>392,720</u>
b) Management services- WRB Enterprises, Inc.	<u>600,000</u>	<u>600,000</u>
c) Loan repayments- NIS	<u>2,142,603</u>	<u>2,142,603</u>
d) Payment of dividends:		
NIS	<u>1,146,516</u>	<u>1,058,322</u>
Grenada Private Power Limited	<u>4,940,000</u>	<u>4,560,000</u>
ii) Compensation of key management personnel of the Company:		
Salaries and other benefits	<u>3,289,631</u>	<u>2,709,750</u>
Past employment benefit provisions	<u>463,348</u>	<u>485,725</u>
iii) Loans receivable from key management personnel	<u>56,402</u>	<u>59,135</u>

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

23. TAXATION

Current year

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

	2015	2014
	\$	\$
Profit for the year before taxation	<u>25,939,644</u>	<u>26,847,037</u>
Tax at applicable statutory rate (30%)	7,781,893	8,054,111
Tax effect of items that are adjustable in determining Tax exempt income	(112,048)	(161,452)
Effect of expenses not deductible for tax purposes	(400,350)	(286,524)
Deferred tax liability	<u>430,047</u>	=
Provision for taxation	<u>7,699,542</u>	<u>7,606,135</u>

Deferred Tax

Deferred tax liability is due to the acceleration of tax depreciation as shown:

Net book value of property, plant and equipment at December 31 st 2015	72,882,900
Less: Land	(1,467,468)
Building and construction	<u>(12,620,343)</u>
	58,795,089
Tax base	<u>(57,361,599)</u>
Temporary difference	<u>1,433,490</u>
Deferred tax liabilities at applicable statutory rate (30%)	<u>430,047</u>

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

24. CONTINGENT LIABILITIES

At the statement of financial position date, the Company was contingently liable to the Government of Grenada for customs bonds in the amount of \$100,000.

25. DIVIDENDS

During the year ended December 31st, 2015, a dividend of 52 cents per ordinary share amounting to \$9,880,000 was declared and paid.

On December 9, 2015 the Board of Directors declared a Special Dividend payable to shareholders on record of the same date subject to finalization of a credit facility with CIBC FirstCaribbean International Bank (Barbados) Limited. The Special Dividend of \$3.00 is expected to be paid in the first quarter of 2016.

26. FINANCIAL RISK MANAGEMENT

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

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

Audit Committee

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

Loans Committee

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

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

26. FINANCIAL RISK MANAGEMENT (continued)

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

Credit risk

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

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

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

The Company's maximum exposure to credit risk equals the carrying amount of its financial assets. Based on the above, however, management does not believe significant credit risk exists at December 31st, 2015.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

26. FINANCIAL RISK MANAGEMENT (continued)

Operational risk (continued)

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance as outlined below.

Insurance risk

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

Liquidity risk

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

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

26. FINANCIAL RISK MANAGEMENT (continued)

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

Balance at 31 st December, 2015	Current	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$
Current Assets					
Cash and cash equivalents	16,614,231	-	-	-	16,614,231
Loans and receivable financial assets	3,000,251	2,718,036	4,661,674	29,395,974	39,775,932
Prepayments	4,169,520	-	-	-	4,169,520
Trade and other receivables	13,761,211	2,309,585	151,867	986,488	17,209,151
Inventories	14,824,650	-	-	-	14,824,650
	<u>52,369,863</u>	<u>5,027,621</u>	<u>4,813,541</u>	<u>30,382,459</u>	<u>92,593,484</u>
Current liabilities					
Amount due to related company	84,013	-	-	-	84,013
Provision for income tax	-	-	1,144,071	-	1,144,071
Short-term borrowings	-	-	1,677,183	-	1,677,183
Trade payables and accrued expenses	6,257,271	1,673,903	756,344	4,898,731	6,575,914
Consumers' advances for construction	-	-	-	1,805,513	1,805,513
Provision for retirement benefits	326,755	-	-	1,192,640	1,192,640
Provision for profit sharing	-	-	-	5,178,075	5,178,075
	<u>6,668,039</u>	<u>1,673,903</u>	<u>3,577,598</u>	<u>13,074,959</u>	<u>24,994,499</u>
NET LIQUIDITY SURPLUS	<u>45,701,824</u>	<u>3,353,718</u>	<u>1,235,943</u>	<u>17,307,500</u>	<u>67,598,985</u>

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)**

26. FINANCIAL RISK MANAGEMENT (continued)

	Balance at 31st December, 2014	Current	31-60 days	61-90 days	Over 90 days	Total
	\$	\$	\$	\$	\$	\$
Current Assets						
Cash and cash equivalents	12,885,921	-	-	-	-	12,885,921
Loans and receivable financial assets	1,836,236	-	-	4,834,671	30,656,317	37,327,224
Segregated retirement investments	-	-	-	6,134,198	-	6,134,198
Prepayments	1,022,130	-	-	-	-	1,022,130
Trade and other receivables	19,275,833	4,844,022	-	1,039,830	4,073,674	29,233,359
Inventories	14,901,584	-	-	-	-	14,901,584
	<u>49,921,704</u>	<u>4,844,022</u>	<u>12,008,699</u>	<u>34,729,991</u>	<u>101,504,416</u>	
Current liabilities						
Amount due to related company	164,964	-	-	-	-	164,964
Provision for income tax	-	-	200,258	-	-	200,258
Short-term borrowings	-	-	677,183	-	7,010,432	7,687,615
Trade payables and accrued expenses	8,876,221	2,505,752	-	-	5,292,638	16,674,611
Consumers' advances for construction	-	-	-	-	941,354	941,354
Provision for retirement benefits	-	-	-	12,791,719	-	12,791,719
Provision for profit sharing	-	-	-	-	5,038,532	5,038,532
	<u>9,041,185</u>	<u>2,505,752</u>	<u>13,669,160</u>	<u>18,282,956</u>	<u>42,499,053</u>	
NET LIQUIDITY SURPLUS	<u>40,880,519</u>	<u>2,338,270</u>	<u>(1,660,461)</u>	<u>16,447,035</u>	<u>58,005,363</u>	



GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

26. FINANCIAL RISK MANAGEMENT (continued)

Market risk

(i) *Foreign exchange risk*

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

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

Borrowings, other than for the Euro loan, have been transacted in EC\$ to limit exposure to fluctuations in foreign currency rates. Additionally, most purchases are transacted in United States dollars, which has a fixed exchange rate.

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

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

GRENADA ELECTRICITY SERVICES LIMITED



NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015
(continued)

26. FINANCIAL RISK MANAGEMENT (continued)

FINANCIAL LIABILITIES

	2015		2014	
Reasonably possible change in currency rate	+2.5%	-2.5%	+2.5%	-2.5%
Loans payable	EC \$	EC \$	EC \$	EC \$
EIB (EURO loan)				
Principal repayments for the year	773,075	773,075	812,480	812,480
Effect on principal repayment of adjustment to EURO	<u>792,402</u>	<u>753,748</u>	<u>832,792</u>	<u>792,168</u>
<i>CURRENCY EXPOSURE</i>	<u>(19,327)</u>	<u>19,327</u>	<u>(20,312)</u>	<u>20,312</u>
Reasonably possible change in currency rate	+2.5%	-2.5%	+2.5%	-2.5%
EIB Euro loan Interest payment	339,780	339,780	424,382	424,382
Effect on interest payment of adjustment to EURO	<u>348,275</u>	<u>331,285</u>	<u>434,992</u>	<u>413,772</u>
Effect on profit before tax/equity	<u>(8,495)</u>	<u>8,495</u>	<u>(10,610)</u>	<u>10,610</u>
<i>Repayment for the year</i>	2015	2014		
	EURO	EURO		
Interest	111,717.22	125,544.10		
Principal	<u>254,181.52</u>	<u>240,354.64</u>		
	<u>365,898.74</u>	<u>365,898.74</u>		

See note 2 (d) for exchange rates for the Euro at 31st December 2015 and 2014 respectively.

(ii) *Interest rate risk*

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

GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2015**

(continued)

27. CAPITAL COMMITMENT

On September 24, 2015 Grenada Electricity Services Ltd. signed a contract with SOFOS Grenada Ltd. for the design, supply and installation of 0.94MW solar PV systems at its Grand Anse, Queen's Park and Plains properties. At December 31, 2015 a payment, charged to prepayments, of \$3,387,043 was made from the contract sum of \$5,136,201. The balance remaining of \$1,749,157 is expected to be paid in 2016.