Connect SAINT HELENA LTD

www.connect.co.sh

Report and Financial Statements 31 March 2016

CONTENTS

1. Corporate Information

1.1 Directors

Non-executive	Mark Stevenson (Chairman) *resigned on 17 October 2015* Geoff Dawson *(joined the Board on 16 July 2015 and was appointed Chairman on 17 September 2015)* Dax Richards Julie Lawrence (*resigned on 23 April 2015*) Tracey Stroud (appointed on 21 January 2016) Clare Harris (appointed 1 March 2016)
Executive	Barry Hubbard (Chief Executive Officer) Leon de Wet (Operations Director)
Company Secretary	Sarah Thomson
Auditors	Moore Stephens 150 Aldersgate Street London EC1A 4AB
Bankers	Bank of Saint Helena Market Street, Jamestown Saint Helena STHL 1ZZ
Solicitors	Falkland Legal Services Atlantic House, Philomel Street Stanley, Falkland Islands FIQQ 1ZZ
Registered Office	Seales Corner, Jamestown Saint Helena STHL 1ZZ

2. Strategic Report

The directors present their strategic report for the year ended 31 March 2016.

2.2 Review of the Business

The company's principal activities during the year continued to be the provision of utility services on Saint Helena Island as mandated at its formation when Saint Helena Government privatised the service.

While the demographics and general economic environment remained stable on the island, the continued development of the Island's only airport together with the commissioning of the mobile phone network were the island's major economic developments during the year. These developments contributed to the 4.7% growth in electricity consumption registered during the year.

The company's infrastructure modernisation and refurbishment programme continued with a further £1.58 million having been invested in new and existing projects while four major projects were constructed during the year. These completed capital projects included the £1 million 500kWp Solar Farm, bulk water main connecting Sandy Bay to Levelwood, treated water supply mains to Woody Ridge and Head O' Wain. The enlargement of Harper 3 reservoir which was nearing completion by the close of the financial year was scheduled for completion during the first quarter of the current financial year.

The solar farm was commissioned early in the first quarter of the financial year under review, and thus provided almost a full year generation resulting in the overall contribution of renewable energy of 29%. This directly affects the business by reducing the quantity of diesel fuel requirement. Customers saw no direct benefit but the reduction in subsidy provided by Saint Helena Government has allowed them to redirect that funding to other priority areas. The Financial Secretary announced significant increases in funding for both Safeguarding and Health in his 2016 budget speech.

The bulk water main connecting Sandy Bay to Levelwood is now complete, which will provide increased water security to that problem area. Many catchments have been replaced, this allows silt to be trapped and disposed of (before entering the reservoirs) and improves the efficiency of raw water collection and presents higher quality water to the treatment process which both reduces cost and improves visual quality. A new borehole main has been run from Fishers Valley, although this has not yet been commissioned. Scott's Mill reservoir has been relined and is now 100% watertight with others planned to be similarly relined in the next financial year.

The enlargement of Harpers 3 reservoir to increase capacity from 8,000m^3 to nominally 20,000m^3 commenced but due to excessive rainfall during the summer, this project could not be completed until the next financial year. The excessive rainfall experienced during the year eased pressure on the water supply operations, without which restrictions would have been inevitable.

In addition to the above major projects works were also completed on some other minor projects including the relining of reservoirs which improved water quality where silt and vegetative growth was affecting water quality, one of the key water performance indicators. The new liners have reduced the level of leakage.

Surveying work continued and is ongoing and now being supported by contractors. Having started from scratch, the task of surveying all assets is enormous but once complete will provide quality special data to support investment decisions. In the interim the process is largely manual.

In order to improve security of water supply all water treatment works (and the Connect offices) are equipped with standby generators. This will improve Connect's ability to respond to a major electricity failure without being distracted by needing to deal with water supply issues at the same time.

2.3 Financial Performance

The company's third financial year ended with strong performance recorded on tariff income on the backdrop of huge savings on fuel and significant progress on maintenance schedules resulting in **a net profit before tax of £0.348 million** being recorded compared to £0.407 million recorded last year.

Gross profit was down by 41% to £0.186 million from the £0.314 million achieved last year largely as a result of increased maintenance activity.

2.3.1 Turnover

Turnover at £4.074 million grew by 6% compared to last year's £3.8 million and outperformed the budget by 4% aided by higher consumption in both electricity and water units. Electricity consumption recorded a 4.7% growth to 9.4 million kWh compared to last year's 9 million kWh while water consumption grew by 6% to 295,305 cubic metres compared to the 277,766 cubic metres consumed last year.

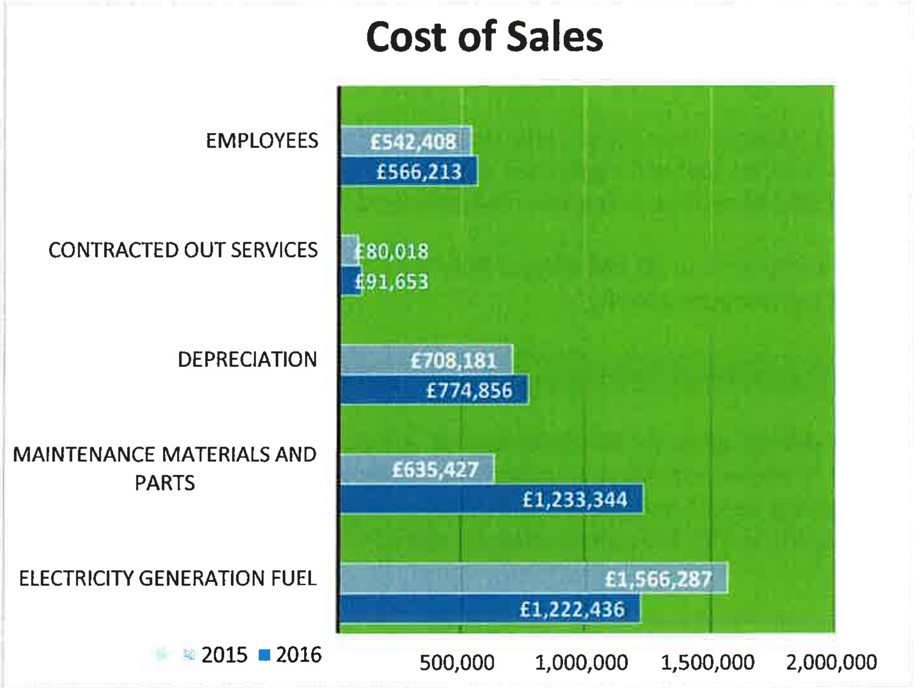
	2016 SHP	**2015 SHP**	**Change**
Unit Charges-Water	358,467	330,038	9%
Unit Charges-Electricity	3,182,407	3,003,879	6%
Service Charges	350,952	353,295	-1%
Other Service Income	182,667	158,829	15%
Total turnover	**4,074,492**	**3,846,041**	**6%**

The increased economic and social activity more than offset the impact of the airport contractors leaving the island. The swimming pool which was closed during winter in the last financial year was open during the year under review and thus contributing to the growth in electricity usage.

The growth in electricity consumption is also significantly attributable to the commissioning of the island's first mobile phone network and the subsequent mobile phone uptake by the excited island residents.

2.3.2 Cost of sales

Total cost of sales surged upwards by 10% from £3.53 million last year to £3.89 million in the backdrop of increased maintenance activity and lower fuel prices. The total cost of maintenance parts and materials almost doubled to £1.23 million compared to £0.63 million recorded last year in the wake of increased maintenance activity and the change in the fixed asset capitalisation threshold that resulted in costs of infrastructure components and other assets costing less than £5,000 being charged to maintenance expenditure. This threshold was revised to align with Saint Helena Government's for consolidation purposes. The increased maintenance activity was largely a result of all the three power station generators recording major service hours during the year. This was partly offset by the savings recorded on diesel generation fuel costs where £1.23 million was spent compared to £1.57 million spent last financial year.



The £0.334 million saving on diesel is attributable to the increased renewable energy contribution following commissioning of the solar farm in the first quarter of the year and the low fuel prices that prevailed throughout the year under review. This saving was applied to increased maintenance works in both electricity and water where expenditure grew on last year by 62% (water) and 121% (electricity). Electricity maintenance expenditure at £0.568 million was largely on major services of the CAT generators with the running regime requiring major service expenditure this year.

2.4 Financial Position

The financial position continued strong throughout the year with key liquidity ratios having significantly improved compared to last year. The current ratio (current assets to current liabilities) remained healthy throughout the year and closed at 8 times.

Cash balances compared to current liabilities slumped from 6.57 times as at 31 March 2015 to 3.10 times at the end of the financial year under review, as the cash and bank balances declined by £1.4 million to £2.5 million in comparison to the £3.9 million at 31st March 2015 after the payment of capital projects committed to in the previous financial year together with the company funded additions to tangible fixed assets.

Trade debtors increased by £100,000 to close at £0.503 million compared to the £0.401 million as at 31st March 2015. Measured against annual turnover the closing debtors represented 12% of the annual turnover as of 31st March 2016 a 2% deterioration compared to the 10% of turnover as at 31st March 2015. However while the overall debtors increased between the two years partly due to the growth in turnover, it is pleasing to report that the over 90 days due debtors actually decreased by 33% from £110,936 as at 31st March 2015 to £74,188 as at 31st March 2016 as the focus continues on debt recovery following divestment when this category of debtors stood at £275,000.

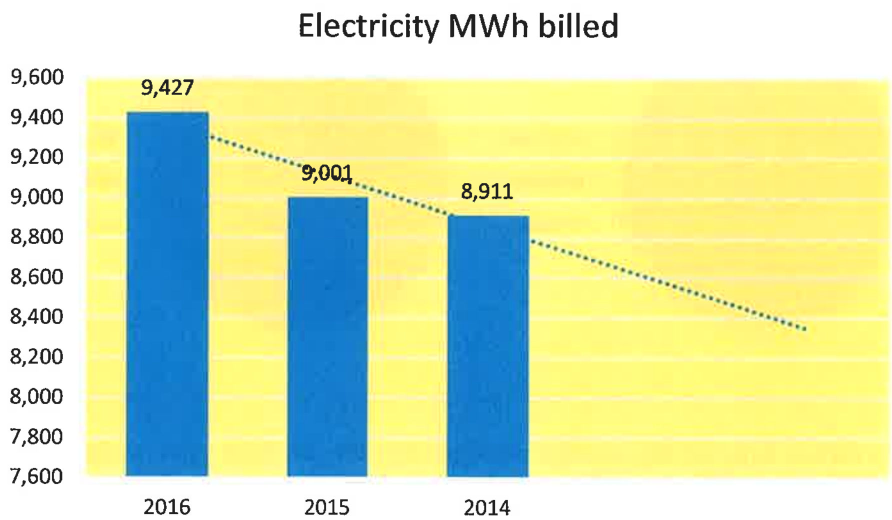
Tangible fixed assets grew by £2 million before depreciation largely as a result of the construction of the solar farm (£1 million) and Princess Royal solar PV (£0.162 million) that were commissioned during the first quarter of the year under review and seven new vehicles (£0.240 million) acquired to replace the aged fleet inherited from SHG. Assets under construction closed the year at £0.85 million representing a decline of £1.13 million from the £1.97 million at the end of the 2015 financial year. This decline was a net result of £1.28 million additional investment and £2.29 million worth of completed assets transferred to tangible fixed assets during the year. The closing balance in assets under construction represent investments made during the year which was mostly water infrastructure the largest of which were Sandy Bay bulk water supply pipeline and the enlargement of raw water reservoirs.

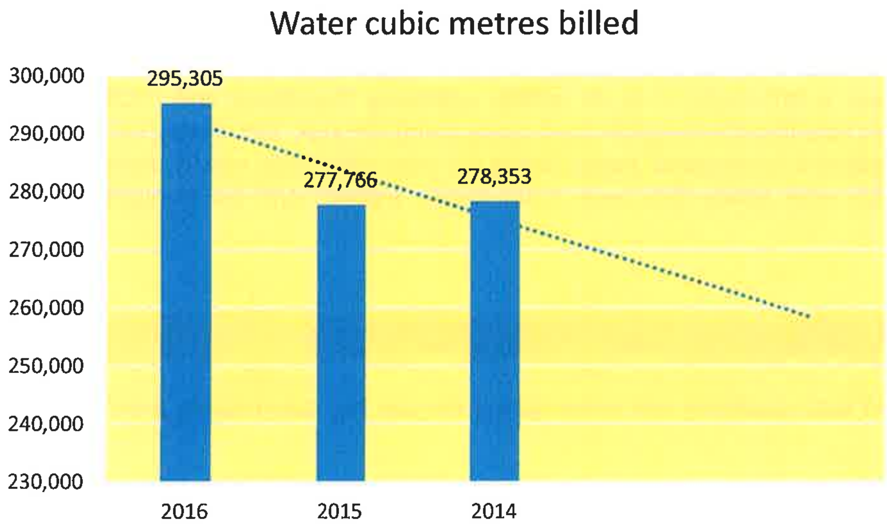
2.5 Operating Performance, Consumption and Efficiency

Consumption of both electricity and water during the year registered strong growths over last year's figures:

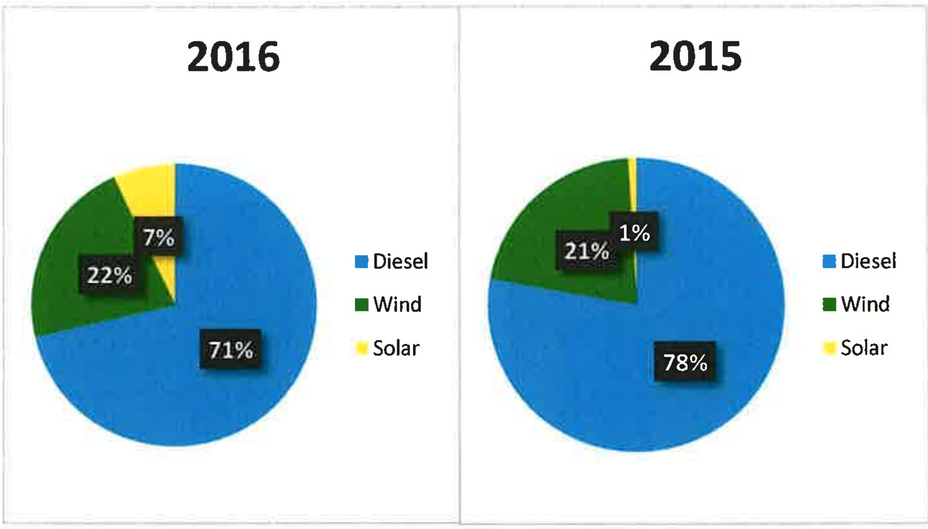
	2016	**2015**	**%**
Electricity MWh billed	9,427	9,001	4.7%
Water cubic metres billed	295,305	277,766	6.3%

The graphs below portray the growth in consumption over the last three years of the company's existence and the sharp growth recorded during the year under review:

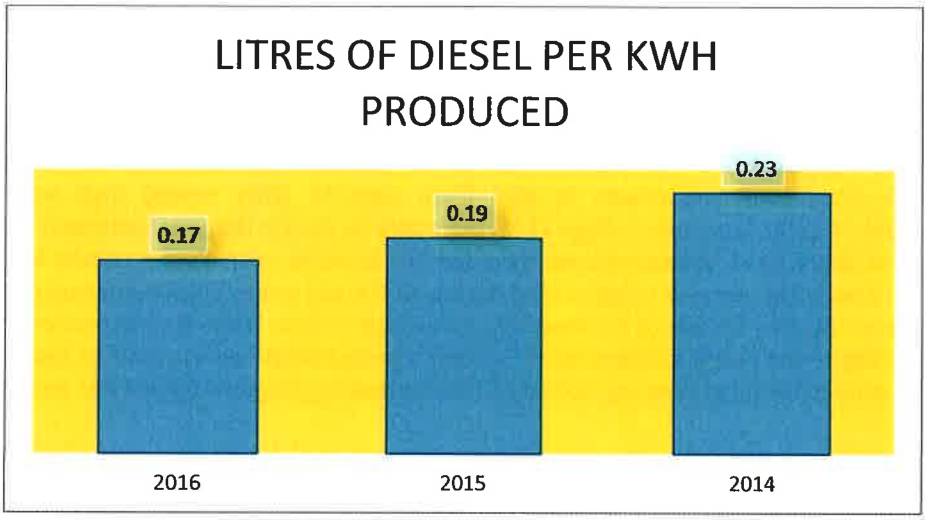




With the commissioning of the 500kW solar farm during the first quarter of the year, the company's green energy capacity increased to an impressive 29% compared to the 22% achieved last year.



The company's carbon footprint has steadily declined over the last three years as shown in the graph below. Litres of diesel per kWh of electricity produced declined by 11% to 0.17 litres compared to 0.19 litres achieved last year.



2.5.1 Reliability and Quality of Service

Upon divestment key operational performance indicators where agreed between the regulator and the company, and the 2013 pre-divestment actuals were agreed as benchmarks upon which, Connect is required to improve with the regulator setting new tighter targets each year. It is pleasing to report that the company has been performing impressively very well against these benchmarks as shown in the table below.

Key Operational Performance Indicators

	2016 Actual	2013 Benchmark	Improvement
RELIABILITY			
Disruptions to Electricity Distribution Network	112	134	16%
Disruptions to Water Distribution Network	996	1582	37%
QUALITY (Water)			
Appearance	99.5%	99%	1%
Microbiological integrity	100.0%	91.8%	9%
CUSTOMER SERVICE			
Days taken to connect electricity	19	50	62%
Days taken to connect water	14	90	84%

During the year the company received the Utilities Regulatory Authority's (URA) annual report wherein the company was assessed on key performance indicators linked to licencing conditions. While the regulator concluded that there had been some very significant improvements in the provision of Utility Services during the 2014/2015 review year, the report for the current financial year was not yet published at the time of this report. However the company did submit its annual performance report to the URA where specific performance indicators summarised below where discussed:

2.5.2 Reliability

There were a total of 112 (one hundred and twelve) unplanned interruptions to the electricity supply, missing the URA target of 110 (one hundred and ten) by just two and this was a 23% improvement against the pre-divestment benchmark. In total there were 57 (fifty seven) high voltage (HV) interruptions and 54 (fifty four) low voltage (LV) interruptions during the year compared to 65 (sixty five) HV and 46 (forty six) LV interruptions recorded last financial year. Power station interruptions declined from 12 recorded last year to just 1. The decline in HV and power station interruptions ensured that the consumers enjoyed far less of the more disruptive high voltage faults than in previous years. As this measure is key to the public perception of Connect's performance we continue to focus our lines team and local contractors on preventing failure and we are making progress against this enormous task.

Nine hundred and ninety six (996) water interruptions were recorded during the year against the URA's target of one thousand one hundred and 1154 (fifty four). Leaking and burst pipes accounted for 90% of the callouts, network damages and blockages together with airlocks and empty tanks accounting for a combined 10%. Compared to pre-divestment benchmark water supply interruptions improved by an impressive 37%.

2.5.3 Quality

When the URA published their 2013/2014 report on the quality of services provided by the company there was a directive to improve the water sampling regime, moving from full control of samples away from the government to Connect. With the agreement of the Public Health Laboratory, a further enhancement was made to the testing program to make it more robust by identifying samples contaminated during the collection and analysis process at an early stage, and then re-sampling and analysis. During the year under review 100% of the water samples tested for microbiological integrity passed exceeding the 99.5% target set by URA for the year.

2.5.4 Customer Service

Another license condition closely monitored by the regulator is customer service where annual targets are agreed on the time the company takes to complete new connections and deal with customer complaints.

Electricity connections comfortably exceeded the target, the 2012/13 benchmark was 50 (fifty days), the 2015/16 target was 36 (thirty six) days and the actual was an achievement of 19 (nineteen days). Testing presented a bottleneck with SHG carrying out significant rewiring work in public buildings, in addition to a high quantity of new installations, a 45% increase in connections compared to the previous year was experienced. Electricity connections show a 62% improvement against the pre-divestment benchmark.

Water connections were also comfortably below the target of 66 (sixty six) with the average time reduced to an impressive 14 (fourteen days). The 2012/13 benchmark was 90 (ninety days). The quantity of new connections was an 11% increase on the previous year. Again a significant improvement was made with a massive 82% being recorded against the 2012/13 benchmark.

Complaints handling system has been established with 100% compliance.

2.6 Principal Risks and Uncertainties

The company manages its risks through monthly board meetings where key risks are discussed through management accounts and operational reports. At management level a weekly meeting is held to review performance and identify any potential issues on the horizon.
The principal risks facing the company are broadly classified and described as below:

2.6.1 Regulatory Risk

The provision of the utilities on the island is regulated and monitored by the Utilities Regulator who sets standards of service delivery and holds the company accountable in delivering to these standards. These standards form the basis of the company's key performance indicators and are reported to the board on a monthly basis with any variance from set standards discussed and corrective action taken. The Chief Executive Officer is directly responsible for managing the company's compliance with the regulator's standards and reports every month to the board.

2.6.2 Environmental Risk

The recent enactment of the island's Environmental Protection Ordinance presents a new dimension to the environmental risks and legal implications where the company's utilities infrastructure is likely to naturally interfere with the island's flora and fauna. The island is home to many unique or endangered plants that are protected by law and non-compliance is penalised by stiff penalties. This risk is managed at both board and management levels where requisite licensing is sought before any environmentally impacting projects are undertaken and internal corporate processes and procedures updated to reflect changes in environmental regulation. Work will continue to understand and mitigate these risks.

2.6.3 Financial Risks

The main financial risks faced by the company are credit risk, exchange risk, oil price risk and cash flow risk. Credit risk lies in the collection of debts incurred by the utilities consumers who are billed for services consumed in arrears. This risk is managed via the company's Debt Recovery-Utility Bills policy and a trade debtors report tabled at each board meeting as part of the key performance indicators.

Exchange risk is born by the company each time materials and supplies are ordered abroad. Almost all of the materials and parts used in the operations of the company are imported from South Africa and the United Kingdom. While imports from UK do not present any exchange risk those from South Africa present exchange risk. This risk is managed through performance bonds when payments are made before delivery and through payment terms where the supplier is exposed to the currency risk rather than the company.

Currently over 70 % of the electricity generated by the company is through the diesel generator powered power station. As such variations in international oil prices affect the cost at which the company produces electricity the extent of which cannot immediately be passed on to consumers due to regulated tariffs. To reduce the impact this might have on the company and the island at large, the company has been and will continue to invest in renewable energy infrastructure.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The company aims to mitigate liquidity risk by managing cash generation by its operations, timeously applying its utility bill debt recovery policy to all defaulting customers.

2.6.4 Human Capital Risk

Due to its size and isolation Saint Helena has critical skills shortages in almost all types of vocations. The company is not spared from this especially at the executive and professional levels where both the executive directors are expatriates. A Remuneration Committee has been formed to ensure fair reward for Executive Directors and the Risk Register identifies actions for the Business Support Manager in relation to staff generally.

By order of the Board

Barry Hubbard
Chief Executive Officer

3. Director's Report

The Directors present their report for the year ended 31 March 2016.

Directors of the company

The current Directors are shown on Page 2.

Dividend

Directors are not recommending any dividend in light of the need to build up cash resources for the asset replacement strategy. This decision is also taken in view of the profits having been achieved at the expense of postponed maintenance works together with the actual operating loss before subsidies.

Research and Development

During the year the company undertook various developmental projects and significant survey work that are still ongoing in respect of renewable energy capacity development, water and sewer infrastructure upgrades. Significant progress has been made in strengthening the projects office, extensive use is now being made of the (GIS) with a data sharing agreement now in existence with SHG.

Future Developments

Progress is currently underway for the planning of sewage treatment plants for Jamestown, Half Tree Hollow and Bottom Woods and this is likely to continue into the next two financial years. Investment in renewables will continue to be priority and every opportunity that avails will be explored with a goal of maximising renewal generation. The continued investment in renewable energy is expected to materially drive electricity unit costs down, the sewage treatment plants will be the first on the island and will come with running and maintenance costs which will put pressure on tariffs.

Events since the balance sheet date

There were no material events to report on after the balance sheet date at the time of reporting.

Going Concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, and its exposures to price, credit, and exchange risk are described in the Strategic Report on pages 3 to 11. The company has considerable financial resources together with a secure and growing consumer base which will continue to require the utilities provided by the company. As a consequence, the directors believe that the company is well placed to manage its business risks successfully despite the risks highlighted in the strategic report. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disabled Employees

The company policy focuses on the person's abilities rather than their disability and they are entitled not to be discriminated against nor to be denied opportunities. This may mean making reasonable adjustments to the working environment for a disabled person, accommodating variations to working arrangements or taking some other positive action which would enable them to be effective in the job. The company is currently rehabilitating one employee in a different job until such time as he is able to return to his contracted employment.

Disclosure of information to the auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the group's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Director's liability insurance

During the year and at the time of this report the company had in place a directors' liability insurance policy against possible damages, legal fees, and other civil costs and expenses in the event of a breach of duty, breach of trust, neglect, error, omission, misstatement, misleading statement, or other act committed or attempted individually or otherwise, solely in their status as a director, secretary or officer in the course of their duties for the Company.

Appointment of the auditors

In accordance with s.137 of the Companies Ordinance 2004, a resolution is to be proposed at the Annual General Meeting for reappointment of Moore Stephens LLP as auditor of the Company.

By order of the Board

Thomson

Sarah Thomson
Company Secretary

4. Director's Responsibility Statement

The directors are responsible for preparing the annual report and the financial statements in accordance applicable law and regulations.

Company Ordinance 2004 requires the directors to prepare the financial statements for each financial year. Under that ordinance the directors are required to prepare financial statements in accordance with Financial Reporting Standard 102 (FRS 102). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the company's financial position and the profit or loss of the company for that period.

In preparing the company's financial statements, the directors are required to:

- i) select suitable accounting policies and apply them consistently,
- ii) make judgements and accounting estimates that are reasonable and prudent,
- iii) state whether applicable Financial Reporting Standards have been followed subject to any material departures disclosed and explained in the financial statements, and
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing these financial statements, Financial Reporting Standard 102 requires that the directors:

- i) properly select and apply accounting policies,
- ii) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- iii) provide additional disclosures when compliance with specific requirements in FRS 102 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- iv) make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Ordinance.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation on Saint Helena Island governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

-the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and
-the strategic report includes a fair view of the development and performance of the business and the position of the company together with a description of the principal risks and uncertainties that they face.

Barry Hubbard	**Geoff Dawson**
Chief Executive Officer	Chairman

5. Independent Auditor's Report to the Shareholders of Connect Saint Helena Limited

We have audited the accompanying financial statements of Connect Saint Helena Limited, which comprise the statement of financial position as at 31 March 2016 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the company's members, as a body, in accordance with our terms of engagement. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with FRS102, the Financial Reporting Standard Applicable in the UK and Republic of Ireland, and for such internal control as management determines is necessary to enable to preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Scope of the audit of the financial statements

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 about whether the financial statements are free from material misstatement.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic and Directors' reports to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended and have been properly prepared in accordance with FRS102, The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

Nick Bennett, *Senior Statutory Auditor*

Nick Bennett

For and on behalf of Moore Stephens LLP, Statutory Auditor

150 Aldersgate Street
London
EC1A 4AB

14 December 2016

6. Financial Statements for the year ended 31 March 2016

6.1 Comprehensive Income Statement for the year ended 31 March 2016

	2016 SHP	2015 SHP	Notes
Turnover	4,074,472	3,846,041	3
Cost of Sales	(3,888,502)	(3,532,321)	4
Gross Profit	**185,970**	**313,720**	
Administrative expenses	(998,953)	(921,973)	5
Loss on disposal of tangible fixed assets	(1,000)		9.2
Other Operating Income	1,156,659	1,004,427	7
Operating Profit	**342,676**	**396,174**	
Bank Interest receivable	10,919	16,550	
Finance Costs	(5,700)	(5,448)	
Profit on Ordinary Activities Before Taxation	**347,895**	**407,276**	
Tax charge for the year	(166,101)	(4,328)	14
Deferred tax movements	34,690	(48,011)	15
Profit for the Financial Year	**216,484**	**354,936**	

The notes on pages 23 to 33 form an integral part of these financial statements.