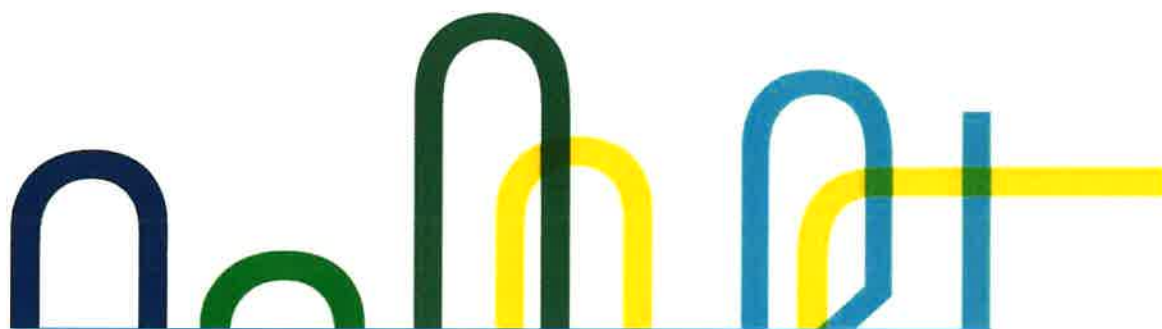




SAINT HELENA LTD

www.connect.co.sh

Report and Financial Statements 31 March 2016



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1. Corporate Information

1.1 Directors

<i>Non-executive</i>	Mark Stevenson (Chairman) <i>resigned on 17 October 2015</i> Geoff Dawson (<i>joined the Board on 16 July 2015 and was appointed Chairman on 17 September 2015</i>) Dax Richards Julie Lawrence (<i>resigned on 23 April 2015</i>) Tracey Stroud (appointed on 21 January 2016) Clare Harris (appointed 1 March 2016)
<i>Executive</i>	Barry Hubbard (Chief Executive Officer) Leon de Wet (Operations Director)
<i>Company Secretary</i>	Sarah Thomson
<i>Auditors</i>	Moore Stephens 150 Aldersgate Street London EC1A 4AB
<i>Bankers</i>	Bank of Saint Helena Market Street, Jamestown Saint Helena STHL 1ZZ
<i>Solicitors</i>	Falkland Legal Services Atlantic House, Philomel Street Stanley, Falkland Islands FIQQ 1ZZ
<i>Registered Office</i>	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 8,000m³ to nominally 20,000m³ 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.

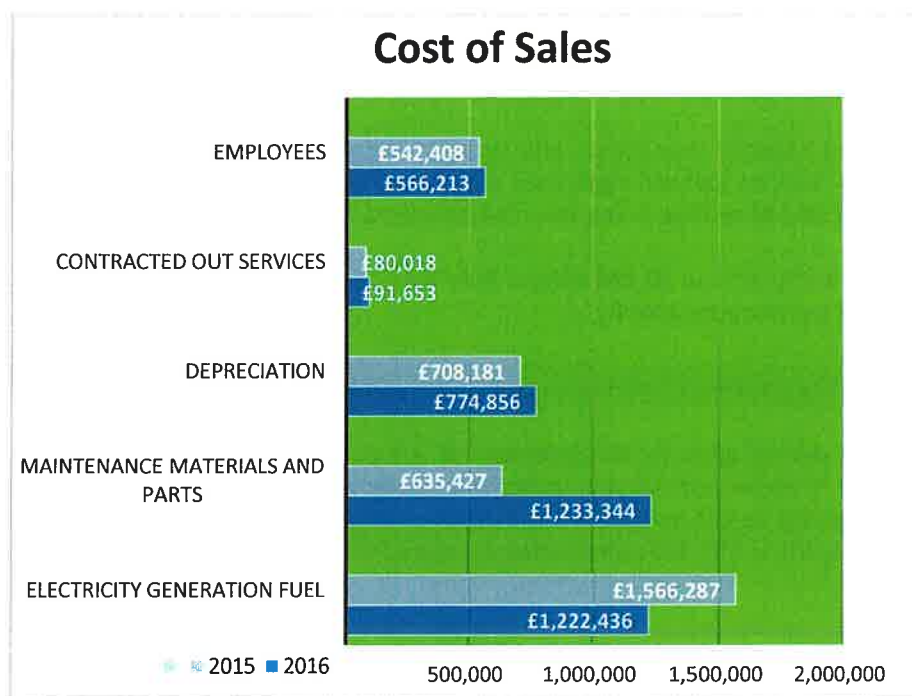
	2016 SHP	2015 SHP	Change
Unit Charges-Water	358,467	330,038	9%
Unit Charges-Electricity	3,182,407	3,003,879	6%
Service Charges	350,952	353,295	-1%
Other Service Income	182,667	158,829	15%
Total turnover	4,074,492	3,846,041	6%

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

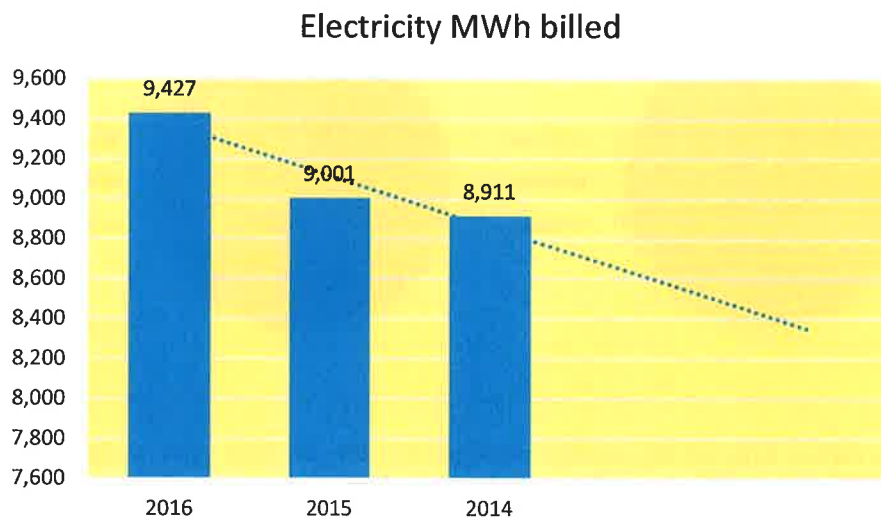
the first quarter of the year under review and seven new vehicles (£0.240 million) acquired to replace the aged fleet inherited from SHG. Assets under construction closed the year at £0.85 million representing a decline of £1.13 million from the £1.97 million at the end of the 2015 financial year. This 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

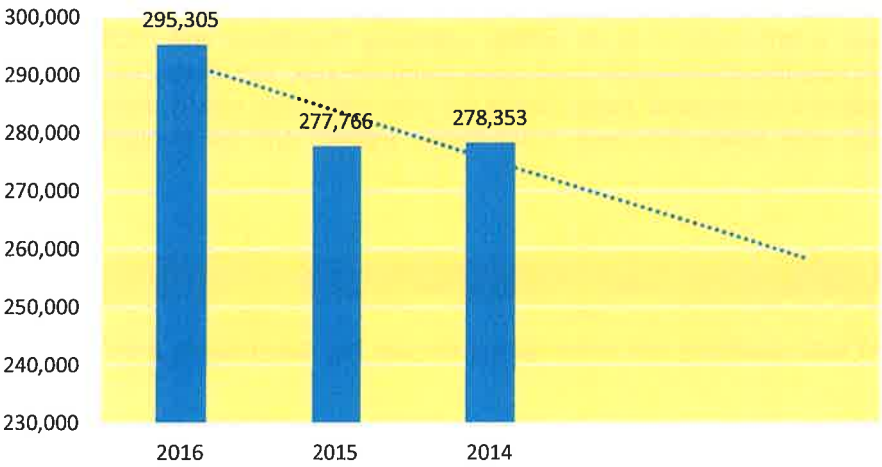
Consumption of both electricity and water during the year registered strong growths over last year's figures:

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

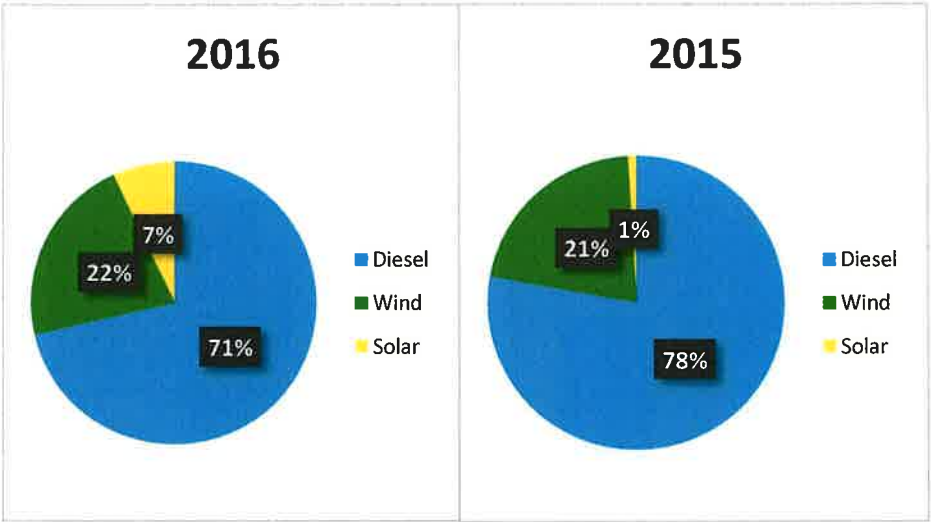
The graphs below portray the growth in consumption over the last three years of the company's existence and the sharp growth recorded during the year under review:



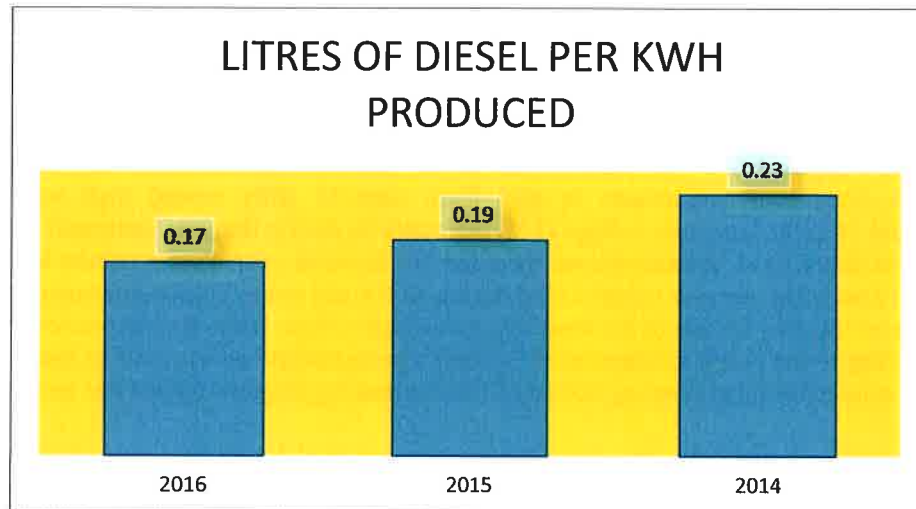
Water cubic metres billed



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 were 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 were 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



Sarah Thomson
Company Secretary

4. Director's Responsibility Statement

The directors are responsible for preparing the annual report and the financial statements in accordance with 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
Chief Executive Officer



Geoff Dawson
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*



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	<u>(3,888,502)</u>	<u>(3,532,321)</u>	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	<u>1,156,659</u>	<u>1,004,427</u>	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	<u>216,484</u>	<u>354,936</u>	

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

6.2 Statement of Financial Position

	<u>31-Mar-16</u>	<u>31-Mar-15</u>	Notes
	SHP	SHP	
Fixed Assets			
Assets Under construction	857,894	1,965,697	8
Tangible fixed assets	16,511,182	14,579,770	9.1
	17,369,076	16,545,467	
Current Assets			
Inventories	1,911,370	1,345,762	10
Debtors			
Amounts falling due within one year	1,785,766	862,403	11
Amounts falling due after one year	101,365	90,248	11
	1,887,131	952,651	
Cash and bank balances	2,509,623	3,928,448	
	6,308,124	6,226,861	
Creditors: amounts falling due within one year	809,622	597,942	12
Net current assets	5,498,502	5,628,919	
Total assets less current liabilities	22,867,578	22,174,386	
Provisions for other payables and charges	175,909	172,924	18
Retention Funds	43,358	17,673	12
Deferred Government Grants	7,224,076	6,776,038	19
Net assets	15,424,235	15,207,750	
Capital and reserves			
Share Capital	15,287,175	15,287,175	20
Retained profits	137,060	(79,425)	
Total Shareholders' Equity	15,424,235	15,207,750	

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

These financial statements on pages 16 to 33 were approved and authorised for issue on 12 December 2016 by the board of directors.

Signed on behalf of the board of directors

Barry Hubbard - Chief Executive Officer

Geoff Dawson – Chairman

6.3 Statement of cash flows

	2016 SHP	2015 SHP	Notes
Net cash flows from operating activities	(399,031)	729,131	16
Cash flows from investing activities			
Payments to acquire and construct tangible assets	(1,847,991)	(2,299,768)	
Proceeds from disposal of tangible fixed assets	500		
Net cash used in investing activities	(1,847,491)	(2,299,768)	
Cash flows from financing activities			
Government Grants received	827,697	3,264,027	
Ordinary Share capital issued		130,000	
Net cash used in financing activities	827,697	3,394,027	
Net increase (decrease) in cash and cash equivalents	(1,418,825)	1,823,390	
Cash and cash equivalents at the beginning of year	3,928,448	2,105,058	
Cash and cash equivalents at end of year	2,509,623	3,928,448	

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

6.4 Statement of Changes in Equity

	Share Capital SHP	Retained Income	Total Equity SHP	Notes
At 1 April 2015	15,287,175	(79,424)	15,207,751	
Retained Profits for the year		216,484	216,484	
At 31 March 2016	<u>15,287,175</u>	<u>137,060</u>	<u>15,424,235</u>	

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

6.5 Accounting Policies and Explanatory notes to the Financial Statements

1. General Information

Connect Saint Helena Limited (the Company) is a limited company incorporated on the British Overseas Territory of Saint Helena Island and is wholly owned by Saint Helena Government which is the ultimate parent of the Company. The address of its registered office and principal place of business is Seales Corner, Jamestown, South Atlantic Ocean, STHL 1ZZ. The Company's principal activities are the provision of electricity, water and sewerage services on the island.

2. Accounting Policies

a) Basis of preparation and accounting policies

These financial statements have been prepared in accordance with the Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council and applicable in the United Kingdom and Republic of Ireland. They are presented in Saint Helena Pounds (SHP) the currency of Saint Helena that is pegged at par with the British Pound Sterling.

These financial statements have been prepared under the historical cost convention and amounts are rounded to the nearest pound.

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgments and estimates have been made include:

- **Useful lives of tangible fixed assets.** These are based on Management's experience of the lifespan of similar assets both at Connect and similar other companies in the utilities sector and are reconsidered each year. Due to the long life of many assets and the uncertainty of the future there is no guarantee that Managements estimates will turn out to be correct.

- **Allowance for bad debts.** These are based on Management's experience of customers' behaviours and payment patterns over time, along with future personal and economic factors.

b) Going concern

After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

c) Revenue and expense recognition

Revenue from sales of goods and services is recognised when the goods or services are delivered by the company. Expenditure is recognised when it is incurred, upon delivery of goods or when services are employed. Revenue is measured at fair value of the consideration received or receivable. Turnover includes an estimate of the electricity and water charges unbilled at year end. The accrual is estimated using a defined methodology based on historical consumption levels of the unbilled consumer groups and average tariffs.

Accounting Policies and Explanatory notes to the Financial Statements

d) Tangible Fixed Assets

These comprise those assets that are held by the Company for current and future use to deliver Company services and meet statutory obligations. The capitalisation threshold used during this financial year is £5,000 or above. Fixed Assets of the Company are disclosed on the Statement of Financial Position and depreciated over the estimated useful economic life of the asset.

All tangible fixed assets have been depreciated. Depreciation is calculated on the “Straight Line” basis, based on their useful economic life and charged to the Statement of Comprehensive Income in the year.

The following table shows the range of estimated economic useful lives of each class of asset disclosed in these financial statements:

Class of Asset	Estimated Useful Economic Life (Years)
Infrastructure Electricity	25
Infrastructure Water	10-50
Buildings	40
Plant, Machinery and Equipment	10
Furniture and Fittings	10-50
IT Networks and Equipment	5
Motor Vehicles	10

e) Impairment of Assets

At each reporting date, property, plant and equipment are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

f) Assets under the Course of Construction

Assets under the course of construction have not been depreciated and are separately accounted for on the Statement of Financial Position. These assets, once completed, are transferred to completed assets within the class of assets stated above and depreciated over their useful economic life.

g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the average cost method.

Accounting Policies and Explanatory notes to the Financial Statements

h) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences). Deferred tax liabilities are recognised for all temporary differences that are expected to increase taxable profits in the future. Deferred tax assets are recognised for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to reflect the current assessment of future taxable profits. Any adjustments are recognised in profit or loss. Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which the company expects the deferred tax asset to be realised or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

i) Trade and Other Receivables

Most sales are made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured at amortised cost using the effective interest method. At the end of each reporting period, the carrying amounts of trade and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, the debt is recognised as a bad debt in the Income Statement.

j) Trade Payables

Trade payables are obligations on the basis of normal credit terms and do not bear interest. Trade payables denominated in a foreign currency are translated into SHP using the exchange rate at the reporting date. Foreign exchange gains or losses are included in other income or other expenses.

k) Provisions

Provisions are recognised where there is a present obligation as a result of a past event, it is probable that there will be an outflow of economic benefits to settle this obligation and a reliable estimate of this amount can be made.

l) Government Grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment.

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

m) Employee Benefits

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company.

The annual contributions payable are charged to the Statement of Comprehensive Income in the period in which they relate.

3. Turnover

Turnover, analysed by category was as follows:

	2016 SHP	2015 SHP
Unit Charges – Water	358,447	330,038
Unit Charges – Electricity	3,182,407	3,003,879
Service Charges	350,952	353,295
Other Service Income	182,666	158,829
	4,074,472	3,846,041

4. Cost of sales

Included in cost of sales are all costs directly involved in the production of utility services as follows:

	2016 SHP	2015 SHP
Electricity Generation Fuel	1,222,436	1,566,287
Maintenance Materials and Parts	1,233,344	635,427
Depreciation	774,856	708,181
Contracted Out Services	91,653	80,018
Employees	566,213	542,408
	3,888,502	3,532,321

Notes to the Financial Statements For the year ended 31 March 2016

5. Administrative expenses

	2016	2015
	SHP	SHP
Administrative expenses during the year included:		
Directors and employees	555,709	432,081
Office and other administrative costs	320,979	323,757
Audit fees	28,066	29,729
Premises Related Costs	16,679	16,142
Depreciation	110,824	81,085
Provisions for Doubtful Debts	(33,304)	39,180
	998,953	921,974

The average monthly number of employees during the year was made up as follows:

	2016	2015
Electricity	20	23
Water	22	23
Administration	21	13
	63	59

6. Key Management Compensation

A total of £438,804 (2015: £382,175) included in staff costs was paid to key management and directors as compensation for their services to the company. The 2015 figure has been restated to include all managers and directors of the company.

7. Other Operating Income

Other Income include subsidies from Saint Helena Government to support the company's revenues in light of the current subdued population-based consumer base and the cost of service delivery.

	2016	2015
	SHP	SHP
Government Revenue Grants	777,000	845,348
Amortization of Government Grants	379,659	159,079
Total Other Income	1,156,659	1,004,427

8. Assets under construction

Assets Under Construction include significant ongoing water, electricity and sewerage infrastructural projects valued at cost that will result in long term assets the value of which will be transferred to Tangible Fixed Assets and start being depreciated once they are commissioned and begin contributing economically.

	Land & Buildings	Equipment & Vehicles	Electricity Infrastructure	Water Infrastructure	Total
Cost	SHP	SHP	SHP	SHP	SHP
01 April 2015	0	0	1,208,493	757,204	1,965,697
Reclassified	10,493		116,013	(126,506)	
Additions	23,232	9,195	(11,586)	1,560,651	1,581,493
Transferred to Tangible Assets	(33,725)	(9,195)	(1,266,285)	(976,112)	(2,285,318)
Transferred to inventories			(29,591)	(284,439)	(314,029)
Charged to income statement	0	0	(17,045)	(72,905)	(89,949)
31 March 2016	0	0	0	857,894	857,894

9.1 Tangible Fixed Assets

Tangible fixed assets include significant investment in power stations, water treatment plants, water storage assets and buildings. All assets are depreciated over their useful economic lives. During the year the cost of some water infrastructure asset was reduced by £142,677 following discovery during the inventory counting exercise that some project inventories inherited from SHG had wrongly been included in the value of assets under construction that were transferred from SHG and capitalised in the 2013/2014 financial year.

	Land & Buildings	Equipment & Vehicles	Electricity Infrastructure	Water Infrastructure	Total
Cost	SHP	SHP	SHP	SHP	SHP
01 April 2015	1,285,559	646,418	16,717,688	12,365,575	31,015,240
Transfers from assets under construction	33,725	9,195	1,266,285	976,112	2,285,318
Adjustments to opening balances				(142,677)	(142,677)
Additions	3,243	307,122	40,584	372,255	723,204
Disposals	(2,709)	(70,981)		(87,398)	(161,088)
31 March 2016	1,319,818	891,754	18,024,557	13,483,867	33,719,996
Accumulated Depreciation					
01 April 2015	112,399	385,493	8,213,665	7,723,913	16,435,470
Disposals	(34)	(35,189)		(77,113)	(112,336)
Charge for the year	32,714	80,677	464,430	307,860	885,681
31 March 2016	145,079	430,981	8,678,095	7,954,660	17,208,815
Carrying Amounts					
At 31 March '16	1,174,739	460,773	9,346,462	5,529,207	16,511,182
At 31 March '15	1,173,160	260,925	8,504,023	4,641,662	14,579,770

9.2 Disposals and de-recognition of tangible fixed assets

During the year the tangible fixed asset capitalization threshold was raised from £1,000 to £5,000 following the same decision taken by Saint Helena Government, the company's parent entity. This resulted in assets with original cost below the new threshold being de-recognised and written off to the income statement at their carrying amounts.

	Land & Buildings	Equipment & Vehicles	Water Infrastructure	Total
	SHP	SHP	SHP	SHP
De-recognised assets				
Cost	2,709	68,481	87,398	158,588
Accumulated depreciation	(34)	(34,189)	(77,113)	(111,336)
Carrying amounts	2,675	34,292	10,285	47,252
Scrapped/Disposed assets				
Cost		2,500		2,500
Accumulated depreciation		(1,000)		(1,000)
Proceeds from disposal		(500)		(500)
Carrying amounts		1,000		1,000
Charged to income statement		1,000		1,000
Total de-recognised and disposed assets				
Cost	2,709	70,981	87,398	161,088
Accumulated depreciation	(34)	(35,189)	(77,113)	(112,336)

10. Inventories

Inventories represent assets, held at cost, that we intend to use in future electricity generation and water treatment or by using it to replace parts worn out on infrastructural assets. The bulk of these assets include spares and parts together with items such as electricity cables, poles and fittings and water pipework and fittings held for repairs and replacements.

	2016 SHP	2015 SHP
Electricity Generation Inventories	286,533	192,566
Electricity Distribution Inventories	772,117	835,008
Water Treatment, and Distribution Inventories	484,156	272,365
Inventories held for assets under construction	314,029	
Fuel	34,668	24,800
Other Invoices	19,867	21,023
Total Inventories	1,911,370	1,345,762

11. Debtors

Debtors include accrued income, and are amounts owed by our customers for goods we have delivered or services we have provided. These balances are valued net of expected irrecoverable debts.

	2016 SHP	2015 SHP
Trade Debtors	503,357	401,365
Accrued tariffs receivable	369,487	359,783
Fuel Duty Refunds Due from Saint Helena Government	74,340	99,073
Other Receivables and Prepayments	915,947	112,852
	1,863,130	973,073
	(77,365)	(110,669)
Amounts falling due within one year	1,785,766	862,404
Amounts falling due after more than one year:		
Deferred tax assets	101,365	90,248
Total Debtors	1,887,131	952,652
Provision for credit losses		
Balance at 1 April	110,669	71,489
Charged during the year	(33,304)	39,180
Closing balance at 31 March	77,365	110,669

12. Creditors

Trade and other payables include accruals, and are principally amounts we owe to our suppliers. Deferred income represents monies received from customers in advance of the delivery of goods or the performance of services by the Company.

	2016	2015
	SHP	SHP
Trade Payables	512,245	359,055
Corporate tax payable	170,430	4,328
Deferred Income and Other Payables	59,347	41,286
Accruals	67,600	193,273
Amounts falling due within one year	809,622	597,942
Amounts falling due after more than one year:		
Retention Funds	43,357	17,673
Total Creditors	852,979	615,615

13. Financial risk management

The company faces three main types of financial risk - credit risk exposure, foreign exchange currency exposure and liquidity risk. Having no debt the company's interest rate risk is only limited to bank interest income on bank balances which is not considered a significant risk.

Credit risk

Credit risk lies in the collection of debts incurred by the company's utilities consumers who are billed for services consumed in arrears. This risk is managed via the company's Debt Recovery-Utility Bills policy and summaries of outstanding debtors tabled at each board meeting as part of the key performance indicators. The Debt Recovery-Utility Bills policy guides management from initial risk assumption when customer's ability to pay is assessed before connection through to timeous billing, follow ups on outstanding balances through to disconnection and legal debt recovery procedures.

Foreign exchange risk

Foreign 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. While the company does not directly import the diesel and is therefore not directly exposed to foreign exchange risk, this risk is however manifest in price variability caused by both international oil prices and the strength or weakness of the sterling against the United States dollar (\$). This price risk affects the cost at which the company produces electricity 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

The objective of the company in managing liquidity risk is to ensure that it can meet its financial obligations as and when they fall due. While the company expects to meet its financial obligations through operating cash flows this ability is currently reliant upon government subsidies which the company receives in compensation for lower than otherwise economic tariffs the company would have to levy to fully recover costs given the current subdued population-based consumption.

14. Income tax on profit on ordinary activities

	2016	2015
a. Tax expense included in profit or loss	SHP	SHP
Current Tax		
Saint Helena corporate tax on profit for the year	166,101	4,328
Deferred Tax		
Origination and reversal of timing differences	(34,690)	48,011
Total tax on profit on ordinary activities	131,412	52,339

b. Reconciliation of tax charge

Profit multiplied by the standard rate of Saint Helena corporate tax	86,974	101,819
Effects of:		
Expenses not deductible for tax purposes	219,733	211,037
Prior year tax charges	166,102	
Carry forward losses multiplied by corporate tax rate		(108,591)
Depreciation allowances	(256,436)	(188,015)
Re-measurement of deferred tax-timing differences	(34,690)	48,011
Capital expenditure allowances	(50,271)	(11,922)
Income tax charge for the year	131,412	52,339

Notes to the Financial Statements For the year ended 31 March 2016

15. Deferred Tax Assets and Liabilities

The following are the deferred tax liabilities and (assets) that have been recognized by the company due to temporary differences between the accounting net book values and the tax written down values.

	Provisions SHP	Electricity Infrastructure SHP	Water Infrastructure SHP	Vehicles & equipment SHP	Land & Buildings SHP	Total SHP
Balances at 31 March 2015	(38,986)	21,437	39,321	6,212	9,416	37,401
Net movement during the year	1,687	16,140	(72,666)	20,712	(563)	(34,690)
Balances at 31 March 2016	(37,299)	37,577	(33,345)	26,924	8,853	2,711

The balances shown above are the net effect of deferred tax assets as shown in note 11 and deferred tax provisions as shown in note 18.

16. Cash from operating activities

	2016 SHP	2015 SHP
Profit for the year	216,483	354,937
Adjustments to reconcile profit for the year to net cash flow from operating activities		
Depreciation of tangible fixed assets	885,681	789,266
Amortization of Government Grants	(379,659)	(159,079)
Carrying amounts of de-commissioned and expensed assets	138,201	
Provision for doubtful debts	(33,304)	39,180
Increase in corporate tax payable	166,101	4,328
Increase in provisions	26,556	15,701
Increase in trade and other receivables	(890,057)	(67,899)
Increase in trade and other payables	71,262	(151,338)
Decrease (increase) in inventories	(565,608)	(143,975)
Movements in deferred tax balances	(34,690)	48,011
Net cash flows from operating activities	(399,033)	729,132

17. Retirement Benefit Scheme

A total of £85,561 (2015: £66,777) was charged to employee staff costs and recognised in the Income Statement in respect of the company's contribution towards a Defined Contribution Scheme on behalf of eligible employees. The scheme is run and managed by a third party on behalf of employees and as such, there are no assets or future obligations recognisable by the company in respect of the scheme.

18. Provisions for payables and other charges	Leave Pay SHP	Other Provisions SHP	Deferred Tax (note 14) SHP	Total SHP
At 1 April 2015	30,277	15,000	127,649	172,925
Additions less utilized	26,556			26,556
Origination and reversal of timing differences			(23,572)	(23,572)
At 31 March 2016	56,833	15,000	104,076	175,909

The leave pay provision represents holiday balances accrued as a result of services rendered in the current period and which employees are entitled to carry forward. The provision is measured as the salary cost payable for the period of absence.

	2016 SHP	2015 SHP
19. Deferred Government Grants		
Balance at 1 April 2014	6,776,038	3,671,090
Received during the year	827,697	3,264,027
Amortized during the year	(379,659)	(159,079)
Balance at 31 March 2015	7,224,076	6,776,038

20. Ownership and Share Capital

Wholly owned by Saint Helena Government, the company's authorised share capital is 25 million of ordinary shares. Balances as at 31st March 2016 and 1st April 2015 of £15,287,175 comprise of 15,287,175 ordinary shares. A total of 701,577 shares are to be cancelled post year end following SHG's decision to assume the costs of the £665,862 water solutions project that had been written off by the company in the 2013/2014 financial year as well as accounting for £35,715 carrying value of tangible fixed assets decommissioned before the company started operating.

21. Capital commitments

The company had capital commitments for electricity and water infrastructure of £506,481 (2015: £996,785). This represents the total value of signed contracts and orders for delivery of goods and services towards infrastructural development and is funded by confirmed government grants.

22. Approval of Financial Statements

These financial statements were approved by the board of directors and authorised for issue on 12 December 2016.