



Financial Statements of

**THE POWER GENERATION COMPANY  
OF TRINIDAD & TOBAGO LIMITED**

December 31, 2010

*(Expressed in Trinidad and Tobago Dollars)*



# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Financial Statements

December 31, 2010

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## **Independent Auditors' Report to the Shareholders of The Power Generation Company of Trinidad & Tobago Limited**

### ***Report on the financial statements***

We have audited the accompanying financial statements of The Power Generation Company of Trinidad & Tobago Limited (PowerGen), which comprise the statement of financial position as at December 31, 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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 financial statements present fairly, in all material respects, the financial position of PowerGen as at December 31, 2010, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature of 'KPMG' in black ink, with a long horizontal stroke underneath the letters.

Chartered Accountants

June 8, 2011  
Port of Spain  
Trinidad and Tobago

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

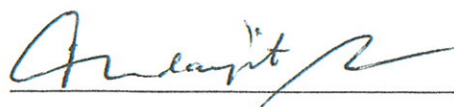
## Statement of Financial Position

December 31, 2010

(Expressed in Trinidad and Tobago dollars)

	Notes	2010	2009
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property, plant and equipment	1	\$ 303,268,139	342,187,330
Retirement benefit asset	2	198,614,237	232,116,336
Finance lease receivable	3	1,013,502,305	944,454,272
		<u>1,515,384,681</u>	<u>1,518,757,938</u>
<b>Current Assets</b>			
Plant materials and supplies		223,691,630	219,751,320
Due by related parties	4	97,868,046	102,243,900
Prepayments and other receivables	5	23,214,450	57,141,398
Other short term deposits		41,796,682	37,040,360
Cash and cash equivalents		305,513,953	104,917,126
		<u>692,084,761</u>	<u>521,094,104</u>
<b>Total Assets</b>		\$ <u>2,207,469,442</u>	<u>2,039,852,042</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserve</b>			
Share capital	6	\$ 523,719,357	518,406,357
Translation reserve		97,154,390	93,597,014
Retained earnings		304,842,789	253,507,307
		<u>925,716,536</u>	<u>865,510,678</u>
<b>Non-current Liabilities</b>			
Borrowings	7	857,844,614	903,911,893
Deferred tax liability	8	101,466,366	92,484,010
Other post-retirement obligations	2	15,714,586	14,450,984
		<u>975,025,566</u>	<u>1,010,846,887</u>
<b>Current Liabilities</b>			
Trade and other payables	9	220,309,873	103,685,676
Due to related parties	4	629,389	617,633
Taxation payable		4,069,552	6,908,481
Borrowings	7	24,952,042	18,515,821
Provisions	10	56,766,484	33,766,866
		<u>306,727,340</u>	<u>163,494,477</u>
<b>Total Equity and Liabilities</b>		\$ <u>2,207,469,442</u>	<u>2,039,852,042</u>

The accompanying notes form an integral part of these financial statements.

 Director

 Director

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Statement of Comprehensive Income

Year ended December 31, 2010

*(Expressed in Trinidad and Tobago dollars)*

	Note	2010	2009
<b>Revenue</b>			
Lease income	4	\$ 275,695,774	170,712,560
Service income	4	<u>545,045,461</u>	<u>482,423,331</u>
		<u>820,741,235</u>	<u>653,135,891</u>
<b>Expenses</b>			
Maintenance		(224,425,142)	(200,094,132)
Depreciation		(25,419,871)	(51,090,325)
Administrative Operations		<u>(201,081,036)</u>	<u>(95,036,007)</u>
		<u>(57,151,262)</u>	<u>(59,561,329)</u>
		<u>(508,077,311)</u>	<u>(405,781,793)</u>
<b>Operating Profit</b>		312,663,924	247,354,098
Other income	12	7,943,178	3,496,224
Finance cost		<u>(49,288,250)</u>	<u>(48,938,522)</u>
<b>Profit before Taxation</b>		271,318,852	201,911,800
<b>Taxation</b>	13	<u>(60,048,370)</u>	<u>(54,295,661)</u>
<b>Profit and comprehensive income for the year</b>		\$ <u>211,270,482</u>	<u>147,616,139</u>
<b>Earnings per share for profit attributable to the equity holders of the Company during the year</b>			
Basic	16	<u>43.7¢</u>	<u>30.6¢</u>

*The accompanying notes form an integral part of these financial statements.*

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Statement of Changes in Equity

Year ended December 31, 2010

*(Expressed in Trinidad and Tobago dollars)*

	<b>Share Capital</b>	<b>Translation Reserve</b>	<b>Retained Earnings</b>	<b>Total</b>
	\$	\$	\$	\$
<b><i>Year ended December 31, 2009</i></b>				
<b>Opening balance at January 1, 2009</b>	514,673,340	90,952,111	273,702,418	879,327,869
Profit for the year	-	-	147,616,139	147,616,139
Translation adjustment	3,733,017	2,644,903	-	6,377,920
Dividend paid	-	-	(167,811,250)	(167,811,250)
<b>Closing balance at December 31, 2009</b>	<u>518,406,357</u>	<u>93,597,014</u>	<u>253,507,307</u>	<u>865,510,678</u>
<b><i>Year ended December 31, 2010</i></b>				
<b>Opening balance at January 1, 2010</b>	518,406,357	93,597,014	253,507,307	865,510,678
Profit for the year	-	-	211,270,482	211,270,482
Translation adjustment	5,313,000	3,557,376	-	8,870,376
Dividend paid and proposed	-	-	(159,935,000)	(159,935,000)
<b>Closing balance at December 31, 2010</b>	<u>523,719,357</u>	<u>97,154,390</u>	<u>304,842,789</u>	<u>925,716,536</u>

*The accompanying notes form an integral part of these financial statements.*

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Statement of Cash Flows

Year ended December 31, 2010

*(Expressed in Trinidad and Tobago dollars)*

	Note	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	13	\$ 411,816,842	200,882,139
Interest received		728,197	4,871,998
Tax paid		<u>(54,923,611)</u>	<u>(56,256,436)</u>
<b>Net cash from operating activities</b>		<u>357,621,428</u>	<u>149,497,701</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		(70,885,668)	(210,049,690)
Investment in other short term deposits		(41,796,682)	(37,040,360)
Maturity of other short term deposits		37,040,360	109,874,002
Finance lease repayments – capital portion		<u>15,682,644</u>	<u>154,235,585</u>
<b>Net cash (used in) from investing activities</b>		<u>(59,959,346)</u>	<u>17,019,537</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of shareholders' loan		(13,899,055)	(17,184,181)
Repayment of debenture		(35,185,700)	-
Dividend paid		<u>(47,980,500)</u>	<u>(167,811,250)</u>
<b>Net cash used in financing activities</b>		<u>(97,065,255)</u>	<u>(184,995,431)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		200,596,827	(18,478,193)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>104,917,126</u>	<u>123,395,319</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		\$ <u>305,513,953</u>	<u>104,917,126</u>
<b>Cash and Cash Equivalents comprise:</b>			
Bank balances		\$ 105,183,159	1,959,700
Call deposits		<u>200,330,794</u>	<u>102,957,426</u>
		\$ <u>305,513,953</u>	<u>104,917,126</u>

*The accompanying notes form an integral part of these financial statements.*



# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## **Incorporation and Principal Activity**

The Power Generation Company of Trinidad & Tobago Limited (“PowerGen” or “the Company”) is incorporated in the Republic of Trinidad and Tobago and its registered office is located at 6A Queen’s Park West, Port of Spain. Its shareholders are Trinidad and Tobago Electricity Commission (T&TEC), MaruEnergy Trinidad, LLC (a subsidiary of a joint venture between Marubeni Corporation and Abu Dhabi National Energy Company) and Amoco Trinidad Power Resources Corporation, a wholly owned subsidiary of BP Amoco Global Power.

The Company’s principal activity is the operation and maintenance of generation assets for the supply of bulk electrical power to T&TEC under two Power Purchase Agreements (PPAs). The initial agreement called the 1994 PPA extended for an initial period of 15 years from December 23, 1994 and the second PPA is for a period of 30 years from December 6, 2005. The 1994 PPA expired on December 23, 2009 and pursuant to Clause 2.2 of the agreement, was automatically extended for an additional period of three years. By letter dated July 30, 2009, it was agreed that negotiations for a renewal of the 1994 PPA between T&TEC and PowerGen would continue in good faith and once these negotiations were completed, an amended Power Purchase Agreement (the new PPA) would replace the 1994 PPA as at the date that such new PPA came into effect.

The existing agreements obligate T&TEC to provide fuel necessary for generation to PowerGen at no charge and to make Energy and Capacity Payments to the Company. The Government of the Republic of Trinidad and Tobago has undertaken to guarantee the payment obligations of T&TEC and, in respect of the 1994 PPA only, has also agreed to indemnify PowerGen for increased costs resulting from changes to environmental laws.

On June 8, 2011, the Board of Directors of PowerGen authorised these financial statements for issue.

## **Summary of Significant Accounting Policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

*(a) Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations (IFRIC) adopted by the International Accounting Standards Board (IASB).

*(b) Basis of measurement*

The financial statements are prepared on the historical cost basis.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## Summary of Significant Accounting Policies (continued)

### (c) *Functional and presentation currency*

These financial statements are presented in Trinidad and Tobago dollars. The Company's functional currency is United States dollars.

### (d) *Use of estimates and judgements*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the future are identified below:

Accounting Policy (h)	Pension benefit assumptions
Accounting Policy (i)	Accounting for an arrangement containing a finance lease
Accounting Policy (j)	Provision for obsolescence
Accounting Policy (o)	Provisions.

### (e) *Foreign currency*

Foreign currency transactions and non-monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss of the financial period in which they arise.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## Summary of Significant Accounting Policies (continued)

### *(f) Property, plant and equipment*

Generating plant and equipment represents expenditure on additions and improvements to the leased generation assets (see accounting policy (i)) incurred subsequent to the inception of the Company on the maintenance and upkeep of the leased assets. It is expected that future benefit will accrue to the Company from these expenditures and the cost of the items can be measured reliably. 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 and any other cost directly attributable to bringing the assets to a working condition for their intended use.

Non-generating plant and equipment in service is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write off the cost of each asset to its estimated residual value over its estimated useful life as follows:

Leasehold improvements	-	10 years
Structures	-	35 years
Generating plant and equipment	-	4 - 15 years
Non-generating plant and equipment	-	5 - 10 years
Office furniture and equipment	-	5 - 10 years
Vehicles	-	5 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting 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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in profit or loss of the financial period in which they arise.

**Summary of Significant Accounting Policies (continued)**

**(g) Impairment**

An impairment loss is recognised when an asset's carrying amount exceeds its recoverable amount. Impairment losses are recognised in profit or loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

**(h) Pensions and other post-retirement obligations**

**(i) Retirement benefit asset**

The Company's employees are members of the Trinidad and Tobago Electricity Commission Pension Plan, a defined benefit plan, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from the employees and the Company, taking account of the recommendations of independent actuaries.

The retirement benefit asset recognised in the statement of financial position in respect of the defined benefit plan is the fair value of plan assets at the reporting date less the present value of the defined benefit obligation, together with adjustments for unrecognised actuarial gains and losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

Under this method, the cost of providing pension benefits is included in profit or loss so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who carry out a full valuation of the plan at least every three years. The pension obligations are measured as the present value of the estimated future cash outflows using interest rates of long-term government securities. Actuarial gains and losses are only recognised when they fall outside a corridor equal to 10% of the larger of the value of the plan's assets and the value of the plan's liabilities. These gains and losses are recognised over the average remaining service lives of employees.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of fixed rate Trinidad and Tobago Government Bonds that are denominated in Trinidad and Tobago dollars, the currency in which the benefits will be paid. Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

**Summary of Significant Accounting Policies** (continued)

**(h) Pensions and other post-retirement obligations** (continued)

**(ii) Post-retirement obligations**

The Company has undertaken to provide certain medical care and life insurance benefits for retired employees. Substantially all of the employees may become eligible for these benefits when they retire. The Company was incorporated on December 23, 1994, from which date the retirees' medical and life benefits were considered to be provided solely by The Power Generation Company of Trinidad & Tobago Limited. The Company has accounted for post-retirement benefits on the accrual basis using a benefit/years of service actuarial method. These obligations are valued by independent qualified actuaries.

**(i) Leases**

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss as incurred over the period of the lease.

Leases which transfer a significant portion of the risks and rewards of ownership to the lessee are classified as finance leases. Under IFRIC 4 (determining whether an agreement contains a lease), the Company is deemed to have an investment in a finance lease from the PPAs to supply electricity to T&TEC (Note 3). Upon the adoption of IFRIC 4 in 2007, the Company recognised the investment in finance lease equal to the present value of the minimum payments by T&TEC under the PPAs that were deemed to relate to payment for the generating assets. The difference between the gross receivable and the present value of the receivable is recognised as unearned income.

**(j) Plant materials and supplies**

Plant materials and supplies are stated at the lower of cost and net realisable value less provision for obsolescence. Cost is determined by the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The provision for obsolescence is based on management's assessment of the age of inventory and tests of impairment performed by management.

**Summary of Significant Accounting Policies (continued)**

**(k) Trade receivables**

Trade receivables are recognised initially at fair value. 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 receivables.

**(l) Cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, deposits held on call, and the Company's investments in money market funds with original maturities of three months or less, less bank overdrafts.

**(m) Borrowings**

Borrowings are recognised initially as proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds and redemption value is recognised in profit or loss over the period of the borrowings.

Borrowing costs incurred during construction, the period of time required to complete and prepare any qualifying asset for its intended use, are capitalised and added to the other expenditure incurred. Other borrowing costs are expensed.

**(n) Trade and other payables**

Trade and other payables are recognised initially at fair value. Subsequent measurement is at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received.

**(o) Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made of the obligation. (See Note 10).

A cash bonus is provided as part of the Company's incentive plan which is based on the achievement of established criteria. The ESOP forms part of the bonus allocation. The bonus is paid annually on the approval by the Board of Directors.

**Summary of Significant Accounting Policies (continued)**

**(p) Revenue recognition**

**a) Lease income**

Incorporated in the monthly payments from T&TEC is an amount related to the financing costs of providing the lease. These payments are meant to allocate finance income over the lease term on a systematic and rational basis. This lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

**b) Service income**

Service income comprises the fair value of the consideration received or receivable for the delivery of service in the ordinary course of the Company's activities.

The Company recognises service income when the amount of the income can be reliably measured, it is probable that future economic benefits will flow to the Company and the customer has accepted the performance of the services.

**c) Interest income**

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

All income is shown net of value added tax and discounts.

**(q) Taxation**

Tax on income comprises current tax and deferred tax and is recognised in profit or loss, except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. Current tax is the expected tax payable calculated on taxable income for the year, using the tax rate enacted at the reporting date, adjustment to tax payable in respect of the previous years and green fund levy charged on income.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

**Summary of Significant Accounting Policies (continued)**

**(q) Taxation (continued)**

The principal temporary differences arise from depreciation on property, plant, and equipment and retirement benefit asset. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

**(r) Dividend payable**

Interim dividends declared by the Board, which are not paid, are recognised as a liability in the financial statements in the period in which such dividends have been declared. The final dividends payable to the Company's shareholders are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

**(s) New standards and interpretations not yet adopted**

At the date of authorisation of the financial statements there were new standards, amendments to standards and interpretations which were in issue but were not yet effective for the year ended ended December 31, 2010, and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company, except:

- Amendments to IFRIC 14 IAS 19 *Limit on Defined Benefit Minimum Funding Requirements and their Interaction* where prepayment of contributions result in recognition of an asset rather than an expense will represent a significant change.
- IFRS 9 *Financial Instruments*, published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39 which will be mandatory for the Company's 2013 financial statements and could change the classification and measurement of financial assets.

**(t) Reclassification**

Certain balances in 2009 comparatives were classified to conform with the current year's presentation.



# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Notes to the Financial Statements

December 31, 2010

### 1. Property, Plant and Equipment

	Land and Structures	Equipment	Motor Vehicles	Work in Progress	Total
	\$	\$	\$	\$	\$
<b>Year ended December 31, 2009</b>					
Opening net book amount	65,021,943	215,028,603	-	66,678,176	346,728,722
Exchange difference	471,615	1,559,641	-	483,631	2,514,887
Additions	-	-	-	210,049,690	210,049,690
Reclassification to investment in finance lease	-	(162,633,817)	-	-	(162,633,817)
Disposals	-	(3,381,827)	-	-	(3,381,827)
Transfers	-	166,738,164	-	(166,738,164)	-
Depreciation charge	(2,909,226)	(48,181,099)	-	-	(51,090,325)
Closing net book amount	<u>62,584,332</u>	<u>169,129,665</u>	<u>-</u>	<u>110,473,333</u>	<u>342,187,330</u>
<b>At December 31, 2009</b>					
Cost	103,132,178	398,106,240	1,743,692	110,473,333	613,455,443
Accumulated depreciation	<u>(40,547,846)</u>	<u>(228,976,575)</u>	<u>(1,743,692)</u>	<u>-</u>	<u>(271,268,113)</u>
Net book amount	<u>62,584,332</u>	<u>169,129,665</u>	<u>-</u>	<u>110,473,333</u>	<u>342,187,330</u>
<b>Year ended December 31, 2010</b>					
Opening net book amount	62,584,332	169,129,665	-	110,473,333	342,187,330
Exchange difference	641,409	1,733,361	-	1,132,208	3,506,978
Additions	-	-	-	70,885,668	70,885,668
Reclassification to investment in finance lease	-	(142,854)	-	(85,941,923)	(86,084,777)
Disposals	-	(1,807,189)	-	-	(1,807,189)
Transfers	-	66,970,536	-	(66,970,536)	-
Depreciation charge	<u>(3,711,989)</u>	<u>(21,707,882)</u>	<u>-</u>	<u>-</u>	<u>(25,419,871)</u>
Closing net book amount	<u>59,513,752</u>	<u>214,175,637</u>	<u>-</u>	<u>29,578,750</u>	<u>303,268,139</u>
<b>At December 31, 2010</b>					
Cost	104,189,150	462,557,373	1,761,562	29,578,756	598,086,841
Accumulated depreciation	<u>(44,675,398)</u>	<u>(248,381,742)</u>	<u>(1,761,562)</u>	<u>-</u>	<u>(294,818,702)</u>
Net book amount	<u>59,513,752</u>	<u>214,175,631</u>	<u>-</u>	<u>29,578,756</u>	<u>303,268,139</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

## 2. Pension and Other Post-retirement Obligations

### Retirement Benefit Asset

The information below was extracted from the independent actuarial valuation report dated November 8, 2010.

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>(i) The amounts recognised in the statement of financial position are as follows:</b>		
Fair value of plan assets	775,950,000	791,833,588
Present value of funded obligations	(675,432,000)	(531,615,895)
	100,518,000	260,217,693
Unrecognised actuarial loss (gains)	<u>98,096,237</u>	<u>(28,101,357)</u>
Asset in the statement of financial position	<u>198,614,237</u>	<u>232,116,336</u>
<b>(a) Change in plan assets:</b>		
Plan assets at the start of year	791,833,588	741,564,336
Exchange adjustment	8,115,278	5,378,698
Expected return on plan assets	60,890,853	82,529,680
Actuarial loss	(74,935,747)	(42,392,047)
Company contributions	11,478,209	12,451,747
Members' contributions	5,326,009	6,226,424
Benefits paid	(26,615,078)	(13,676,706)
Expense allowance	<u>(143,112)</u>	<u>(248,544)</u>
	<u>775,950,000</u>	<u>791,833,588</u>
<b>(b) Change in defined benefit obligation:</b>		
Projected benefit obligation at start of year	531,615,895	501,178,201
Exchange adjustment	5,448,381	3,635,135
Current service cost	15,411,191	16,300,805
Interest cost	39,518,536	48,439,376
Members' contribution	5,326,009	6,226,424
Benefit Improvements	49,911,455	-
Actuarial loss (gain)	54,958,723	(30,238,796)
Benefit paid	(26,615,078)	(13,676,706)
Expense allowance	<u>(143,112)</u>	<u>(248,544)</u>
	<u>675,432,000</u>	<u>531,615,895</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

## 2. Pension and Other Post-retirement Obligations (continued)

### *Retirement Benefit Asset* (continued)

	<u>2010</u>	<u>2009</u>
	\$	\$
(ii) <b>The amounts recognised in the statement of comprehensive income are as follows:</b>		
Current service cost	15,411,191	16,300,805
Interest cost	39,518,536	48,439,376
Expected return on plan assets	(60,890,853)	(82,529,680)
Amortised net loss	-	2,239,646
Past service Cost	<u>53,320,329</u>	<u>-</u>
Total included in employee benefit expense (Note 15)	<u>47,359,204</u>	<u>(15,549,853)</u>
(iii) <b>Movements in the net retirement benefit asset recognised in the statement of financial position are as follows:</b>		
Opening defined benefit asset	232,116,336	202,644,918
Exchange adjustment	2,378,896	1,469,818
Net pension (expense) income	(47,359,204)	15,549,853
Company contribution paid	<u>11,478,209</u>	<u>12,451,747</u>
Closing defined benefit asset	<u>198,614,237</u>	<u>232,116,336</u>
(iv) <b>Actual return on plan assets:</b>		
Expected return on plan assets	60,890,853	82,529,680
Actuarial loss on plan assets	<u>(74,935,747)</u>	<u>(42,392,047)</u>
	<u>(14,044,894)</u>	<u>40,137,633</u>

### *Past Service Costs*

In 2010 the Company agreed to a package of benefit improvements for its members in the T&TEC Pension Plan which were funded from the pension surplus. The benefit enhancements were:

- Increase in the commutation factor to calculate members' retirement lump sum to \$20.00.
- Pensions in payment were increased by US\$78.16 (TT\$500.00) per month from January 1, 2006 and 5% on each of January 1, 2007, 2008, and 2009.
- Increase in the pension payable to a member's spouse on the death after retirement to 2/3<sup>rd</sup> of the last pension in payment at the time of death.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

## 2. Pension and Other Post-retirement Obligations (continued)

### *Past Service Costs* (continued)

- Reduction in contributions to the Plan by 50% for members with more than 31.1 years service.
- Enhancement of the scope of the Home Ownership Plan.

These components had a material impact on the Company's past service cost (pension cost).

### *Other Post-retirement Benefit Obligations*

The information below was extracted from the independent actuarial valuation report dated January 28, 2009.

	<u>2010</u>	<u>2009</u>
	\$	\$
(i) <b>The amounts recognised in the statement of financial position are as follows:</b>		
Present value of unfunded obligations	(17,840,658)	(16,617,134)
Unrecognised actuarial gains	<u>2,126,072</u>	<u>2,166,150</u>
	<u>(15,714,586)</u>	<u>(14,450,984)</u>
(ii) <b>The amounts recognised in the statement of comprehensive income are as follows:</b>		
Current service cost	413,028	391,605
Interest cost	1,427,568	1,327,445
Amortised net loss	<u>40,076</u>	<u>51,656</u>
Total included in employee benefit expense (Note 15)	<u>1,880,672</u>	<u>1,770,706</u>
(iii) <b>Reconciliation of opening and closing statement of financial position entries:</b>		
Opening post retirement benefit liability	(14,450,984)	(13,214,573)
Exchange adjustment	(148,104)	(95,846)
Net expense recognised in the profit or loss	(1,880,672)	(1,770,706)
Company benefits paid	<u>765,174</u>	<u>630,141</u>
	<u>(15,714,586)</u>	<u>(14,450,984)</u>

**THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED**

Notes to the Financial Statements

December 31, 2010

**2. Pension and Other Post-retirement Obligations (continued)**

*Other Post-retirement Benefit Obligations (continued)*

**The principal actuarial assumptions used for accounting purposes were:**

	<b>2010</b>	<b>2009</b>
	Per annum	Per annum
Discount rate		
- pension obligation	6.25%	7.50%
- post-retirement benefit obligations	8.75%	8.75%
Expected return on assets	7.00%	8.50%
Future salary increase	5.50%	6.50%
Future pension increase	1.00%	2.50%
Expected annual increase in health cost	5.25%	5.25%
	<u><b>2010</b></u>	<u><b>2009</b></u>
	<b>\$</b>	<b>\$</b>

**3. Investment in Finance Lease**

**Gross receivable from finance lease**

No later than 1 year	291,378,424	290,179,681
Later than 1 year and no later than 5 years	1,165,513,690	1,160,718,728
Later than 5 years	<u>2,210,060,845</u>	<u>2,477,820,135</u>
	3,666,952,959	3,928,718,544
Unearned income	<u>(2,653,450,654)</u>	<u>(2,984,264,272)</u>
Net investment in finance lease	<u>1,013,502,305</u>	<u>944,454,272</u>

**The net investment in finance lease may be analysed as follows:**

No later than 1 year	23,790,986	8,395,234
Later than 1 year and no later than 5 years	308,536,616	121,769,986
Later than 5 years	<u>681,174,703</u>	<u>814,289,052</u>
	<u>1,013,502,305</u>	<u>944,454,272</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Notes to the Financial Statements

December 31, 2010

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### 3. Investment in Finance Lease (continued)

#### Lease Accounting – Extension of the 1994 PPA

After the initial agreement period of fifteen (15) years the 1994 PPA came to an end on December 23, 2009. A new PPA has not yet been negotiated and the contract was automatically extended based on the provisions of the automatic extension Clause 2.2 of the 1994 PPA for three (3) years under the same terms and conditions.

Negotiations are in progress for a new PPA which is likely to also have a fifteen (15) year term. Even if these negotiations are protracted and a new PPA is not re-negotiated, at the end of two years the PPA will be automatically extended for a further three (3) years. In essence, PowerGen could continue to provide services for a minimum extension period of six (6) years.

In accordance with IFRIC 4 paragraph 11(b) a re-assessment of the arrangement was necessary as the extension was not included at the inception of the lease.

In addition, the following circumstances were considered in determining the period for which the minimum lease payment will be recouped:

- there is no other facility that could provide T&TEC with the quantum of electricity provided by PowerGen
- the lack of a robust grid, which limits the transfer of electricity being produced by other producers, who are located far from the city centre
- the delay in constructing a city based facility, which, even if construction started immediately would not come into service in sufficient quantities before the second trigger.

The extension of the 1994 PPA is accounted for as a finance lease over a period of 6 years, consistent with our existing policy and is included in these financial statements as follows:

#### 1994 PPA Extension

	<u>2010</u>	<u>2009</u>
Gross receivable	\$ 1,050,594,834	1,240,312,624
Unearned income	(654,498,104)	(924,185,286)
	<u>\$ 396,096,730</u>	<u>316,127,338</u>

The period of the lease will be reassessed at the signing of a new long-term PPA.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## 4. Related Party

### (a) Identity of related party

A party is related to the Company if:

- (i) Directly or indirectly the party
  - controls, is controlled by, or is under common control with the Company;
  - has an interest in the Company that gives it significant influence over the Company; or
  - has joint control over the Company.
- (ii) The party is a member of the key management personnel of the Company.
- (iii) The party is a close member of the family of any individual referred to in (i) or (ii) above.
- (iv) The party is a post-employment benefit plan for the benefit of employees of the Company, or any company that is a related party of the Company.

### (b) Related party transactions and balances

A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, on commercial terms and condition, except for certain loans made available to officers. Loans deemed to be below market rates in accordance with personal income tax legislation are taxed as dictated for in law.

	<u>2010</u>	<u>2009</u>
	\$	\$
<i>Due by related parties</i>		
T&TEC:		
Trade	97,451,530	101,594,864
Other	400,740	609,541
MaruEnergy Trinidad LLC	<u>15,776</u>	<u>39,495</u>
	<u>97,868,046</u>	<u>102,243,900</u>

The receivables from related parties arise mainly from the sale of electricity and are due no later than 30 days after the date of invoice. The receivables are unsecured and bear no interest.

THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

4. Related Party (continued)

(b) Related party transactions and balances (continued)

	<u>2010</u>	<u>2009</u>
	\$	\$
<i>Due to related parties</i>		
T&TEC	<u>629,389</u>	<u>617,633</u>

The payables to related parties arise mainly from the provision of services by these parties and are due no later than 30 days after the date of invoice. The payables are unsecured and bear no interest.

	<u>2010</u>	<u>2009</u>
	\$	\$
<i>Services to related party</i>		
(i) Lease income - T&TEC	<u>275,695,774</u>	<u>170,712,560</u>
(ii) Service Income - T&TEC	<u>545,045,461</u>	<u>482,423,331</u>
(iii) Borrowings		
<i>Debenture</i>		
January 1, (Note 7)	297,627,500	295,484,300
Exchange adjustment	3,050,300	2,143,200
Repayment	<u>(35,185,700)</u>	<u>-</u>
	<u>265,492,100</u>	<u>297,627,500</u>
<i>Shareholders' loan</i>		
January 1, (Note 7)	624,800,214	637,361,497
Exchange adjustment	6,403,397	4,622,898
Repayment	<u>(13,899,055)</u>	<u>(17,184,181)</u>
	<u>617,304,556</u>	<u>624,800,214</u>



# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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**(c) Transactions with key management personnel**

Key management comprises individuals responsible for planning, directing and controlling the activities of the Company.

	<u>2010</u>	<u>2009</u>
	\$	\$
Salaries and other short-term benefits	9,881,015	9,816,331
Post-employment benefits	<u>1,109,066</u>	<u>1,037,314</u>
	<u>10,990,081</u>	<u>10,853,645</u>
<b>5. Prepayments and Other Receivables</b>		
Prepayments	21,183,352	54,925,762
Other receivables	<u>2,031,098</u>	<u>2,215,636</u>
	<u>23,214,450</u>	<u>57,141,398</u>
<b>6. Share Capital</b>		
<b>Authorised</b>		
Unlimited number of ordinary shares of no par value		
<b>Issued and fully paid</b>		
483,000,000 ordinary shares of no par value	<u>523,719,357</u>	<u>518,406,357</u>
246,330,000 'A' ordinary shares	267,096,872	264,387,242
236,670,000 'B' ordinary shares	<u>256,622,485</u>	<u>254,019,115</u>
	<u>523,719,357</u>	<u>518,406,357</u>

The shareholders agreement dated December 23, 1994, was replaced by an amendment and restatement agreement dated December 19, 2005.

In accordance with this agreement between T&TEC, MaruEnergy Trinidad LLC (formerly Mirant Trinidad Investments LLC) and Amoco Trinidad Power Resources Corporation, the shares designated as 'A' shares are owned by T&TEC and 'B' shares by MaruEnergy Trinidad LLC (formerly Mirant Trinidad Investments LLC) and Amoco Trinidad Power Resources Corporation.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

## 6. Share Capital (continued)

The 'B' shareholders exercise substantial influence over the Company's day-to-day operations through their control of the Management Committee, which has significant powers relating to major management and budgetary decisions.

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>7. Borrowings</b>		
<b>Non-current</b>		
Debenture	265,492,100	297,627,500
Shareholders' loan	<u>592,352,514</u>	<u>606,284,393</u>
	<u>857,844,614</u>	<u>903,911,893</u>
<b>Current</b>		
Shareholders loan	<u>24,952,042</u>	<u>18,515,821</u>
<b>Total</b>	<u>882,796,656</u>	<u>922,427,714</u>

### Debenture

This consists of a US\$100,000,000, 0.01% subordinated unsecured debenture stock due 2024, duly constituted by instrument dated December 23, 1994. The debenture instrument provides for repayment to the debenture holders, who are the shareholders of the Company, in cash or an option for shares, provided that there is unanimous approval by the Board. Redemption in cash commenced in 1997.

	<u>2010</u>	<u>2009</u>
	\$	\$
The debenture holders and their respective holdings are as follows:		
T&TEC	135,400,971	151,790,025
MaruEnergy Trinidad LLC	103,541,919	116,074,725
Amoco Trinidad Power Resources Corporation	<u>26,549,210</u>	<u>29,762,750</u>
	<u>265,492,100</u>	<u>297,627,500</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

## 7. Borrowings (continued)

### Shareholders' Loan

Effective December 19, 2005, the shareholders extended to the Company an unsecured non-revolving credit facility of up to US\$99,000,000 to finance the construction of two new generating units at the Point Lisas Plant. Repayment of the loan is to be over a period of twenty years and began in June 2007.

Interest during the first repayment period is 7.5% per annum and thereafter would be reset every five years at LIBOR plus 3% per annum. Interest accrued, up to the date of the first principal repayment of \$48,010,284, was added to the principal balance.

The lenders and their respective balances are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
T&TEC	314,775,386	318,597,564
MaruEnergy Trinidad LLC	240,830,904	243,755,208
Amoco Trinidad Power Resources Corporation	<u>61,698,266</u>	<u>62,447,442</u>
	<u>617,304,556</u>	<u>624,800,214</u>

The fair value of the borrowings approximates its carrying amount.

## 8. Deferred Tax Liability - Net

(i) The movement in the deferred tax liability is as follows:

Opening balance	92,484,010	88,441,198
Exchange adjustment	947,842	641,486
Charge for the year	<u>8,034,514</u>	<u>3,401,326</u>
Closing balance	<u>101,466,366</u>	<u>92,484,010</u>

**THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED**

Notes to the Financial Statements

December 31, 2010

**8. Deferred Tax Liability – Net (continued)**

(ii) The movement in deferred tax liability is as follows:

	<b>Retirement Benefit Asset</b>	<b>Property Plant and Equipment</b>	<b>Provisions</b>	<b>Total</b>
	\$	\$	\$	\$
Balance at January 1, 2009	50,661,230	39,343,721	(1,563,753)	88,441,198
Exchange adjustment	367,455	289,426	(15,395)	641,486
Charge for the year	<u>7,198,767</u>	<u>(5,376,589)</u>	<u>1,579,148</u>	<u>3,401,326</u>
Balance at December 31, 2009	<u>58,227,452</u>	<u>34,256,558</u>	-	<u>92,484,010</u>
Balance at January 1, 2010	58,227,452	34,256,558	-	92,484,010
Exchange adjustment	596,757	351,085	-	947,842
Charge for the year	<u>(9,074,507)</u>	<u>17,109,021</u>	-	<u>8,034,514</u>
Balance at December 31, 2010	<u>49,749,702</u>	<u>51,716,664</u>	-	<u>101,466,366</u>

	<b>2010</b>	<b>2009</b>
	\$	\$
<b>9. Trade and Other Payables</b>		
Trade payables	23,889,421	38,855,213
Accrued charges	84,465,952	64,830,463
Dividend Payable	<u>111,954,500</u>	-
	<u>220,309,873</u>	<u>103,685,676</u>

For the year ended December 31, 2010, \$47,980,500 has been paid to Shareholders as interim dividends. This translates to a dividend per share of per share 9.87¢ (2009: 22.8¢).

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Notes to the Financial Statements

December 31, 2010

### 10. Provisions

	Labour Contingency \$	Annual Leave \$	Holiday Benefit \$	Workmen's Compensation \$	Incentives \$	VTEP \$	Totals \$
At December 31, 2009	5,031,767	17,107,862	2,127,854	2,553,428	6,945,955	-	33,766,866
Exchange difference	463,095	2,714	12,921	(483,837)	73,855	-	68,748
Charged to the Statement of comprehensive income:							
Additional provisions	3,704,843	3,244,090	6,046	-	7,200,000	39,574,316	53,729,295
Used during the year	-	(3,955,404)	(2,105,860)	(2,069,591)	(553,556)	(22,114,014)	(30,798,425)
At December 31, 2010	9,199,705	16,399,262	40,961	-	13,666,254	17,460,302	56,766,484

All provisions are classified as current as they are expected to be settled within 12 months.

#### *i) Labour Contingency*

The industrial agreement between the Company and the Oilfield Workers Trade Union (OWTU) and the Senior Staff Association (SSA) came to an end on December 31, 2008. Negotiations are currently in progress and have not yet been settled. The provision represents PowerGen's estimate of increases under the new agreement.

#### *ii) Annual leave*

The Company's leave policy allows employees to accrue and carry forward annual leave not taken in any period. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. All accrued annual leave is payable to employees should their services be terminated for any reason.

#### *iii) Holiday Benefit*

The Company entered into an agreement with the Oilfield Workers Trade Union, which under Clause 36, provided for the Holiday Benefit to be replaced by the Holiday Savings Plan. The balance in the account at December 31, 2010 refers to the Holiday Benefit payable to the estate of deceased members.

#### *iv) Workmen's compensation*

This provision represented the estimate of the possible liability that the Company may have incurred due to an industrial accident on June 28, 2006. Negotiations with the relevant legal representatives have been completed and all settlements were made during the year.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## 10. Provisions (continued)

### v) *Incentive*

The Company's incentive plan (bonuses, profit sharing and ESOP) was established on January 1, 1997 and is based on the achievement of a number of criteria associated with the short and long-term success of the Company. The ESOP enables permanent employees with more than one year of service to own shares in the parent companies of MaruEnergy Trinidad LLC (formerly Mirant Trinidad Investments LLC) and Amoco Trinidad Power Resources Corporation. The plan is administered by independent Trustees. Shares are purchased in the name of the Trustees and allocated to members. Members can only have shares registered in their names five years after they are allocated. The Company recognises a liability and an expense for bonuses, profit-sharing, and employee share ownership based on a formula that takes into consideration the profit attributable to the shareholders after certain adjustments. This is paid annually on the approval by the Board of Directors.

### vi) *VTEP*

On March 12, 2010, the Company offered a "Voluntary Termination of Employment Plan" (VTEP) in an effort to address the changing competitive commercial environment which it now faces. Voluntary separations have started and are expected to continue on a phased basis in 2011.

## 11. Operating Profit

The following items have been charged in arriving at operating profit:

	<u>2010</u>	<u>2009</u>
	\$	\$
Employee benefit expense (Note 15)	177,211,358	127,166,700
Depreciation	25,419,871	51,090,325
Operating lease rentals	<u>2,974,190</u>	<u>3,007,564</u>

## 12. Other Income

Interest	1,145,998	3,308,737
Miscellaneous	<u>6,797,180</u>	<u>187,487</u>
	<u>7,943,178</u>	<u>3,496,224</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Notes to the Financial Statements

December 31, 2010

	<u>2010</u>	<u>2009</u>
	\$	\$
<b>13. Taxation</b>		
Current tax	50,987,412	50,128,401
Deferred tax	8,034,495	3,401,326
Green fund levy	1,026,463	765,934
	<u>60,048,370</u>	<u>54,295,661</u>
The tax on profit differs from the theoretical amount that would arise using the basic rate of tax as follows:		
Profit before taxation	<u>271,318,852</u>	<u>201,911,800</u>
Tax calculated at 25%	67,829,713	50,477,950
Expenses not deductible for tax purposes	3,633,327	12,499,882
Green fund levy	1,026,463	765,934
Prior year over provision	<u>(12,441,133)</u>	<u>(9,448,105)</u>
	<u>60,048,370</u>	<u>54,295,661</u>
<b>14. Cash Generated from Operations</b>		
Profit before taxation	271,318,852	201,911,800
Adjustments to reconcile profit before taxation to net cash from operating activities:		
Interest income	(1,145,998)	(3,221,924)
Depreciation	25,419,871	51,090,325
Loss on disposal	1,807,189	3,381,827
Translation adjustment	6,156,299	1,764,630
Changes in retirement benefit obligation	1,263,602	1,236,411
Changes in retirement benefit asset	<u>33,502,099</u>	<u>(29,471,418)</u>
	338,321,914	226,691,651
Changes in plant materials and supplies	7,093,254	8,564,426
Changes in due by related parties	4,375,854	(31,110,141)
Changes in prepayments and other receivables	34,344,749	(2,807,625)
Changes in trade and other payables and provisions	27,669,315	(19,838)
Changes in due to related parties	<u>11,756</u>	<u>(436,334)</u>
	<u>411,816,842</u>	<u>200,882,139</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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	<u>2010</u>	<u>2009</u>
	\$	\$
<b>15. Employee Benefit Expense</b>		
Wages and salaries	124,158,120	136,993,645
National insurance	3,813,362	3,952,200
Pension income – defined benefit plan (Note 2)	47,359,204	(15,549,853)
Other post retirement benefit (Note 2)	<u>1,880,672</u>	<u>1,770,706</u>
	<u>177,211,358</u>	<u>127,166,698</u>

## 16. Earnings per Share

Earnings per share is calculated by dividing the profit for the year by the weighted average of shares in issue during the year.

	<u>2010</u>	<u>2009</u>
Profit for the year	\$ <u>211,270,482</u>	<u>147,616,139</u>
Number of shares in issue	<u>483,000,000</u>	<u>483,000,000</u>
Earnings per share	<u>43.7¢</u>	<u>30.6¢</u>

## 17. Financial Risk Management

### Overview

The Company has adopted risk management policies and has set appropriate limits and controls to manage and mitigate against financial risk. The Company has exposure to the following risks from its use of financial instruments.

- credit risk
- liquidity risk
- market risk.

#### i) Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due. The Company's exposure to credit risk arises primarily from its placement of short-term fixed rate investments with financial institutions.



# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

## 17. Financial Risk Management (continued)

### i) Credit risk (continued)

The Management Committee, which is a sub-committee of the Board, has established an investment policy, which requires the pre-qualification of financial institutions based on key financial indicators and the Committee's approval of these financial institutions before investments are placed. Further, the policy sets limits for each financial institution.

The maximum exposure to credit risk at year-end was:

	2010	2009
	\$	\$
Due by related parties	97,868,046	102,243,900
Finance lease receivable	1,013,502,305	944,454,272
Other short term deposits	41,796,682	37,040,360
Cash and cash equivalents	305,513,953	104,917,126
	<u>1,458,680,986</u>	<u>1,188,655,658</u>

All trade receivables which arose from related party transactions are due within 30 days and no impairment has been recognised on this balance at year end (2009: NIL).

### ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by maintaining cash and short-term investments with maturities of up to eighteen months to meet its cash obligations as they fall due. Further, the Company also maintains flexibility through an overdraft facility of TT\$5,000,000. Interest would be payable at the TT\$ prime rate plus 100 basis points.

The Company faces no liquidity risk on the redemption of the debentures as these are only redeemed when they are declared subject to certain conditions.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Notes to the Financial Statements

December 31, 2010

### 17. Financial Risk Management (continued)

#### ii) Liquidity risk (continued)

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

	Carrying Amount \$	Contractual cash flows \$	6 months or less \$	6-12 Months \$	1-2 years \$	2-5 years \$	More than 5 years \$
<b>December 31, 2010</b>							
Due to related parties	629,389	629,389	629,389	-	-	-	-
Debenture	265,492,100	265,492,100	-	-	-	-	265,492,100
Unsecured shareholders' loan	617,304,556	1,087,953,668	49,525,162	33,264,832	66,254,181	198,239,938	740,669,555
Provisions	56,766,484	56,766,484	56,766,484	-	-	-	-
Trade and other Payables	220,309,873	220,309,873	220,309,873	-	-	-	-
	<u>1,160,502,402</u>	<u>1,631,151,514</u>	<u>327,230,908</u>	<u>33,264,832</u>	<u>66,254,181</u>	<u>198,239,938</u>	<u>1,006,161,555</u>
<b>December 31, 2009</b>							
Due to related parties	617,633	617,633	617,633	-	-	-	-
Debenture	297,627,500	297,627,500	-	-	-	-	297,627,500
Unsecured shareholders' loan	624,800,214	1,125,950,663	32,562,070	32,941,354	65,480,697	196,430,351	798,536,191
Provisions	33,766,866	33,766,866	1,837,730	-	31,929,136	-	-
Trade and other Payables	103,685,676	103,685,676	103,685,676	-	-	-	-
	<u>1,060,497,889</u>	<u>1,561,648,338</u>	<u>138,703,109</u>	<u>32,941,354</u>	<u>97,409,833</u>	<u>196,430,351</u>	<u>1,096,163,691</u>

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## 17. Financial Risk Management (continued)

### iii) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchanges rates and interest rates will affect the Company's income or its holding of financial instruments. The Company has exposure to market risks on interest rates and currency. The Company's objective is to manage and control these exposures within acceptable parameters.

#### a) Interest rate risk

All of the Company's financial liabilities and majority of its financial assets are at fixed interest terms and as a result minimises any interest rate risk faced by the Company.

#### b) Currency risk

The Company is exposed to currency risk on its revenue, purchases and its financial assets and liabilities that are denominated in currencies other than its functional currency. The Company's functional currency is U.S. Dollars (USD). The other primary currency that these transactions are denominated in is T&T Dollars (TTD). The Company's foreign currency risk exposure is as follows:

	<u>USD</u>
<b>December 31, 2010</b>	
Trade receivables	77,961,224
Cash and cash equivalents	66,851,486
Borrowings	(882,796,656)
Trade payables	<u>(10,684,592)</u>
	<u>(748,668,538)</u>
<b>December 31, 2009</b>	
Trade receivables	71,116,305
Other short-term deposits	20,367,846
Cash and cash equivalents	3,837,091
Borrowings	(922,427,714)
Trade payables	<u>(31,406,319)</u>
	<u>(858,512,791)</u>

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# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

Notes to the Financial Statements

December 31, 2010

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## 17. Financial Risk Management (continued)

### iii) Market Risk (continued)

#### b) Currency risk (continued)

The following exchange rate applied during the year:

	<u>2010</u>	<u>2009</u>
USD	0.1563	0.1579

#### Sensitivity analysis:

A one percent strengthening of the US\$ against the following currencies at year end would increase (decrease) profit by the amounts shown below. This analysis is performed on the same basis for 2009 on the basis that all other variables remain constant.

	<u>2010</u>	<u>2009</u>
USD	<u>1,341,281</u>	<u>639,149</u>

The Company mitigates against this risk by holding an appropriate percentage of its investment portfolio to provide a natural hedge. The Company uses the spot market to adjust any imbalances.

## 18. Capital Management

It is the Board of Directors' policy to maintain a strong capital base so as to sustain future development of the business. The Board of Directors monitors the return on the capital base which the Company defines as capital and reserves.

## 19. Commitments and Contingencies

### Contingent liabilities

Powergen has established General Customs Bonds in favour of the Comptroller of Customs and Excise of approximately \$5,235,000 (2009: \$4,860,000). Included in these bonds are amounts totalling \$1,959,997 which have expired. However until cancellation, the bank still holds a guarantee.

# THE POWER GENERATION COMPANY OF TRINIDAD & TOBAGO LIMITED

## Notes to the Financial Statements

December 31, 2010

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### 19. Commitments and Contingencies (continued)

#### Commitments

Commitments in respect of orders placed for spares at December 31, 2010 amounted to approximately \$13,044,520 (2009: \$27,081,461).

#### Operating Lease Commitments

The Company leases premises and vehicles under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
No later than 1 year	3,288,803	5,368,148
Later than 1 year and no later than 5 years	<u>4,752,475</u>	<u>5,688,110</u>
	<u>8,041,278</u>	<u>11,056,258</u>

### 20. Subsequent Events

On January 12, 2011, Abu Dhabi National Energy Company sold its interest in MaruEnergy Trinidad, LLC (a subsidiary of a joint venture between Marubeni Corporation and Abu Dhabi National Energy Company).