Separate Financial Statements of

TRINIDAD AND TOBAGO ELECTRICITY COMMISSION

December 31, 2010

KPMG
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Auditors' Report to the Members of Trinidad and Tobago Electricity Commission

We have audited the accompanying separate financial statements of Trinidad and Tobago Electricity Commission (the Commission), which comprise the separate statement of financial position as at December 31, 2010, and the separate 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 Separate Financial Statements

Management is responsible for the preparation and fair presentation of these separate 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 separate financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2010 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG.

Chartered Accountants

October 28, 2011
Port of Spain
Trinidad and Tobago

Separate Statement of Financial Position

December 31, 2010

	Notes	2010 $'000	Restated 2009 $'000	Restated 2008 $'000
ASSETS				
Non-current Assets				
Property, plant and equipment	1	6,897,675	6,963,234	5,490,881
Investment in subsidiary	2	679,320	706,160	710,485
Retirement benefit asset	3	544,931	439,492	412,901
		8,121,926	8,108,886	6,614,267
Current Assets				
Inventories	4	368,486	380,390	498,193
Investment in subsidiary	2	10,165	9,449	8,645
Trade and other receivables	5	638,022	689,532	606,768
Cash and cash equivalents	6	663,242	515,275	443,087
		1,679,915	1,594,646	1,556,693
Total Assets		9,801,841	9,703,532	8,170,960
EQUITY AND LIABILITIES				
Equity				
Capital funds	7	1,368,114	1,368,114	1,368,114
Reserves	8	10,365	10,365	10,365
Accumulated deficit		(848,797)	(878,300)	(1,132,510)
		529,682	500,179	245,969
Non-current Liabilities				
Customers' service deposits		57,935	53,277	47,794
Borrowings	10	4,022,513	4,382,671	3,590,655
Retirement benefit obligations	3	152,903	129,301	112,148
Deferred income	9	1,272,982	1,148,438	1,083,990
		5,506,333	5,713,687	4,834,587
Current Liabilities				
Bank advances and demand loan	11	-	40,433	282
Borrowings	10	386,187	362,462	375,395
Trade and other payables	12	3,379,639	3,086,771	2,714,727
		3,765,826	3,489,666	3,090,404
Total Equity and Liabilities		9,801,841	9,703,532	8,170,960

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

On October 28, 2011, the Board of Commissioners authorised these financial statements for issue.

Omar Khan
B.Sc., L.C.C.I.
Chairman

Glenford Cyrille
B.Sc. Engineering, Adv. Dip. Eng
General Manager

Colleen Licorish
FCCA, CA

Separate Statement of Comprehensive Income

For the year ended December 31, 2010

	Notes	2010 $'000	Restated 2009 $'000
Revenue			
Sale of electricity		2,673,935	2,479,225
Expenditure			
Generation		1,296,334	1,144,515
Transmission and distribution		468,723	435,963
Engineering		32,530	29,819
Administrative		186,192	120,681
Depreciation and amortisation	14	502,586	329,499
Net pension (income) cost	3	(33,735)	57,082
		2,452,630	2,117,559
Surplus from operations		221,305	361,666
Interest and finance costs	15	(300,917)	(276,624)
Dividend from subsidiary		24,324	85,843
Other income	17	84,791	83,325
Surplus and comprehensive income for the year		29,503	254,210

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

Separate Statement of Changes in Equity

For the year ended December 31, 2010

	Note	Capital Funds $'000	Reserves $'000	Accumulated Deficit $'000	Total $'000
Year ended December 31, 2010					
Opening balance at January 1, 2010		1,368,114	1,158,803	(522,415)	2,004,502
Reclassification	9	-	(1,148,438)	-	(1,148,438)
Prior period adjustment	26	-	-	(355,885)	(355,885)
Opening balance at January 1, 2010, as restated		1,368,114	10,365	(878,300)	500,179
Total comprehensive income for the year					
Surplus for the year		-	-	29,503	29,503
Closing balance at December 31, 2010		1,368,114	10,365	(848,797)	529,682
Year ended December 31, 2009					
Opening balance at January 1, 2009 as previously stated		1,368,114	1,066,778	(808,099)	1,626,793
Reclassification	9	-	(1,056,413)	-	(1,056,413)
Prior period adjustment	26	-	-	(324,411)	(324,411)
Opening balance at January 1, 2009, as restated		1,368,114	10,365	(1,132,510)	245,969
Total comprehensive income for the year					
Surplus for the year, as restated		-	-	254,210	254,210
Closing balance at December 31, 2009		1,368,114	10,365	(878,300)	500,179

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

Sej arate Statement of Cash Flows

Foı the year ended December 31, 2010

	Note	2010 $'000	Restated 2009 $'000
CA: H FLOWS FROM OPERATING ACTIVITIES			
Net cash provided by operating activities	18	787,084	890,311
CA! H FLOWS FROM INVESTING ACTIVITIES			
Rec :mption of loan to Powergen		10,021	3,866
Det :nture redemption		17,866	-
Div dends received		24,324	85,843
Cap tal contributions		176,381	140,761
Inte est received		1,549	10,338
Inte est capitalised		(42,842)	(41,526)
Acq uisition of property, plant and equipment		(446,023)	(1,092,048)
Net cash used in investing activities		(258,724)	(892,766)
CAS I FLOWS FROM FINANCING ACTIVITIES			
Proc :eds from loans		11,227	397,902
Rep. yment of finance lease		(258,053)	(282,247
Rep. yment of loans		(93,136)	(81,163)
Net cash (used in) provided by financing activities		(339,962)	34,492
Net increase in cash and cash equivalents		188,400	32,037
CAS: I AND CASH EQUIVALENTS AT START OF YEAR		474,842	442,805
CASI I AND CASH EQUIVALENTS AT END OF YEAR		663,242	474,842
Casl and cash equivalents represented by			
Cash and cash equivalents		663,242	515,275
Bank advances and demand loan		-	(40,433)
		663,242	474,842

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

Reporting Entity

Trinidad and Tobago Electricity Commission (the "Commission") is incorporated under the Trinidad and Tobago Electricity Commission Act, Chapter 54:70 (as amended), to provide electricity for industrial, commercial and domestic use throughout the Republic of Trinidad and Tobago. It is governed by a Board whose members are appointed by the President of the Republic of Trinidad and Tobago. The registered office is situated at 63 Frederick Street, Port of Spain, Trinidad and Tobago.

Electricity is purchased from the Commission's subsidiary, The Power Generation Company of Trinidad and Tobago Limited (PowerGen), and from Trinity Power Limited (see Note 24).

These financial statements were authorised for issue by the Members of the Commission on October 28, 2011.

Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these separate financial statements.

(a) *Statement of compliance*

These separate financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board.

Certain comparative amounts have been reclassified to conform with the current year's presentation (Note 26). The Commission also adopted restrospectively IFRIC 4 for its lease arrangement with Trinity Power Limited, this has led to prior period adjustments being made (see Note 26).

These separate financial statements are presented solely for statutory purposes, in accordance with the Trinidad and Tobago Electricity Commission Act, Chapter 54:70 (as amended) Part V Section 26(2).

Consolidated financial statements for the years ended December 31, 2009 and 2010 were prepared on September 29, 2011. These statements were not audited.

(b) *Basis of measurement*

These separate financial statements are prepared on the historical cost basis. No account has been taken of the effects of inflation.

Significant Accounting Policies (continued)

(c) *Functional and presentation currency*

Items included in these separate financial statements of the Commission are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). These separate financial statements are presented in Trinidad and Tobago dollars, which is the Commission's functional currency. All financial information presented in Trinidad and Tobago dollars has been rounded to the nearest thousand.

(d) *Use of estimates and judgements*

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the accounting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those 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 IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in Note 25.

(e) *Financial instruments*

Financial instruments are classified as financial assets or liabilities at fair value through profit or loss, held to maturity, loans and receivables and available for sale. Financial instruments comprise investments and debt securities, trade and other receivables, cash and cash equivalents, customer service deposits, borrowings and trade and other payables.

Investments in debt securities are classified as held to maturity. Trade and other receivables are classified as loans and receivables. Customer service deposits, borrowings and trade and other payables are classified as financial liabilities at fair value through profit or loss.

A financial instrument is recognised if the Commission becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Commission's contractual rights to the cash flows from the financial assets expire or if the Commission transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Commission commits itself to purchase or sell the asset.

Significant Accounting Policies (continued)

(e) ***Financial instruments*** (continued)

Financial liabilities are derecognised if the Commission's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank advances and loans that are repayable on demand and form an integral part of the Commission's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Financial instruments are recognised initially at cost plus any directly attributable transaction costs, except as described below. Subsequent to initial recognition, financial instruments are measured as described below.

(i) Equity investment in subsidiary

Investment in subsidiary is stated at cost.

(ii) Other investments

Other investments are measured at amortised cost using the effective interest method, less any impairment losses.

(iii) Borrowings

Borrowings are measured at amortised cost using the effective interest method.

(f) ***Foreign currency transactions***

Foreign currency transactions are translated into Trinidad and Tobago dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Trinidad and Tobago dollars at the weighted average buying and selling rates, respectively, ruling at that date. Foreign transaction gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary assets and liabilities are measured in terms of historical costs.

(g) ***Property, plant and equipment***

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy (i) *(ii)*).

(g) ***Property, plant and equipment*** (continued)

(i) *Recognition and measurement* (continued)

Interest on borrowings to finance the construction of property, plant and equipment is capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(ii) *Subsequent expenditure*

The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Commission. Major renovations are depreciated over the remaining useful life of the related asset.

Repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

(iii) *Depreciation*

Property, plant and equipment, other than freehold land, are depreciated on the straight-line basis to write-off the cost of each asset to its residual value over its estimated useful life as follows:

Structures	-	3.33%
Equipment	-	2.5% to 25%.

Freehold land is not depreciated.

Leasehold land and leased plant are amortised over the period of the respective leases.

(iv) *Disposal*

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in profit or loss.

(h) ***Inventories***

Inventories held for maintenance and capital improvements are stated at the lower of cost and net realizable value. The cost of inventories is determined on the weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Goods-in-transit are stated at invoiced cost.

Significant Accounting Policies (continued)

(i) ***Impairment***

(i) *Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset, measured at amortised cost, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) *Non-financial assets*

The carrying amounts of the Commission's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) ***Provisions***

The Commission recognises a provision when, as a result of a past event, it has a present legal or constructive obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Commission provides for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Significant Accounting Policies (continued)

(k) ***Employee benefits***

(i) Pension obligation

All the Commission's full-time employees are members of the Trinidad and Tobago Electricity Commission Pension Plan, a defined benefit pension plan, the assets of which are invested via a separate trust administered by an independent Trustee. The pension plan is funded by payments from employees and the Commission, taking account of the recommendations of independent actuaries.

The amount recognised in the separate statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, 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. When the calculation results in a net benefit to the Commission, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available to the Commission in the form of reductions in future contributions to the Plan.

Under this method, the pension cost included in the separate statement of comprehensive income is intended to spread the cost of operating the pension plan 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 obligation is measured as the present value of benefits payable to members using interest rates of the most recent government bonds, and while they do not carry terms to maturity approximating the terms of the related liability, it has been assumed that the proceeds will be re-invested until such time as the liabilities fall due for payment.

(ii) Actuarial gains and losses

Actuarial gains and losses are recognised in profit or loss.

(iii) Past service costs

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.

Significant Accounting Policies (continued)

(k) ***Employee benefits*** (continued)

(iv) *Post retirement obligations*

The Commission provides retirement healthcare and fixed pension allowance benefits to its retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan.

Valuations of these obligations are carried out annually by independent actuaries.

(v) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

(l) ***Leases***

Leases, in terms of which the Commission assumes substantially all the risks and rewards of ownership, are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to similar owned asset.

Under IFRIC 4 (determining whether an agreement contains a lease), the Company is deemed to have an investment in property, plant and equipment from the Power Purchase Agreement (PPA) with PowerGen and Trinity Power Limited (note 24). Upon the adoption of IFRIC 4 in 2007, the Commission recognised the investment in finance lease equal to the present value of the minimum payments under the PPAs that were deemed to relate to payment for the generating assets. The difference between the gross payable and the present value of the payable is recognised as interest expense.

(m) ***Revenue recognition***

The Commission is subject to regulation by the Regulated Industries Commission.

Revenue is recognised on the accrual basis.

Revenue from the sale of electricity is recognised in profit or loss based on consumption recorded by meter readings with due adjustment made for unread consumption at year-end.

Interest income is recognised on a time proportion basis that takes into account the effective yield on the asset.

Dividend income is recognised when the Commission's right to receive payment is established.

Significant Accounting Policies (continued)

(n) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(o) *Deferred income*

Non-refundable contributions paid by customers for the installation of sub-transmission and distribution facilities are recognised in deferred income. The contributions were reflected in reserve fund for prior years but are reclassified as a long term liability and are shown as deferred income and are amortised over the estimated useful lives of the related assets computed at an average rate of 3.5% per annum. The annual amortisation is reflected in profit or loss.

(p) *Taxation*

In accordance with Section 100(2) of the Trinidad and Tobago Electricity Commission Act, Chapter 54:70 (as amended), the Commission is exempt from Corporation Tax. The Commission is liable to Green Fund Levy calculated on gross receipts.

(q) *New standards, and interpretations of and amendments to existing standards that are not yet effective*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2010, and have not been applied in preparing these financial statements. None of these will have an effect on the financial statements of the Commission, except:

IAS 24 (Revised 2009), *Related Party disclosures,* (effective for periods beginning on or after January 1, 2011). The revised standard amends the definition of a related party and modifies certain related party disclosure requirements for government related entities.

Significant Accounting Policies (continued)

(q) ***New standards, and interpretations of and amendments to existing standards that are not yet effective***

Improvements to IFRS 7 *Financial Instruments Disclosures* (effective for periods beginning on or after January 1, 2011). The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate the entity's exposure to risks arising from financial instruments.

Improvements to IAS 1 *Presentation of Financial Statements* (effective for periods beginning on or after January 1, 2011). The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statements of changes in the equity or in the notes.

IFRS 9 *Financial Instruments,* published on November 12, 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

IAS 19 Employee Benefits (amendment) (effective for periods beginning on or after January 1, 2013). The amendment eliminates the option of the corridor approach and also disaggregates changes in net defined benefit liability or asset into service cost and finance cost components in profit or loss and re-measurements of components in the statement of comprehensive income.

The Commission has conducted a preliminary evaluation of the potential effect of these standards. Given the nature of T&TEC operations, the standards are not expected to have a significant impact on the Commission's separate financial statements.

1. **Property, Plant and Equipment**

	Freehold and Leasehold Land	Structures	Equipment	Work in Progress	Total
	$'000	$'000	$'000	$'000	$'000
Year ended December 31, 2010					
Opening net book amount as previously stated	15,136	145,194	3,974,697	1,911,750	6,046,777
Prior period adjustment (Note 26)	-	-	916,457	-	916,457
Opening net book amount as restated	15,136	145,194	4,891,154	1,911,750	6,963,234
Additions	-	-	-	488,865	488,865
Transfers	-	5,212	982,058	(987,270)	-
Depreciation charge	(2,395)	(7,670)	(544,359)	-	(554,424)
Closing net book amount	12,741	142,736	5,328,853	1,413,345	6,897,675
At December 31, 2010					
Cost	22,774	233,231	10,459,070	1,413,345	12,128,420
Accumulated depreciation	(10,033)	(90,495)	(5,130,217)	-	(5,230,745)
Net book amount	12,741	142,736	5,328,853	1,413,345	6,897,675
Year ended December 31, 2009					
Opening net book amount as previously stated	13,970	109,101	2,871,488	1,531,630	4,526,189
Prior period adjustment (Note 26)	-	-	964,692	-	964,692
Opening net book amount, as restated	13,970	109,101	3,836,180	1,531,630	5,490,881
Additions	-	-	744,591	1,133,574	1,878,165
Transfers	1,602	42,661	709,191	(753,454)	-
Depreciation charge	(436)	(6,568)	(398,808)	-	(405,812)
Restated closing net book amount	15,136	145,194	4,891,154	1,911,750	6,963,234
At December 31, 2009					
Cost	22,774	228,019	9,477,012	1,911,750	11,639,555
Accumulated depreciation	(7,638)	(82,825)	(4,585,858)	-	(4,676,321)
Net book amount	15,136	145,194	4,891,154	1,911,750	6,963,234

The net carrying amount of the leased equipment was $2,275,169 (2009 - $2,654,856).

Interest of approximately $42,842 was capitalised in 2010 (2009 - $41,526).

2. **Investment in Subsidiary**

The Commission has made equity and debt investments in its 51% subsidiary, The Power Generation Company of Trinidad and Tobago Limited.

	2010 $'000	2009 $'000
Equity investments		
246,330,000 ordinary shares (51%)	246,330	246,330
Debt investments		
Non-current investments		
Convertible Redeemable Debenture Stock	133,968	150,071
Debt security	299,022	309,759
	432,990	459,830
	679,320	706,160
Current investments		
Debt security	10,165	9,449

Convertible redeemable debenture stock

The convertible redeemable debenture stock is denominated in United States dollars (USD). The balance is repayable by 2024 and attracts interest at the rate of 0.01% per annum. The terms of the debenture provide for repayment in cash or an option of shares. Redemption in cash commenced in 1997, but repayment within the year is dependent on the cash flows of the subsidiary.

Debt security

On December 19, 2005, the Commission signed a shareholder loan agreement with its subsidiary for USD50,490 plus an aggregate amount of interest added to the principal. At December 31, 2007, the amount drawn down under the facility was $314,260 (USD50,031). There were no further drawdowns to date. Additionally, interest accrued and capitalised to March 29, 2007 was $24,365 (USD3,879) at a rate of 7.50% per annum.

The loan is repayable in quarterly instalments of principal and interest over a twenty-year period which commenced on June 30, 2007. The effective rate of interest was 7.50% per annum.

3. Retirement Benefit Asset (Obligations)

The information below was extracted from the independent actuarial valuation report dated March 11, 2011:

	2010 $'000	2009 $'000
Summary of the retirement benefit asset (obligations)		
Retirement Benefit Asset		
Pension Plan	544,931	439,492
Retirement Benefit Obligations		
Fixed pension allowance	(3,417)	(4,486)
Medical benefits	(141,464)	(117,093)
Death benefits	(8,022)	(7,722)
	(152,903)	(129,301)
Summary of the net pension income (cost)		
Retirement Benefit Asset		
Pension Plan	62,187	(36,224)
Retirement Benefit Obligations		
Fixed pension allowance	672	(1,555)
Medical benefits	(28,719)	(20,266)
Death benefits	(405)	963
	33,735	(57,082)

(a) Pension

(i) Reconciliation of opening and closing reporting date entries:

	2010 $'000	2009 $'000
Opening defined benefit asset	439,492	412,901
Net pension income (cost)	62,187	(36,224)
Commission's contributions paid	43,252	62,815
Closing defined benefit asset	544,931	439,492

3. Retirement Benefit Asset (Obligations) (continued)

(a) Pension (continued)

(ii) **The amount recognised in the statement of financial position is as follows:**

	2010 $'000	2009 $'000
Defined benefit obligations	(2,545,752)	(1,670,472)
Fair value of plan assets	3,090,683	3,012,546
	544,931	1,342,074
Un-utilisable assets	-	(902,582)
Net defined benefit asset	544,931	439,492

(a) *Change in plan assets*

	2010 $'000	2009 $'000
Plan assets at start of year	3,012,546	2,895,363
Expected return on plan assets	238,275	289,160
Actuarial loss	(90,591)	(164,261)
Commission's contributions	43,252	62,815
Members' contributions	21,626	31,411
Benefits paid	(133,848)	(101,209)
Expense allowance	(577)	(733)
Plan assets at end of year	3,090,683	3,012,546
Plan assets comprise the following:		
Equity securities	43%	40%
Debt securities	14%	10%
Housing scheme mortgages	3%	3%
Other	40%	47%
	100%	100%

The expected average gross rate of return is 8% per annum (2009: 10%).

	2010 $'000	2009 $'000
3. Retirement Benefit Asset (Obligations) (continued)		
(a) <u>Pension</u> (continued)		
(ii) **The amount recognised in the statement of financial position is as follows:** (continued)		
(b) Change in defined benefit obligation		
Projected defined benefit obligation at start of year	1,670,472	1,496,033
Service cost	53,576	60,660
Interest cost	141,140	126,568
Members' contribution	21,626	31,411
Past service cost	277,107	-
Actuarial loss	516,256	57,742
Benefits paid	(133,848)	(101,209)
Expense allowance	(577)	(733)
Projected defined benefit obligation at end of year	2,545,752	1,670,472
(iii) **The amount recognised in the statement of comprehensive income is as follows:**		
Current service cost	(53,576)	(60,660)
Interest on defined benefit obligations	(141,140)	(126,568)
Expected return on plan assets	238,275	289,160
Past service cost	(277,107)	-
Actuarial net loss	(606,847)	(222,003)
	(840,395)	(120,071)
Adjustment in respect of restrictions on defined benefit asset	902,582	83,847
Net pension income (cost)	62,187	(36,224)
(iv) **Actual return on plan assets**		
Expected return on plan assets	238,275	289,160
Actuarial loss on plan assets	(90,591)	(164,261)
Actual return on plan assets	147,684	124,899

A full valuation of the plan is carried out every three years by independent actuaries. The last full valuation of the plan was done as at December 31, 2009.

	2010 $'000	2009 $'000

3. Retirement Benefit Asset (Obligations) (continued)

(b) Post retirement

(i) *Fixed pension allowance*

The amount recognised in the statement of financial position for fixed pension allowance obligations is as follows:

	2010 $'000	2009 $'000
Opening defined benefit obligations	(4,486)	(3,048)
Net benefit income (cost)	672	(1,555)
Benefits paid by the Commission	397	117
Closing defined benefit obligations	(3,417)	(4,486)

The amount recognised in the statement of comprehensive income for fixed pension allowance obligations is as follows:

	2010 $'000	2009 $'000
Current service cost	(76)	(50)
Interest on defined benefit obligations	(322)	(262)
Amortised net gain (loss)	1,070	(1,243)
Net benefit income (cost)	672	(1,555)

(ii) *Medical benefits*

The amount recognised in the statement of financial position for retirement medical obligations is as follows:

	2010 $'000	2009 $'000
Opening defined benefit obligations	(117,092)	(100,259)
Net benefit cost	(28,719)	(20,266)
Benefits paid by the Commission	4,348	3,433
Closing defined benefit obligations	(141,463)	(117,092)

	2010 $'000	2009 $'000

3. Retirement Benefit Asset (Obligations) (continued)

(b) Post retirement (continued)

(ii) Medical benefits (continued)

The amount recognised in the statement of comprehensive income for retirement medical obligations is as follows:

	2010 $'000	2009 $'000
Current service cost	3,639	3,324
Interest on defined benefit obligations	8,631	8,632
Amortised net loss	16,449	8,310
Net benefit cost	28,719	20,266

(iii) Death benefits

The amount recognised in the statement of financial position for retirement death benefit obligations is as follows:

	2010 $'000	2009 $'000
Opening defined benefit obligations	(7,722)	(8,840)
Net benefit (cost) income	(405)	963
Benefits paid by the Commission	105	155
Closing defined benefit obligations	(8,022)	(7,722)

The amount recognised in profit or loss for retirement death benefit expenses is as follows:

	2010 $'000	2009 $'000
Current service cost	(162)	(207)
Interest on defined benefit obligations	(575)	(767)
Amortised net gain	332	1,937
Net benefit (cost) income	(405)	963

3. **Retirement Benefit Asset (Obligations)** (continued)

(c) **Actuarial assumptions**

The principal actuarial assumptions used for accounting purposes were:

	2010 (Per annum)	2009 (Per annum)
Discount rate	6.25%	7.50%
Expected return on plan assets (net of investment expenses)	8.00%	10.00%
Future salary increases	5.50%	6.50%
Future wage increases	4.50%	5.50%
Medical cost increases	4.50%	5.50%
Underlying rate of pay inflation	4.50%	5.50%
Price inflation	4.25%	5.00%
Non-investment administrative and professional expenses	0.2% of total pensionable salaries and wages.	0.2% of total pensionable salaries and wages.
Value of pension plan assets	Market value per Trustees' accounts at statement of financial position date, with bonds at amortised cost.	Market value per Trustees' accounts at statement of financial position date, with bonds at amortised cost.
Pension increases	Only those already implemented to January 1, 2009.	Only those already implemented to January 1, 2009.

3. **Retirement Benefit Asset (Obligations)** (continued)

(c) **Actuarial Assumptions** (continued)

Assumed healthcare cost trend rates have a significant effect on the amounts recognised in surplus or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	2010		2009	
	1% Point Increase	1% Point Decrease	1% Point Increase	1% Point Decrease
	$'000	$'000	$'000	$'000
Aggregate service and interest costs	2,526	(1,966)	2,534	(1,967)
Year-end defined benefit obligation	24,490	(19,564)	19,287	(15,559)

(d) **Historical Information**

	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
Defined benefit plans:					
Defined benefit obligation	(2,545,752)	(1,670,472)	(1,496,033)	(1,374,997)	(1,250,271)
Fair value of plan assets	3,090,683	3,012,546	2,895,363	2,772,704	2,715,710
Surplus	544,931	1,342,074	1,399,330	1,397,707	1,465,439
Experience (loss) gain on plan liabilities	(516,256)	(57,742)	(13,812)	(33,288)	18,927
Experience loss on plan assets	(90,591)	(164,261)	(124,466)	(192,803)	(377,940)
Post-employment medical benefits:					
Defined benefit obligation	141,463	117,092	100,259	78,140	81,120
Experience (loss) gain on plan liabilities	(16,449)	(8,310)	(15,776)	10,419	5,442
Other benefits:					
Defined benefit obligation	3,417	4,486	3,048	2,863	1,948
Experience gain (loss) on plan liabilities	1,070	(1,243)	-	(810)	-

	2010 $'000	2009 $'000

4. Inventories

	2010 $'000	2009 $'000
Transmission and distribution stock and other supplies	342,288	368,134
Provision for impairment	(3,431)	(3,396)
	338,857	364,738
Fuel	6,127	6,398
Goods-in-transit	23,502	9,254
	368,486	380,390

5. Trade and Other Receivables

	2010 $'000	2009 $'000
Trade receivables		
- Private sector	395,950	306,166
- Government ministries and state-owned agencies	277,478	369,046
	673,428	675,212
Provision for impairment	(82,885)	(53,798)
	590,543	621,414
Sundry receivables and prepayments	49,359	69,953
Provision for impairment	(1,880)	(1,835)
	47,479	68,118
	638,022	689,532

6. Cash and Cash Equivalents

	2010 $'000	2009 $'000
Short-term bank deposits	243,734	167,379
Cash at bank and in hand	419,508	347,896
	663,242	515,275

The effective interest rates on short-term bank deposits were 0.10% to 2.5% per annum (2009: 0.75% to 7.55% per annum) with an average maturity of 90 days.

7. Capital Funds

As a result of a capital restructuring in 1986, advances from the Government of the Republic of Trinidad and Tobago were converted into non-repayable, non-interest bearing capital funds.

The Ministry of Public Utilities advised of arrangements for the capital restructuring of the Commission whereby the indebtedness as at May 31, 1992 of the Central Government, statutory boards, certain state enterprises and other agencies to the Commission were set-off against loans and advances which the Commission received from Government.

8. Reserves

Included in this figure is a capital reserve of $10,365 (2009 - $10,365) which represents debts forgiven by the Canadian International Development Agency.

9. Deferred Income

	2010 $'000	2009 $'000
Capital contribution	1,574,160	1,397,778
Accumulated amortization	(301,178)	(249,340)
	1,272,982	1,148,438

Non-refundable capital contribution which has been reclassified are made by customers towards the cost of installing sub-transmission and distribution facilities. These contributions are amoritised over the estimated useful lives of the related assets computed at an average rate of 3.5% per annum.

10. Borrowings

	2010 $'000	2009 $'000
Trinidad and Tobago Electricity Commission 12.25% Fixed Rate Bonds - 2021	441,181	483,198
Trinidad and Tobago Electricity Commission Floating Rate Bonds - 2011	5,576	16,728

10. Borrowings (continued)

	2010 $'000	2009 $'000
HSBC Bank plc term loan facility	448,246	473,456
Government advances	725,372	725,372
Finance lease liabilities	2,788,325	3,046,379
Total borrowings	4,408,700	4,745,133
Current portion	(386,187)	(362,462)
Non-current portion	4,022,513	4,382,671

Trinidad & Tobago Electricity Commission 12.25% fixed rate bonds – 2021

The Commission raised $500M through an issue of bonds in Trinidad and Tobago dollars. These bonds are guaranteed by the Government of the Republic of Trinidad and Tobago.

The bonds are fixed rate bonds bearing interest at 12.25% per annum. There was a three-year moratorium on principal and interest. Principal and interest payments commenced September 2004 and will end in March 2021.

The bonds are redeemable in 34 equal semi-annual principal instalments of $21,009 payable on September 30 and March 31.

Trinidad and Tobago Electricity Commission floating rate bonds - 2011

The Commission raised $200M through an issue of bonds in Trinidad and Tobago dollars. These bonds are guaranteed by the Government of the Republic of Trinidad and Tobago.

The bonds are redeemable in equal semi-annual principal instalments of $7,128 payable on March 28 and September 28, over a period ranging from 15-20 years and bear interest at prime rates which range from 1.75% to 2.25% per annum below the average rates quoted by three major local banks. The rate of interest in 2010 was 8.19% per annum (2009: 11.09%).

Redemption commenced on September 28, 1996 and will end on March 28, 2011.

10. **Borrowings** (continued)

HSBC Bank plc term loan facility

The Commission entered into a supply contract dated November 9, 2007 with Wartsila Finland Oy to supply, install and put into operation a 64/67 MW generating station at the Commission's plant in Cove Industrial Estate, Tobago. On July 25, 2008, the Commission entered into a finance arrangement with HSBC Bank plc to provide funding for the project. The Available Facility means, for the time being, the aggregate of the Tranche A Aggregate Loan Limit and the Tranche B Aggregate Loan Limit being USD seventy six million (USD76,000) at the date of the agreement, itemised as follows:

i) Tranche A Aggregate Loan Limit being USD sixty four million and six hundred thousand (USD64,600) plus the applicable capitalised interest. Drawdowns commenced on September 26, 2008. The aggregate of principal and interest capitalised for 2010 was USD1,765 (2009: USD61,711).

ii) Tranche B Aggregate Loan Limit being USD eleven million and four hundred thousand (USD11,400) plus the applicable capitalised interest. Drawdowns commenced on August 8, 2008. The aggregate of principal and interest capitalised for 2010 was USD NIL (2009: USD11,500).

The rate of interest applicable in respect of the Tranche A Facility and the Tranche B Facility are 4.13% per annum and 5.925% per annum, respectively. Each interest period is for a duration of six (6) months ending April 15 and October 15 of each year. Interest is capitalised at the end of each interest period. Capitalisation of interest commenced on October 15, 2008.

The repayments of principal and capitalised interest are to be made by twenty four (24) consecutive equal semi-annual instalments commencing on April 15, 2010.

Government advances

This represents advances made to the Commission by the Government of the Republic of Trinidad and Tobago to assist with debt servicing and the Commission's 51% capital injection for the installation of 210 megawatts of power commissioned by PowerGen in 2007.

There were no specific terms of repayment requested by the Government as at the reporting date.

10. Borrowings (continued)

Finance lease liabilities

		2010			2009		
		$'000	$'000	$'000	$'000	$'000	$'000
Principal		Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	
Less than one year	PPA 1994	288,565	38,860	249,705	286,324	55,844	230,479
	PPA 1998	137,287	105,672	31,615	137,287	108,149	29,138
	PPA 2005	101,302	89,861	11,441	100,516	90,077	10,439
Between one and five years	PPA 1994	288,565	20,132	268,433	572,647	58,534	514,113
	PPA 1998	549,149	393,433	155,716	549,149	405,632	143,517
	PPA 2005	405,208	348,519	56,689	402,061	350,338	51,723
More than five years	PPA 1998	1,784,735	728,865	1,055,870	1,922,022	822,337	1,099,685
	PPA 2005	2,127,344	1,168,488	958,856	2,211,333	1,244,048	967,285
		5,682,155	2,893,830	2,788,325	6,181,339	3,134,959	3,046,379

The finance lease liability for the 1994 Power Purchase Agreement (PPA) was for a period of fifteen years and ended on December 23, 2009.

On termination of this finance lease, no new agreement was arrived at and as such, the lease has been automatically renewed for a period of three (3) years and will be reviewed annually. Interest on the new lease was computed at a rate of 7.5% per annum.

The finance lease liability for the 2005 PPA is for a period of 30 years ending in March 2036. Interest is computed at 8.75% per annum.

The finance lease liability for the Trinity Power PPA 1998 is for a period of 30 years ending in March 2028. Interest is computed at 8.50% per annum.

11. Bank Advances and Demand Loan

Certain bank advances are secured by debentures stamped to cover $92M which create a floating charge on the assets of the Commission and bear interest at 7.75% per annum (2009: 9.40% per annum). These were repaid during the year.

12. Trade and Other Payables

	2010 $'000	2009 $'000
Trade payables	3,043,185	2,703,215
Sundry payables and accruals	336,454	383,556
	3,379,639	3,086,771

13. Related Parties

(i) *Identity of related parties*

The Commission has a related party relationship with its subsidiary and with its members and executive officers.

(ii) *Related party transactions with subsidiary*

	2010 $'000	2009 $'000
Interest income		
Interest income from security investments in subsidiary	23,941	24,465
Dividend income		
Dividend income from security investments in subsidiary	24,324	85,843
Payments of finance lease obligations		
Principal and interest	381,807	371,409
Purchase of electricity		
The purchase of electricity is included under generation expenses. The above transactions were carried out on contracted terms and conditions	456,061	434,584

13. Related Parties (continued)

(ii) Related party transactions with subsidiary (continued)

	2010 $'000	2009 $'000
Balances arising from purchase of electricity and services		
Receivable from subsidiary	2,987	1,713
Payable to subsidiary	(75,627)	(79,479)
	(72,640)	(77,766)

(iii) Transactions with key management personnel

In addition to their salaries, the Commission also provides non-cash benefits to executive officers and contributions to a post-employment defined benefit plan on their behalf. The key management personnel compensations are as follows:

	2010 $'000	2009 $'000
Short-term employee benefits	20,384	29,373
Post-employment benefits	8,179	5,013
	28,563	34,386

Total remuneration is included in staff costs (see Note 19).

Commissioners' fees	274	470

14. Depreciation

Transmission and Distribution	115,743	92,065
Administrative	87,574	79,501
Generation	351,107	234,246
	554,424	405,812
Amortisation of capital contributions (Note 8)	(51,838)	(48,736)
Amortisation of deferred income (Note 9)	-	(27,577)
	502,586	329,499

15. Interest and Finance Costs

Included in interest and finance costs are the following:

	2010 $'000	2009 $'000
Loss on foreign exchange transactions	24,736	24,554
Gain on translation of convertible redeemable debenture stock (Note 2)	(1,763)	(345)
	22,973	24,209

16. Operating Leases

The Commission has entered into several operating lease arrangements for the furtherance of its operations.

As at December 31 the commitments are as follows:

	2010 $'000	2009 $'000
Lease payments falling due within 1 year	1,674	1,502
Lease payments due between 1 year to 5 years	4,394	4,011
Lease payments due more than 5 years	1,622	-

During the year ended December 31, 2010 $4,365 (2009: $6,734) was recognised as an expense in the separate statement of comprehensive income in respect of operating leases.

17. Other Income

	2010 $'000	2009 $'000
Rental of transformers, dwellings and poles	33,103	33,494
Sundries	18,047	5,290
Contracting work	3,708	3,675
Meter and secondary connections and disconnections	4,284	5,920
Term deposit income	1,708	10,481
Interest on loan to subsidiary	23,941	24,465
	84,791	83,325

18. Cash Flows from Operating Activities

	2010 $'000	2009 $'000
Net surplus for the year	29,503	254,210
Adjustments for:		
Interest expense	342,122	291,630
Depreciation	502,586	329,499
Dividend income	(24,324)	(85,843)
Foreign exchange difference	3,525	-
Term deposit income	(1,708)	(10,481)
Gain on translation of convertible redeemable debenture stock	(1,763)	(345)
Increase in retirement benefit obligations	23,602	17,153
Increase in retirement benefit asset	(105,439)	(26,591)
	768,104	769,232
Changes in working capital:		
Inventories	11,904	117,803
Trade and other receivables	51,672	(82,619)
Customers' service deposits	4,660	5,480
Trade and other payables	274,468	328,187
	342,704	368,851
Cash generated by operations	1,110,808	1,138,083
Interest paid	(323,724)	(247,772)
Net cash generated by operating activities	787,084	890,311

19. Staff Costs

	2010 $'000	2009 $'000
Salaries and wages	442,437	435,329
Pension costs - defined benefit plan	(62,187)	36,224
Retirement benefits – fixed pension allowance	(672)	1,555
Retirement benefits – medical	28,719	20,266
Retirement benefits – death benefits	405	(963)
Other costs	45,197	37,486
National insurance	20,221	19,157
	474,120	549,054

20. Financial Risk Management

Introduction and overview

The Commission has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk.

This note presents information about the Commission's exposure to each of the above risks as a result of transactions in financial instruments, the Commission's objectives, policies and processes for measuring and managing risks and the Commission's management of capital.

The Board has overall responsibility for the establishment and oversight of the Commission's risk management framework. The Board has established the Audit Committee, which is responsible for developing and monitoring the Commission's risk management policies. This Committee reports regularly to the Board of the Commission on its activities.

The Commission's risk management policies are established to identify and analyse the risk faced by the Commission, to set appropriate risk limits and controls and to monitor risk and adherence to limits. The Commission's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Commission's financial performance. Derivative financial instruments are not presently used to reduce exposure to fluctuations in these risks. These policies and systems are reviewed regularly to reflect changes in the market conditions and the Commission's activities.

The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Management is responsible for risk management. Transactions in financial instruments have resulted in the Commission assuming the financial risks described below:

a. Market risk

(i) Currency risk

The Commission operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management is responsible for managing the net position in each foreign currency.

20. Financial Risk Management (continued)

a. Market risk (continued)

(i) Currency risk (continued)

The Commission's exposure to foreign currency risk was as follows:

	2010			2009		
	Carrying Amount $'000	USD $'000	TTD $'000	Carrying Amount $'000	USD $'000	TTD $'000
Other investments	443,155	443,155	-	469,279	469,279	-
Cash and cash equivalents	663,242	17,929	645,313	515,275	23,299	491,976
Finance lease liabilities	(2,788,325)	(2,788,325)	-	(3,046,379)	(3,046,379)	-
Government advances	(725,372)	-	(725,372)	(725,372)	-	(725,372)
$500M bond	(441,181)	-	(441,181)	(483,198)	-	(483,198)
$200M bond	(5,576)	-	(5,576)	(16,728)	-	(16,728)
HSBC loan	(448,246)	(448,246)	-	(473,456)	(473,456)	-
Bank advances and demand loan	-	-	-	(40,385)	-	(40,385)
Trade and other payables	(3,379,639)	(3,043,185)	(336,454)	(3,086,771)	(2,702,644)	(384,127)
Gross statement of financial position exposure	(6,681,942)	(5,818,672)	(863,270)	(6,887,735)	(5,729,901)	(1,157,834)
Forecast purchases	(200,045)	(179,556)	(20,489)	(190,292)	(160,055)	(30,237)
Gross exposure	(200,045)	(179,556)	(20,489)	(190,292)	(160,055)	(30,237)
Net exposure	(6,881,987)	(5,998,228)	(883,759)	(7,078,027)	(5,889,956)	(1,188,071)

20. Financial Risk Management (continued)

a. Market risk (continued)

(i) Currency risk (continued)

The following significant exchange rates were applied during the year:

	Selling Rate			
	Average Rate		Reporting Date Spot Rate	
	2010	2009	2010	2009
USD	6.4014	6.3365	6.4234	6.3735

	Buying Rate			
	Average Rate		Reporting Date Spot Rate	
	2010	2009	2010	2000
USD	6.3299	6.2866	6.3297	6.3413

Sensitivity Analysis

A 1% strenghtening of TTD against USD at December 31, 2010 would have increased (decreased) profitability by the amount shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

Effect in TTD	Surplus $'000
December 31, 2010	
USD	47,550
December 31, 2009	
USD	46,176

A 1% weakening of the TTD against USD at December 31 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

20. Financial Risk Management (continued)

a. Market risk (continued)

(ii) Interest rate risk

The changes in market interest rates on the Commission's loans cause exposure to interest rate risk. The Commission may be exposed to an interest rate price risk, if interest rates fluctuate significantly from the fixed rate of 12.25% and 8.75% per annum for the Trinidad & Tobago Electricity Commission 12.25% Fixed Rate Bonds – 2021.

The Commission may be exposed to an interest rate cash flow risk on Trinidad & Tobago Electricity Commission Floating Rate Bonds - 2011, which may be affected by future changes in the prime rate of interest.

Included in Note 10 is information on the maturity dates as well as effective interest rates.

At the reporting date, the interest rate profile of the Commission's interest-bearing financial instruments was:

	Carrying Amount 2010 $'000	Carrying Amount 2009 $'000
Fixed rate instruments		
Financial assets		
Cash and cash equivalents	663,242	515,034
Investments	133,968	150,071
Debt security	309,187	319,208
	1,106,397	984,313
Financial liabilities		
Borrowings	(889,427)	(956,654)
Finance lease liabilities	(2,788,325)	(3,046,379)
	(3,677,752)	(4,003,033)
Net exposure	(2,571,355)	(3,018,720)
Variable rate instruments		
Financial liabilities		
Borrowings	(5,576)	(16,728)

20. Financial Risk Management (continued)

a. Market risk (continued)

(ii) Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at the reporting date would have increased or (decreased) surplus by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2009.

	Surplus 1% Interest Rate Increase	**Surplus 1% Interest Rate Decrease**
	$'000	$'000
December 31, 2010		
Borrowings	(56)	56
December 31, 2009		
Borrowings	(167)	167

b. Credit risk

Financial instruments that potentially subject the Commission to credit risk include trade and other receivables and other investments. Provisions have been set up against the receivable balances for potential credit losses. There is no concentration of credit risk in a particular customer, employee or geographic area.

The maximum exposure to credit risk at the reporting date was:

	Carrying Amount 2010	**Carrying Amount** 2009
	$'000	$'000
Trade and other receivables	638,021	689,532
Investment in subsidiary	689,485	715,609
Cash and cash equivalents	663,242	515,275
	1,990,748	1,920,416

20. Financial Risk Management (continued)

b. Credit risk (continued)

The maximum exposure to credit risk for trade receivables at the reporting date by customer type as described in Note 5:

	Carrying Amount	
	2010	2009
	$'000	$'000
Customer type		
Private sector	395,950	306,166
Government ministries and state-owned agencies	277,478	369,046
	673,428	675,212

The aging of trade receivables at the reporting date was:

	Gross	Impaired
	$'000	$'000
2010		
0-60 days	492,785	-
61-120 days	39,085	-
Over 120 days	141,558	82,885
	673,428	82,885
2009		
0-60 days	501,464	-
61-120 days	67,887	-
Over 120 days	105,861	53,798
	675,212	53,798

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

	2010	2009
	$'000	$'000
Balance at January 1	53,798	51,346
Impairment loss recognised	29,087	2,452
Balance at December 31	82,885	53,798

20. Financial Risk Management (continued)

c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Commission aims to maintain flexibility in funding by keeping committed credit lines available.

	Carrying Amount $'000	Contractual cash flows $'000	Less than 1 year $'000	1-5 years $'000	More than 5 years $'000
December 31, 2010					
Customer deposits	57,935	57,935	-	-	57,935
Government advance	725,372	725,372	-	725,372	-
$500M bond	441,181	724,393	93,369	390,056	240,968
$200M bond	5,576	5,671	5,671	-	-
HSBC loan	448,246	559,492	59,982	272,608	226,902
Finance leases	2,788,325	3,210,984	389,867	693,773	2,127,344
Trade and other payables	3,379,639	3,379,639	3,379,639	-	-
Total	7,846,274	8,663,486	3,928,528	2,081,809	2,653,149
December 31, 2009					
Customer deposits	53,275	53,275	-	-	53,275
Government advance	725,372	725,372	-	725,372	-
$500M bond	483,198	822,978	98,585	415,681	308,712
$200M bond	16,728	18,148	12,414	5,734	-
HSBC loan	473,456	621,135	56,131	284,411	280,593
Finance leases	3,046,379	3,572,880	386,839	974,708	2,211,333
Bank advances and demand loan	40,433	40,433	40,433	-	-
Trade and other payables	3,086,771	3,086,771	3,086,771	-	-
Total	7,925,612	8,940,992	3,681,173	2,405,906	2,853,913

20. Financial Risk Management (continued)

d. Capital management

The Trinidad and Tobago Electricity Commission Act Chapter 54:70, section 53(1-3) specifies the allowable expenditure to be covered by the tariffs of prices to be charged to consumers of the Commission. These tariffs are set and approved by the Regulated Industries Commission (RIC).

These tariffs set by the RIC should allow for the necessary capital requirements of the Commission to be met; but where these tariffs have not provided the funding necessary, the Commission has obtained debt financing and advances from the Government of the Republic of Trinidad and Tobago (GORTT). Some of the latter has been converted into equity in the Commission by the GORTT.

There is no stated policy by the GORTT that advances already provided or that may be provided in the future, will be converted to equity in the Commission. There were no changes to the Commission's approach to capital management during the year.

21. Financial Instruments

A financial instrument is any contract that gives rise to either a financial asset or a financial liability or equity instrument of another enterprise. The Commission's financial instruments are initially recorded at cost. For the purpose of these separate financial statements, financial assets have been determined to include investment in subsidiary, other investments, trade and other receivables and cash and cash equivalents. Financial liabilities have been determined to include customer service deposits, borrowings, bank advances and demand loan and trade and other payables.

Fair value

As at period end, the recorded values of the short-term financial instruments are approximate to their fair values, due to their short-term nature. Cash and cash equivalents are kept at solid financial institutions. These financial instruments can generally be negotiated at a liquid market, can be redeemed at sight and have minimum risk.

The fair values of the Commission's floating rate long-term loans approximate their carrying amounts, given the floating rate nature of the loans at prevailing market rates. The fair values of the fixed rate long-term loans are based on estimated future cash flows discounted using the current market rates of debt of the same remaining maturities and credit risk.

22. Financial Instruments (continued)

Fair value hierarchy

The Commission's financial instruments are stated in the statement of financial position at their fair values.

The different levels of hierarchy have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Commission's financial instruments are valued utilizing Level 3 in the hierarchy. There were no movements in valuation of its financial instruments between levels during the financial year 2010.

22. Contingent Liabilities

	2010 $'000	2009 $'000
i) **Customs Bonds**		
Outstanding guarantees and bonds lodged with the bank in respect of purchases	6,777	6,777

ii) **Union Agreements**

The Industrial Agreements affecting hourly and monthly-rated employees as well as senior staff expired on December 31, 2008.

Negotiations for the new three-year agreement for the period 2009 to 2011 have commenced.

iii) **Litigation**

There are several pending legal actions and other claims in which the Commission is involved. It is the opinion of the Commissioners, based on the information provided by the Commission's attorneys-at-law, that liability, if any, arising out of these claims is not likely to be material. Accordingly, no provision has been made in these separate financial statements in respect of these matters.

23. Capital Commitments

As at December 31, 2010, capital commitments amounting to approximately $26,031 (2009: $21,197) existed with respect to contracts in progress and contracts approved but not yet commenced.

24. Purchase Commitments

The Commission is committed to purchase electricity from PowerGen and Trinity Power Limited under three Power Purchase Agreements (PPAs). In accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease*, the PPAs contained leases. In addition, in accordance with IAS 17 *Leases*, it was determined that the leases are finance leases. Information regarding the PPAs is given below.

PowerGen

(i) *PPA 1994*

This PPA extends for an initial period of 15 years from December 23, 1994. Under the PPA, the Commission is to provide fuel necessary for generation to PowerGen at no charge.

The Commission is also committed to purchase and pay for capacity up to a contracted minimum of 819 megawatts per month as well as all energy delivered by PowerGen; less any penalties incurred due to a shortfall in meeting contracted quantities. Payments for each month are determined in accordance with agreed formulae.

This PPA expired as at December 23, 2009. As at the date of approval of these financial statements by the Commissioners, negotiations for a new PPA were still in progress, as such the PPA has automatically been extended for a period of three years as per the PPA 1994 Clause 2.2. The contractual arrangements are subject to annual reviews.

(ii) *PPA 2005*

On December 6, 2005, the Commission entered into an agreement to purchase and pay for capacity up to the lesser of the Contracted Capacity (208 megawatts per month) and the Maximum Dependable Net Capacity, as well as all energy delivered by PowerGen, less any penalties incurred due to a shortfall in meeting contracted quantities. Payments for each month are determined in accordance with agreed formulae.

24. Purchase Commitments (continued)

Trinidad Generators Unlimited (TGU)

The Commission entered into an agreement on September 15, 2009 for the supply of 225 MW at 93% availability from TGU. It is anticipated that supply will commence during the third quarter of 2011.

Trinity Power Limited

In February 1998, a contract was entered into with Trinity Power Limited for the purchase of electricity from September 9, 1999 under a PPA for an initial period of 30 years. Under the PPA, the Commission is to provide fuel necessary for generation to Trinity Power Limited at no charge.

The Commission is also committed to purchase and pay for capacity up to a contracted minimum of 210 megawatts per month, at 90% availability, as well as all energy delivered by Trinity Power Limited. Payments for each month are determined in accordance with agreed formulae.

25. Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from these estimates.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following accounting policies and notes:

Accounting Policy (e)	Non-consolidation of the investment in the subsidiary
Accounting Policy (i)	Impairment of assets
Accounting Policy (j)	Provisions
Accounting Policy (l) and Note 3	Pension benefit assumptions
Accounting Policy (m), Note 19 and Note 10	Accounting for an arrangement containing a finance lease
Accounting Policy (m) and Note 24	Lease classification.

26. Prior Period Adjustments

During the year, management determined that the lease agreement with Trinity Power Limited should be treated in the same manner as other existing purchasing power agreements by adopting IFRIC 4 *Determining whether an arrangement contains a Lease*. Also, management undertook to change its accounting policy relating to deposits from customers for capital projects.

The correction of the above was applied retrospectively by restating the balance of finance lease liabilities, property, plant and equipment, reserves and deferred income.

The following table summarises the adjustments made upon the adoption of IFRIC 4 and the change in accounting policy:

	2010	2009			
	Accumulated Deficit	Property, plant and equipment	Lease Payable	Expenditure	Accumulated Deficit
	$'000	$'000	$'000	$'000	$'000
(a) Leased plants (debit) credit	(916,455)	964,692	-	48,235	964,692
(b) Finance lease credit (debit)	1,272,340	-	(1,289,103)	(16,763)	(1,289,103)
	355,885	964,692	(1,289,103)	31,472	(324,411)

(a) Leased plants

As described in Note 24, the Commission is obligated under three PPAs to purchase and pay for the capacity of three electricity generation plant. In accordance with IAS 17 *Leases*, the Commission has determined that the carrying value of the Trinity Power Limited plant at the inception of the lease as the present value of the minimum lease payments required under Trinity Power Limited PPA.

(b) Finance lease

The assessment of Trinity Power Limited PPA has revealed the existence of a lease. The lease is a finance lease according to IFRIC 4, consequently the lease liability has been recognised.

(c) Deferred income

In previous years, the Commission accounted for deposits from customers for capital project through reserves. During the year this policy was changed to account for these deposits in deferred income.