

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2004**

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
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**For the Year Ended December 31, 2004**

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**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Corporate Information**  
**For the Year Ended December 31, 2004**

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**REGISTERED OFFICE**

**Kingstown**  
**St. Vincent and the Grenadines**

**DIRECTORS**

**Mr. Douglas Cole - Chairman**  
**Mr. Theodore Browne - LLB, LLM**  
**Mr. Maurice Edwards - BSc., CGA, O.B.E.**  
**Mr. Kirk Da Silva - MCMI, AFA**  
**Mr. Bradley Francis - BSc. Eng.**  
**Mr. Simon Glynn**  
**Mr. Leon Snagg**

**COMPANY SECRETARY**

**Mrs. Juliette Hinds-Wilson**

**CHIEF EXECUTIVE OFFICER**

**Mr. Thornley Myers**

**SOLICITORS**

**Hughes & Cummings**

**BANKERS**

**The Bank of Nova Scotia**  
**FirstCaribbean International Bank (Barbados) Limited**  
**National Commercial Bank (SVG) Limited**  
**RBTT Bank Caribbean Limited**

**AUDITORS**

**Pannell Kerr Forster**  
**Chartered Accountants**

## **AUDITORS' REPORT**

To the Shareholders of  
St. Vincent Electricity Services Limited

We have audited the accompanying balance sheet of St. Vincent Electricity Services Limited as of December 31, 2004, and the related statements of changes in equity, operations and cash flows for the year then ended. These financial statements are the responsibility of the company's management. 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 plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of December 31, 2004, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

July 28, 2005

## ST. VINCENT ELECTRICITY SERVICES LIMITED

## Balance Sheet

As of December 31, 2004

(Expressed in Eastern Caribbean Currency)

	Notes	2004 \$	2003 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		16,006,742	19,807,363
Debtors and prepayments		21,678,306	18,436,293
Income tax refundable		4,103,043	1,716,724
Inventories	5	12,365,273	11,345,654
<b>Total Current Assets</b>		<b>54,153,364</b>	51,306,034
<b>Long-Term Investments</b>	6	<b>200,000</b>	200,000
<b>Property, Plant and Equipment</b>	7	<b>171,357,206</b>	154,576,274
<b>Total Assets</b>		<b>225,710,570</b>	206,082,308
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Bank overdraft		2,380,448	3,065,796
Accounts payable and accrued liabilities		23,348,692	15,370,959
Current portion of long-term debts	8	3,834,495	5,174,779
Dividend payable		500,000	0
<b>Total Current Liabilities</b>		<b>30,063,635</b>	23,611,534
<b>Consumers' Contributions to Line Extensions</b>	9	<b>8,013,643</b>	8,111,463
<b>Long-Term Debts</b>	8	<b>30,044,549</b>	33,527,740
<b>Deferred Grant</b>	10	<b>270,612</b>	287,884
<b>Consumers' Deposits</b>	11	<b>6,768,914</b>	6,391,163
<b>Deferred Tax Liability</b>	12	<b>18,792,958</b>	15,128,930
<b>Total Liabilities</b>		<b>93,954,311</b>	87,058,714
<b>Shareholders' Equity</b>			
Stated capital	13	29,045,910	29,045,910
Revaluation surplus	7	45,189,316	39,327,725
Self insurance fund	14	3,000,000	2,000,000
Retained earnings		54,521,033	48,649,959
<b>Total Shareholders' Equity</b>		<b>131,756,259</b>	119,023,594
<b>Total Liabilities and Shareholders' Equity</b>		<b>225,710,570</b>	206,082,308

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

APPROVED ON BEHALF OF THE BOARD: -

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Director

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Statement of Changes in Equity**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

	Stated Capital \$	Self Insurance Fund \$	Revaluation Surplus \$	Retained Earnings \$	Total \$
<b>Balance as of December 31, 2002</b>	29,045,910	1,000,000	39,501,977	45,300,681	114,848,568
Revaluation surplus realized	0	0	(4,718,861)	4,718,861	0
Increase in revaluation surplus	0	0	4,544,609	0	4,544,609
Self insurance fund	0	1,000,000	0	(1,000,000)	0
Interim dividend	0	0	0	(1,400,000)	(1,400,000)
Net earnings for the year	0	0	0	1,030,417	1,030,417
<b>Balance as of December 31, 2003</b>	29,045,910	2,000,000	39,327,725	48,649,959	119,023,594
Revaluation surplus realized	0	0	(5,343,779)	5,343,779	0
Increase in revaluation surplus	0	0	11,205,370	0	11,205,370
Self insurance fund	0	1,000,000	0	(1,000,000)	0
Interim dividend	0	0	0	(500,000)	(500,000)
Net earnings for the year	0	0	0	2,027,295	2,027,295
<b>Balance as of December 31, 2004</b>	<u>29,045,910</u>	<u>3,000,000</u>	<u>45,189,316</u>	<u>54,521,033</u>	<u>131,756,259</u>

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

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Statement of Operations**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

	Notes	2004 \$	2003 \$
<b>Revenues</b>			
Electricity		56,935,771	50,822,088
Fuel surcharge		20,693,324	16,022,960
Other income		1,230,567	1,778,661
		<b>78,859,662</b>	<b>68,623,709</b>
<b>Operational Costs</b>			
Diesel generation		18,603,034	15,279,986
Hydro generation		4,876,725	5,281,842
Transmission & distribution		11,170,152	11,054,705
Fuel cost covered by surcharge		20,603,189	15,957,798
Administrative expenses		15,337,321	14,418,113
Foreign exchange loss		221,568	85,894
		<b>70,811,989</b>	<b>62,078,338</b>
<b>Earnings before Finance Charges</b>		<b>8,047,673</b>	<b>6,545,371</b>
<b>Finance Charges</b>		<b>2,311,282</b>	<b>2,850,303</b>
<b>Earnings before Income Tax</b>		<b>5,736,391</b>	<b>3,695,068</b>
<b>Income Tax Expense</b>	15	<b>3,709,096</b>	<b>2,664,651</b>
<b>Net Earnings for the Year</b>		<b>2,027,295</b>	<b>1,030,417</b>
<b>Earnings per Share</b>	16	<b>0.35</b>	<b>0.18</b>
<b>The following expense is included in the foregoing:-</b>			
Depreciation		<b>18,588,704</b>	<b>17,102,150</b>

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

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

	2004	2003
	\$	\$
<b>Cash Flows from Operating Activities</b>		
Earnings before income tax	5,736,391	3,695,068
<b>Adjustments for</b>		
Depreciation	18,588,704	17,102,150
Amortisation of consumers' contribution to line extensions	(1,018,049)	(906,458)
Gain on disposal of property, plant and equipment	(43,164)	(31,879)
Interest	2,311,282	2,850,303
Foreign exchange loss	204,395	380,956
Amortisation of deferred grant	(17,272)	(18,376)
Interest income	(763,808)	(1,066,715)
<b>Operating Profit before Working Capital Changes</b>	<b>24,998,479</b>	<b>22,005,049</b>
Increase in inventories	(1,019,619)	(1,614,604)
(Increase) decrease in debtors and prepayments	(3,299,760)	453,362
Increase (decrease) in creditors, accrued liabilities and provisions	7,449,558	(3,759,313)
<b>Cash Generated from Operations</b>	<b>28,128,658</b>	<b>17,084,494</b>
Interest paid	(1,580,120)	(2,486,374)
Income tax paid	(2,431,387)	(5,993,888)
Interest received	821,555	1,450,075
<b>Net Cash Generated from Operating Activities</b>	<b>24,938,706</b>	<b>10,054,307</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from customer deposits	174,764	141,345
Repayment of long-term debts	(5,027,870)	(6,538,558)
Dividends paid	0	(2,400,000)
Net proceeds from consumers' contributions	920,229	932,804
<b>Net Cash Used in Financing Activities</b>	<b>(3,932,877)</b>	<b>(7,864,409)</b>
<b>Cash Flows from Investing Activities</b>		
Redemption of securities	0	5,660,915
Additions to property, plant and equipment	(24,164,678)	(12,134,926)
Proceeds from disposal of property, plant and equipment	43,576	61,857
<b>Net Cash Used in Investing Activities</b>	<b>(24,121,102)</b>	<b>(6,412,154)</b>
<b>Net Decrease in Cash</b>	<b>(3,115,273)</b>	<b>(4,222,256)</b>
<b>Cash - Beginning of Year</b>	<b>16,741,567</b>	<b>20,963,823</b>
<b>Cash - End of Year</b>	<b>13,626,294</b>	<b>16,741,567</b>
<b>Represented by:-</b>		
Cash	16,006,742	19,807,363
Bank overdraft	(2,380,448)	(3,065,796)
	<b>13,626,294</b>	<b>16,741,567</b>

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



**ST. VINCENT ELECTRICITY SERVICES LIMITED****Notes to the Financial Statements****For the Year Ended December 31, 2004****(Expressed in Eastern Caribbean Currency)**

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**1. Incorporation**

The company was incorporated on November 27, 1961 and continued as company 64 of 1961 under Section 365 of the Companies' Act of 1994, under the laws of St. Vincent and the Grenadines.

**2. Principal Activity**

The company is engaged in the generation and sale of electricity throughout St. Vincent and the Grenadines under the Electricity Supply Act of 1973.

**3. Date of Authorisation of Issue**

These financial statements were authorised for issue by the Board of Directors on July 28, 2005.

**4. Principal Accounting Policies**

These financial statements are stated in East Caribbean dollars and have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make 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 period. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the company: -

**4.1. Property, Plant and Equipment**

- a.** Property, plant and equipment, except land which is carried at market value, are stated at replacement cost new as of December 31, 2004. Reproduction cost new, and observed depreciation is determined on the basis of an independent appraisal of the assets made by Monenco Agra Inc., as of January 1, 1993. The value of assets at that date, together with the cost of subsequent additions, less retirements was re-appraised to December 31, 2004 using indices supplied by Monenco Agra Inc. The method of appraisal was to determine reproduction cost new less observed depreciation at the appraisal date.

The net proceeds of assets disposed of or retired during the year less the net book value of such assets are taken to current operations.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

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**4. Principal Accounting Policies (Cont'd)**

**4.1. Property, Plant and Equipment (Cont'd)**

**b.** Revaluation surplus realised through the use of the revalued assets is systematically transferred to retained earnings. Revaluation surplus realised, which represents the excess of depreciation on reproduction cost over original cost, during the year amounted to \$5,343,779 (2003: \$4,718,861). Depreciation on the original cost basis for 2004 is \$13,244,925 (2003: \$12,383,289).

**c.** Depreciation on property, plant and equipment is provided on a straight line basis to write-off the value of the assets over their estimated useful lives at the following annual rates:-

Freehold buildings & construction	-	2.5 - 5%
Plant & machinery	-	5 - 20%
Transmission & distribution	-	5 - 6%
Motor vehicles	-	25%
Furniture & equipment	-	12.5%

**d.** Consumers are required to pay for any connection in excess of 100 feet from the company's low-tension lines. Domestic consumers are required to pay for any connection which requires the utilisation of more than one pole from the company's low-tension lines. Contributions received in excess of cost incurred by the company, is included in results as administration and overhead recovery. The balance on the contribution account is amortised over the estimated useful lives of the assets on the straight-line basis by way of a reduction of the depreciation charge under transmission and distribution costs.

**4.2. Inventories**

Inventories are valued at the lower of cost and net realisable value. In general, cost is determined on an average basis. In determining net realisable value, due allowance is made for the cost of realising slow-moving and obsolete inventories.

**4.3. Provision for Doubtful Debts**

The provision for doubtful debts is determined by reference to specific disconnected consumers' accounts. Customers whose service have been disconnected during the current financial year and those which have been disconnected in excess of one year are subject to a provision of 50% and 100%, respectively on the outstanding balance, less deposits thereon.

**4.4. Unbilled Sales**

Revenue from sales of electricity is based on meter readings, which are done on a rotational basis each month. The provision for unbilled sales is calculated on the basis of apportionment of revenue derived from the meter reading period under review.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

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**4. Principal Accounting Policies (Cont'd)**

**4.5. Translation of Foreign Currencies**

Assets and liabilities denominated in foreign currencies are translated into Eastern Caribbean dollars at the rates of exchange prevailing at the balance sheet date. Transactions involving foreign currencies are converted at the rates of exchange prevailing on the dates the transactions occur. Exchange gains or losses arising on conversion or settlement of foreign currency denominated amounts are included in operations for the year.

**4.6. Taxation**

Income tax expense is determined on the basis of tax effect accounting using the liability method. Accordingly, temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes are accounted for as deferred tax at the current tax rate. Deferred tax assets relating to unutilised tax losses are recognised only when it is probable that future taxable profits will be available against which losses can be applied.

**4.7. Deferred Grant Income**

Grants related to the acquisition of property, plant and equipment are deferred and credited to income on a basis consistent with the amortisation of the cost of asset to which they relate.

**4.8. Earnings per Share**

Earnings per share is calculated using the weighted average number of shares outstanding. Fully diluted earnings per share reflect the dilutive effect of the option to convert the European Investment Bank loan balance to shares.

**4.9. Pension Plan**

The company's contributions to the pension plans are charged to the statement of operations in the year to which they relate.

**4.10. Impairment of Assets**

The company periodically evaluates the carrying value of its assets for potential impairment. The company considers projected future operating results, cash flows, trends and other circumstances in making such estimates and evaluation. Generally, any impairment in the value of an asset is charged to current operations. In the case of revalued assets, an impairment in value is charged to revaluation surplus to the extent that previous increases credited thereto were not utilised and amounts in excess of previous credits for the same asset are charged to operations.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

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**4. Principal Accounting Policies (Cont'd)**

**4.11. Investment Securities**

Investment securities are classified as either held-for-trading, or held-to-maturity, or available-for-sale, based on management's intention with respect thereto.

**i. Securities held-for-trading**

Securities held for trading are securities which are either acquired for generating a profit from short-term fluctuations in price or are securities included in a portfolio in which a pattern of short-term profit taking exists. Securities held for trading are initially recognised at cost and subsequently remeasured at fair value based on quoted market prices where available or discounted cash flow models. All related gains and losses realised and unrealised on trading securities are reported in net investment trading income.

Interest earned whilst trading securities is reported as interest income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention are recognised at settlement date.

**ii. Securities held-to-maturity and available-for-sale**

The company classifies its other investment securities into the following two categories: held-to-maturity and available-for-sale. Investment securities with fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently remeasured at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Fair values for unquoted equity instruments are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Unrealised gains and losses from changes in the fair value of securities classified as available-for-sale are recognised in equity. When the securities are disposed of the related accumulated fair value adjustments are included in net investment trading income. When securities become impaired the related accumulated fair value adjustments previously recognised in equity are included in the profit and loss account as impairment expense on investment securities.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

**4. Principal Accounting Policies (Cont'd)**

**4.11. Investment Securities (Cont'd)**

**ii. Securities held-to-maturity and available-for-sale (Cont'd)**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Interest earned whilst holding investment securities is reported as interest income.

All purchases and sales of investment securities are recognised at settlement date.

**4.12. Financial Instruments**

The company recognises a financial asset or financial liability on its balance sheet using the settlement date method. Accordingly, a financial asset or a financial liability is recognised on the date of receipt or delivery to or by the company respectively. Any gains or losses arising from price, interest rate, or currency changes between the trade date, the date the company commits to the purchase or sale of an asset, and balance sheet date are recorded in current operations.

**5. Inventories**

	2004	2003
	\$	\$
Spares	<b>13,312,824</b>	11,769,080
Fuel and lubricants	<b>641,849</b>	256,925
Stationery	<b>102,211</b>	155,892
Goods in transit	<b>195,143</b>	250,511
	<b>14,252,027</b>	12,432,408
Less: provision for obsolescence	<b>(1,886,754)</b>	(1,086,754)
	<b>12,365,273</b>	11,345,654

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

**6. Long-Term Investments**

	<b>2004</b>	2003
	<b>\$</b>	\$
20,000 Eastern Caribbean Security Exchange Limited Class B Shares	<b>200,000</b>	200,000

**7. Property, Plant and Equipment**

	Freehold Property \$	Generation \$	Transmission & Distribution \$	Other \$	Total \$
<b>Operational Assets - Valuation</b>					
As of December 31, 2003	92,577,768	110,551,282	123,277,416	15,266,052	341,672,518
Transfers	6,589,871	16,727,801	5,596,410	1,097,467	30,011,549
Disposals	0	0	0	(287,334)	(287,334)
Revaluation	12,647,739	(3,840,656)	10,418,532	628,384	19,853,999
As of December 31, 2004	<b>111,815,378</b>	<b>123,438,427</b>	<b>139,292,358</b>	<b>16,704,569</b>	<b>391,250,732</b>
<b>Accumulated Depreciation</b>					
As of December 31, 2003	46,562,176	71,493,692	71,992,009	11,282,295	201,330,172
Charge for the year	2,201,621	7,048,502	7,721,941	1,616,640	18,588,704
Disposals and transfers	0	0	0	(286,922)	(286,922)
Revaluation	7,115,431	(4,114,246)	4,875,569	771,875	8,648,629
As of December 31, 2004	<b>55,879,228</b>	<b>74,427,948</b>	<b>84,589,519</b>	<b>13,383,888</b>	<b>228,280,583</b>
<b>Net Book Value</b>					
As of December 31, 2003	<b>46,015,592</b>	<b>39,057,590</b>	<b>51,285,407</b>	<b>3,983,757</b>	<b>140,342,346</b>
As of December 31, 2004	<b>55,936,150</b>	<b>49,010,479</b>	<b>54,702,839</b>	<b>3,320,681</b>	<b>162,970,149</b>
<b>Non-Operational Assets</b>					
As of December 31, 2003	1,282,481	11,265,940	1,040,458	645,049	14,233,928
Additions	5,352,490	9,750,799	8,023,649	1,037,740	24,164,678
Transfers	(6,589,871)	(16,727,801)	(5,596,410)	(1,097,467)	(30,011,549)
As of December 31, 2004	<b>45,100</b>	<b>4,288,938</b>	<b>3,467,697</b>	<b>585,322</b>	<b>8,387,057</b>
<b>Net Book Value</b>					
As of December 31, 2003	<b>47,298,073</b>	<b>50,323,530</b>	<b>52,325,865</b>	<b>4,628,806</b>	<b>154,576,274</b>
As of December 31, 2004	<b>55,981,250</b>	<b>53,299,417</b>	<b>58,170,536</b>	<b>3,906,003</b>	<b>171,357,206</b>

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

**8. Long-Term Debts**

	Notes	2004 \$	2003 \$
<b>Caribbean Development Bank Loans</b>			
<b>First Power Project:-</b>			
International Development Association	8(a)(i)	<b>2,061,599</b>	1,856,201
International Development Association	8(a)(ii)	<b>1,364,455</b>	1,419,033
<b>Second Power Project:-</b>			
Special Fund Resources	8(b)	<b>984,018</b>	1,781,783
<b>Government of St. Vincent and the Grenadines</b>			
International Development Association	8(c)(i)	<b>0</b>	960,600
United States Agency for International Development	8(c)(ii)	<b>14,496,538</b>	14,986,041
European Investment Bank Loan I	8(c)(iii)	<b>0</b>	852,098
European Investment Bank Loan II	8(c)(iv)	<b>2,407,016</b>	2,850,595
European Investment Bank Loan III	8(c)(v)	<b>7,323,417</b>	8,026,432
<b>Agence Française de Development Group</b>			
<b>(Formerly Caisse Française de Development)</b>	8(d)	<b>1,330,095</b>	1,534,742
<b>Kuwait Fund for Arab Economic Development</b>	8(e)	<b>3,911,906</b>	4,434,994
Total Long-Term Debts		<b>33,879,044</b>	38,702,519
Less: Current Portion		<b>(3,834,495)</b>	(5,174,779)
		<b>30,044,549</b>	33,527,740

**a. Caribbean Development Bank (CDB) First Power Project**

- (i) 10.5% loan obtained through the International Development Association-Special Action Credit (IDA/SAC) for an equivalent of US\$593,890.

The loan balance comprises of GBP 110,760, DKK 112,320 and EUR 398,610. The loan is repayable in 80 semi-annual instalments of GBP 2,130, DKK 2,160 and EUR 7,666 and is due October 15, 2029.

- (ii) 10.5% loan obtained through the International Development Association (IDA).

This loan is for US\$664,209 and is repayable in 80 semi-annual instalments, of US\$10,075, plus interest, due July 15, 2029.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
**For the Year Ended December 31, 2004**  
**(Expressed in Eastern Caribbean Currency)**

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**8. Long-Term Debts (Cont'd)**

**a. Caribbean Development Bank (CDB) First Power Project (Cont'd)**

The above loans were made by the CDB to the Government of St Vincent and the Grenadines for on-lending by the Government to the company. The loan agreements provide that:-

- (i) all payments of principal and interest shall be made by the company to CDB and such payments shall be deemed payments by the company to the Government.
- (ii) the loans are to be secured by execution of a debenture giving a first floating charge over the undertaking and its uncalled capital.

**b. Caribbean Development Bank (CDB) Second Power Project**

Loan obtained through the Special Funds Resources of the Bank. The fixed interest rate of 4% is combined with a spread to vary with the interest on the Ordinary Capital Resources (OCR) of the bank. At December 31, 2004 the rate was 6.75%.

This loan is for US\$4,418,283, and is repayable in 60 equal quarterly installments of US\$73,638, plus interest, due March 31, 2006. This loan was made by the CDB to the Government of St Vincent and the Grenadines for on-lending by the Government to the Company. The loan agreement provides that:-

- (i) all payments of principal and interest shall be made by the company to CDB and such payments shall be deemed payments by the company to the Government.
- (ii) the loan is to be secured by execution of a debenture giving a first floating charge over the undertaking and its uncalled capital.

**c. Government of St. Vincent and the Grenadines**

**(i) International Development Association**

This loan is for US\$4,700,000 special drawing rights, repayable in 30 equal semi-annual installments of US\$177,888, plus interest at 10.0%, due on December 31, 2004.

**(ii) United States Agency for International Development**

Loan for US\$7,500,000, repayable in 60 semi-annual installments of US\$122,951 and a final installment of US\$122,940, plus interest at 4% to June 30, 2005, and at 5% thereafter, due on June 30, 2025. The loan agreement provides that the company is required to earn an annual rate of return of 8% on the current net value of the company's operational assets.



**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
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**8. Long-Term Debts (Cont'd)**

**c. Government of St. Vincent and the Grenadines (Cont'd)**

**(iii) European Investment Bank Loan I**

Loan of 2,900,000 ECU's repayable in 15 annual instalments of 193,333 ECU's, plus interest at 4%, due on December 15, 2004. The loan agreement provides that the Government shall have the right at any time after December 31, 1989, to subscribe for shares in the company of the EC dollar equivalent of the loan balance at that time.

**(iv) European Investment Bank Loan II**

Loan for the EC dollar equivalent of 3,000,000 ECU's repayable in 30 semi-annual instalments of 100,000 ECU's plus tax interest of 7.5% due on November 30, 2006.

**(v) European Investment Bank Loan III**

Loan for the EC dollar equivalent of US\$3,485,620 of which US\$2,685,805 is charged at 5.81% and US\$799,814 at 4.14% (fixed). The loan is due on August 31, 2013.

**d. Agency Française de Development Group**

4% loan of US\$680,000 repayable in eighteen semi-annual instalments of US\$37,780 commencing on October 31, 2002, due on April 30, 2011. This loan is secured by a guarantee of the Government of St Vincent and the Grenadines.

**e. Kuwait Fund for Arab Economic Development**

4% loan for 1,000,000 Kuwait Dinars repayable in thirty semi-annual instalments of 28,470 Kuwait Dinars, plus interest due on February 15, 2012. The loan has been secured by a guarantee of the Government of St Vincent and the Grenadines.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
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**9. Consumers' Contributions to Line Extensions**

	Government \$	Other Consumers \$	Total \$
<b>Contributions</b>			
Beginning of year	4,260,035	11,787,196	16,047,231
Received during the year	0	923,325	923,325
Refunds	0	(3,096)	(3,096)
End of year	4,260,035	12,707,425	16,967,460
<b>Amortisation</b>			
Beginning of year	2,772,576	5,163,192	7,935,768
For the year	255,603	762,446	1,018,049
End of year	3,028,179	5,925,638	8,953,817
Balance – 2003	1,487,459	6,624,004	8,111,463
Balance - 2004	1,231,856	6,781,787	8,013,643

**10. Deferred Grant**

This represents the unamortised portion of the grant funds, which amounted to 20% of the cost of electrification of the area North of the Dry River, received from Agence Francaise de Development Group.

**11. Customers' Deposits**

Customers' deposits are refundable on termination of supply and bear interest at the rate of 4% per annum.

	2004 \$	2003 \$
<b>Deposits</b>		
Beginning of year	4,631,963	4,490,618
Received during the year	347,426	348,321
Refunds	(172,662)	(206,976)
End of year	4,806,727	4,631,963
<b>Interest</b>		
Beginning of year	1,759,200	1,621,384
For the year	202,987	137,816
	1,962,187	1,759,200
	6,768,914	6,391,163

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
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**12. Deferred Tax Liability**

Deferred tax liability comprises:-

	<b>2004</b>	2003
	\$	\$
Accelerated tax depreciation	<b>18,138,850</b>	14,590,839
Unbilled sales	<b>1,635,251</b>	1,210,621
Taxed provisions	<b>(981,143)</b>	(672,530)
	<b>18,792,958</b>	15,128,930

**13. Stated Capital**

**Authorised** - Unlimited number of ordinary shares without nominal or par value.

	<b>2004</b>	2003
	\$	\$
<b>Issued and fully paid</b> - 5,809,182 ordinary shares without nominal or par value.	<b>29,045,910</b>	29,045,910

**14. Self Insurance Fund**

The company has created a self insurance fund for the coverage of its transmission and distribution assets, which at December 31, 2004, had a carrying value of \$58.2 million. This reserve has been created by way of appropriation from the retained earnings.

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
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**15. Income Tax**

Income tax expense comprises:-

	2004	2003
	\$	\$
Current	45,068	1,300,705
Deferred	3,664,028	1,363,946
	<b>3,709,096</b>	<b>2,664,651</b>

The effective rate of income tax provided in the financial statements varies from the rate specified by the tax statutes for the following reasons:-

	2004		2003	
	\$	%	\$	%
Profit before tax	5,736,391	100	3,695,068	100
Tax calculated at the statutory rate	1,835,645	32	1,182,422	32
Depreciation of assets not covered by deferred taxation	1,774,924	31	1,574,777	43
Expenses disallowed as tax deduction	70,902	1	(92,554)	(3)
Other	27,625	1	6	0
	<b>3,709,096</b>	<b>65</b>	<b>2,664,651</b>	<b>72</b>

**16. Earnings per Share**

Earnings per share is calculated upon net earnings for the year of \$2,027,295 (2003: \$1,030,417) and on the average issued share capital of 5,809,182 (2003: 5,809,182) ordinary shares.

**17. Capital Commitments**

As of December 31, 2003, the directors had approved capital expenditures totaling \$75.5 million (2003: \$82.9 million), inclusive of Lowman's Bay Power Generator Expansion totaling \$56.5 million, of which \$22.1 million have been contracted for.

**18. Retirement Benefits**

The company provides retirement benefits, under a defined benefit plan and a defined contribution plan, for substantially all of its employees. The most recent actuarial valuations, which were carried out on December 31, 1995 and January 1, 2000, revealed surplus of assets in both plans. The company's contributions to the plans are expensed when incurred. During the year, the company's pension expense amounted to \$433,521 (2003: \$475,137).

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
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**(Expressed in Eastern Caribbean Currency)**

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**19. Financial Instruments**

**19.1. Credit Risk: Accounts Receivable**

The company sells electricity to customers in St. Vincent and the Grenadines. The company performs ongoing credit evaluations of customers and generally does not require collateral. Provisions are made for credit losses.

**19.2. Interest Rate Risk**

The company is exposed to various risks associated with the effect of fluctuations in the prevailing market rates on its financial position and cash flows. Its exposure to interest rate sensitivity gap is as follows:-

	Up to One Year \$	One to Five Years \$	Over Five Years \$	Non-Interest Bearing \$	<b>Total</b> \$
<b>Financial Assets</b>	15,997,063	0	0	21,682,630	<b>37,679,693</b>
<b>Financial Liabilities</b>	6,214,943	3,391,035	33,422,428	31,362,334	<b>74,390,740</b>
<b>Interest Sensitivity Gap</b>					
<b>As of December 31, 2004</b>	<u>9,782,120</u>	<u>(3,391,035)</u>	<u>(33,422,428)</u>		<u><b>(27,031,343)</b></u>
<b>As of December 31, 2003</b>	<u>11,552,303</u>	<u>(2,990,552)</u>	<u>(35,169,151)</u>		<u><b>(26,607,400)</b></u>

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
**Notes to the Financial Statements**  
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**(Expressed in Eastern Caribbean Currency)**

**19. Financial Instruments (Cont'd)**

**19.3. Currency Risk**

The company's operations are conducted in Eastern Caribbean Currency and are exposed to currency risk associated with the effect of fluctuations in the rates of exchange in various currencies. The company does not use interest swaps, foreign currency options or derivative instruments to hedge its foreign exchange risk. As of balance sheet date, the company has the following significant currency positions:-

	Financial Assets \$	Financial Liabilities \$	Currency Sensitivity Gap 2004 \$	Currency Sensitivity Gap 2003 \$
KUWAITI DINAR	0	3,911,906	<b>(3,911,906)</b>	(4,434,994)
ECU	0	2,461,589	<b>(2,461,589)</b>	(3,702,693)
EURO	0	1,440,825	<b>(1,440,825)</b>	(1,856,201)
US	0	28,233,642	<b>(28,233,642)</b>	(28,708,631)
STG	0	566,201	<b>(566,201)</b>	(1,553,351)
EC	37,679,693	37,776,577	<b>(96,884)</b>	14,954,075
<b>TOTAL</b>	<b>37,679,693</b>	<b>74,390,740</b>	<b>(36,711,047)</b>	<b>(25,301,795)</b>

**20. Staff Cost**

	2004 \$	2003 \$
Staff costs	<b>14,590,998</b>	13,374,527
Number of employees at balance sheet date	<b>274</b>	271

**ST. VINCENT ELECTRICITY SERVICES LIMITED**

**ADDITIONAL INFORMATION**

**TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2004**

**PANNELL KERR FORSTER**  
**Chartered Accountants**

**ST. VINCENT ELECTRICITY SERVICES LIMITED**  
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**ADDITIONAL COMMENTS OF AUDITORS**

To the Directors of St. Vincent Electricity Services Limited

The accompanying pages are presented as additional information only. In this respect, they do not form part of the financial statements of St. Vincent Electricity Services Limited for the year ended December 31, 2004, and hence are excluded from the opinion expressed in our report dated July 28, 2005, to the directors on such financial statements. The information on these pages has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements of the company and, in our opinion, is fairly presented in all respects material to those financial statements.

July 28, 2005

## ST. VINCENT ELECTRICITY SERVICES LIMITED

## Financial Statistics

For the Year Ended December 31, 2004

(Expressed in Eastern Caribbean Currency)

	2004	2003	2002	2001	2000	1999
	EC\$	EC\$	EC\$	EC\$	EC\$	EC\$
	000's	000's	000's	000's	000's	000's
<b>SUMMARISED BALANCE SHEET</b>						
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	54,521	48,650	45,301	40,680	39,292	31,295
Other reserves	81,763	69,199	66,843	64,096	64,771	56,997
Long-term liabilities	30,045	33,528	39,913	43,198	46,024	43,500
Deferred income	271	288	306	326	345	372
	<b>195,646</b>	180,711	181,409	177,346	179,478	161,210
Fixed assets (Net)	171,357	154,576	155,029	147,273	152,766	140,933
Long-term investments	200	200	200	200	0	0
Current assets	54,153	51,306	55,838	53,934	42,676	37,645
Current liabilities	(30,064)	(25,371)	(29,658)	(24,061)	(15,964)	(17,368)
	<b>195,646</b>	180,711	181,409	177,346	179,478	161,210
<b>SUMMARISED RESULTS</b>						
<b>Operating Revenues</b>						
Electricity sales	56,936	50,822	48,061	46,415	44,022	41,789
Fuel surcharge	20,693	16,023	12,938	14,970	14,510	8,593
Other	1,230	1,779	2,381	2,217	2,009	1,472
<b>Total</b>	<b>78,859</b>	68,624	63,380	63,602	60,541	51,854
<b>Operating Expenses</b>						
Fuel cost covered by surcharge	20,603	15,958	12,850	14,753	14,400	8,641
Operating and maintenance						
- Hydro	1,833	2,261	1,914	2,353	2,266	2,163
- Diesel	12,307	10,183	9,343	8,356	7,130	7,935
Transmission & distribution	4,285	4,254	3,212	3,725	3,547	2,942
Administration & other	13,195	12,321	11,892	9,779	9,317	7,440
Depreciation	18,589	17,102	15,490	14,918	13,924	13,210
<b>Total</b>	<b>70,812</b>	62,079	54,701	53,884	50,584	42,331
Operating income	8,047	6,545	8,679	9,718	9,957	9,523
Interest	(2,311)	(2,850)	(2,914)	(3,135)	(3,073)	(3,298)
Net profit before tax	5,736	3,695	5,765	6,583	6,884	6,225
Income tax expense	(3,709)	(2,665)	(3,319)	(5,013)	(2,814)	(3,634)
Net profit after tax	2,027	1,030	2,446	1,570	4,070	2,591
Appraisal element in depreciation	5,344	4,719	4,175	4,265	3,927	3,533
Retained earnings brought forward	48,650	45,301	40,680	36,045	31,295	25,171
Final/Interim dividend	(500)	(1,400)	(1,000)	(1,200)	0	0
Self insurance fund	(1,000)	(1,000)	(1,000)	00	0	0
Retained earnings carried forward	<b>54,521</b>	48,650	45,301	40,680	39,292	31,295

## ST. VINCENT ELECTRICITY SERVICES LIMITED

## Financial Statistics

For the Year Ended December 31, 2004

(Expressed in Eastern Caribbean Currency)

	2004	2003	2002	2001	2000	1999
<b>GENERATING PLANT (KW)</b>						
<b>Site Rated Capacity (KW)</b>						
St Vincent	33,195	30,635	31,235	27,717	27,637	23,437
Bequia	2,156	2,156	2,160	2,160	2,160	1,720
Union Island	1,270	1,270	910	910	910	910
Canouan	3,120	3,120	3,120	3,120	3,120	3,120
Mayreau	180	180	0	0	0	0
<b>Firm Capacity (KW)</b>						
St Vincent	26,485	20,120	16,230	17,400	17,250	16,710
Bequia	1,860	1,080	1,000	1,000	1,000	820
Union Island	1,121	695	311	318	200	410
Canouan	2,600	1,300	788	1,355	1,482	1,550
Mayreau	180	60	0	0	0	0
<b>Peak Demand (KW)</b>						
St Vincent	17,120	16,270	16,050	15,230	14,030	14,020
Bequia	1,200	1,140	1,065	1,140	1,100	1,020
Union Island	487	434	428	417	390	364
Canouan	1,821	734	1,065	2,021	1,628	1,525
Mayreau	38	26	0	0	0	0
<b>PRODUCTION AND SALES</b>						
<b>Gross Generation (KWhs)</b>						
Hydro	27,146,531	20,712,180	22,026,517	18,509,655	24,769,924	17,407,190
Diesel	93,595,252	87,528,028	79,819,913	80,282,292	68,555,473	72,135,257
	120,741,783	108,240,208	101,846,430	98,791,947	93,325,397	89,542,447
<b>Own Use</b>	<b>3,803,796</b>	<b>2,980,268</b>	<b>1,638,581</b>	<b>1,868,100</b>	<b>1,931,564</b>	<b>2,311,496</b>
<b>Net Generation</b>	<b>116,937,987</b>	<b>105,259,940</b>	<b>100,207,849</b>	<b>96,923,847</b>	<b>91,393,833</b>	<b>87,230,951</b>
<b>Sales (KWhs)</b>						
Domestic	50,493,950	47,194,734	44,185,435	41,829,458	39,818,172	37,811,210
Commercial	47,087,122	39,004,275	36,570,640	35,554,945	33,777,336	32,060,991
Industrial	6,146,615	6,520,330	6,499,779	6,963,546	6,293,714	5,860,582
Street lighting	2,796,146	2,711,316	2,568,841	2,256,761	2,160,760	2,168,187
<b>Total Sales</b>	<b>106,523,833</b>	<b>95,430,655</b>	<b>89,824,695</b>	<b>86,604,710</b>	<b>82,049,982</b>	<b>77,900,970</b>
Loss (% of Net Generation)	8.9%	9.3%	10.4%	10.6%	10.2%	10.69%
<b>Number of Consumers at Year-End</b>						
Domestic	30,304	29,535	28,595	27,671	26,732	25,393
Commercial	3,825	3,667	3,554	3,428	3,360	3,139
Industrial	32	34	35	34	34	32
Street lighting	47	46	46	46	46	51
	34,208	33,282	32,230	31,179	30,172	28,615