

ST. VINCENT ELECTRICITY SERVICES LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

ST. VINCENT ELECTRICITY SERVICES LIMITED
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For the Year Ended December 31, 2003

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ST. VINCENT ELECTRICITY SERVICES LIMITED
Corporate Information
For the Year Ended December 31, 2003

REGISTERED OFFICE

Kingstown
St. Vincent and the Grenadines

DIRECTORS

Mr. Claude Samuel - BSc. Econ. - Chairman
Mr. Theodore Browne - LLB, LLM
Mr. Leonard Edwards - BSCHE
Mr. Maurice Edwards - BSc., CGA, O.B.E.
Mr. Kirk Da Silva - MCMI, AFA
Mr. Bradley Francis - BSc. Eng.
Mr. Simon Glynn
Mr. Lennox Gonsalves

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

AUDITORS

Pannell Kerr Forster
Chartered Accountants

AUDITORS' REPORT

To the Shareholders of
St. Vincent Electricity Services Limited

We have audited the accompanying balance sheet and statement of long-term debts of St. Vincent Electricity Services Limited as of December 31, 2003, 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, 2003, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



October 12, 2004

ST. VINCENT ELECTRICITY SERVICES LIMITED

Balance Sheet

As of December 31, 2003

(Expressed in Eastern Caribbean Currency)

	Notes	2003 \$	2002 \$
ASSETS			
Current Assets			
Cash		19,807,363	21,172,943
Marketable securities	5	0	5,660,915
Debtors and prepayments		18,436,293	19,273,015
Income tax refundable		1,716,724	0
Inventories	6	11,345,654	9,731,050
Total Current Assets		51,306,034	55,837,923
Long-Term Investments	7	200,000	200,000
Property, Plant and Equipment	8	154,576,274	155,028,867
Total Assets		206,082,308	211,066,790
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Bank overdraft		3,065,796	209,120
Accounts payable and accrued liabilities		17,130,159	20,525,543
Income tax payable		0	2,976,459
Current portion of long-term debts	11	5,174,779	4,946,923
Dividend payable		0	1,000,000
Total Current Liabilities		25,370,734	29,658,045
Consumers' Contributions to Line Extensions	10	8,111,463	8,085,117
Long-Term Debts	11	33,527,740	39,913,198
Deferred Grant	9	287,884	306,260
Consumers' Deposits	12	4,631,963	4,490,618
Deferred Tax Liability	13	15,128,930	13,764,984
Total Liabilities		87,058,714	96,218,222
Shareholders' Equity			
Stated capital	14	29,045,910	29,045,910
Self insurance fund	15	2,000,000	1,000,000
Revaluation surplus		39,327,725	39,501,977
Retained earnings		48,649,959	45,300,681
Total Shareholders' Equity		119,023,594	114,848,568
Total Liabilities and Shareholders' Equity		206,082,308	211,066,790

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, 2003
(Expressed in Eastern Caribbean Currency)

	Stated Capital \$	Self Insurance Fund \$	Revaluation Surplus \$	Retained Earnings \$	Total \$
Balance as of December 31, 2001	29,045,910	0	38,300,499	40,679,865	108,026,274
Revaluation surplus realised	0	0	(4,174,743)	4,174,743	0
Increase in revaluation surplus	0	0	5,376,221	0	5,376,221
Self insurance fund	0	1,000,000	0	(1,000,000)	0
Interim dividend	0	0	0	(1,000,000)	(1,000,000)
Net earnings for the year	0	0	0	2,446,073	2,446,073
Balance as of December 31, 2002	29,045,910	1,000,000	39,501,977	45,300,681	114,848,568
Revaluation surplus realised	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
Balance as of December 31, 2003	<u>29,045,910</u>	<u>2,000,000</u>	<u>39,327,725</u>	<u>48,649,959</u>	<u>119,023,594</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, 2003
(Expressed in Eastern Caribbean Currency)

	Notes	2003 \$	2002 \$
Revenues			
Electricity		50,822,088	48,060,712
Fuel surcharge		16,022,960	12,937,866
Other income		1,778,661	2,381,688
		68,623,709	63,380,266
Operational Costs			
Diesel generation		15,279,986	14,368,502
Hydro generation		5,281,842	5,093,237
Transmission & distribution		11,054,705	9,315,995
Fuel cost covered by surcharge		15,957,798	12,850,199
Administrative expenses		14,418,113	12,288,374
Foreign exchange loss		85,894	784,522
		62,078,338	54,700,829
Earnings before Finance Charges		6,545,371	8,679,437
Finance Charges		2,850,303	2,913,783
Earnings before Income Tax		3,695,068	5,765,654
Income Tax Expense	16	2,664,651	3,319,581
Net Earnings for the Year		1,030,417	2,446,073
Earnings per Share - basic	17	0.18	0.42
- diluted	17	0.17	0.40
The following expense is included in the foregoing:-			
Depreciation		17,102,150	16,396,291

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, 2003
(Expressed in Eastern Caribbean Currency)

	2003	2002
	\$	\$
Cash Flows from Operating Activities		
Earnings before income tax	3,695,068	5,765,654
Adjustments for		
Depreciation	17,102,150	16,396,291
Amortisation of consumers' contribution to line extensions	(906,458)	(906,866)
Gain on disposal of property, plant and equipment	(31,879)	0
Interest	2,850,303	2,913,783
Foreign exchange loss	380,956	711,904
Amortisation of deferred grant	(18,376)	(19,548)
Interest income	(1,066,715)	(1,663,039)
Operating Profit before Working Capital Changes	22,005,049	23,198,179
Increase in inventories	(1,614,604)	(1,520,671)
Decrease (increase) in debtors and prepayments	453,362	(3,379,016)
(Decrease) increase in creditors, accrued liabilities and provisions	(3,759,313)	7,003,964
Cash Generated from Operations	17,084,494	25,302,456
Interest paid	(2,486,374)	(2,786,478)
Income tax paid	(5,993,888)	(5,545,531)
Interest received	1,450,075	1,623,512
Net Cash Generated from Operating Activities	10,054,307	18,593,959
Cash Flows from Financing Activities		
Proceeds from customer deposits	141,345	232,938
Repayment of long-term debts	(6,538,558)	(3,849,660)
Dividends paid	(2,400,000)	0
Net proceeds from consumers' contributions	932,804	554,445
Net Cash Used in Financing Activities	(7,864,409)	(3,062,277)
Cash Flows from Investing Activities		
Redemption of securities	5,660,915	0
Additions to property, plant and equipment	(12,134,926)	(18,776,267)
Proceeds from disposal of property, plant and equipment	61,857	0
Net Cash Used in Investing Activities	(6,412,154)	(18,776,267)
Net Decrease in Cash	(4,222,256)	(3,244,585)
Cash - Beginning of Year	20,963,823	24,208,408
Cash - End of Year	16,741,567	20,963,823
Represented by:-		
Cash	19,807,363	21,172,943
Bank overdraft	(3,065,796)	(209,120)
	16,741,567	20,963,823

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

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Long-Term Debts
As of December 31, 2003
(Expressed in Eastern Caribbean Currency)

	Notes	2003 \$	2002 \$
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	11(a)(i)	1,856,201	1,777,825
International Development Association	11(a)(ii)	1,419,033	1,473,612
Second Power Project:-			
Special Fund Resources	11(b)	1,781,783	2,579,548
Government of St. Vincent and the Grenadines			
International Development Association	11(c)(i)	960,600	1,921,196
United States Agency for International Development	11(c)(ii)	14,986,041	15,461,182
European Investment Bank Loan I	11(c)(iii)	852,098	2,043,478
European Investment Bank Loan II	11(c)(iv)	2,850,595	3,705,609
European Investment Bank Loan III	11(c)(v)	8,026,432	9,280,175
Agence Française de Development Group			
(Formerly Caisse Française de Development)	11(d)	1,534,742	1,739,389
Kuwait Fund for Arab Economic Development	11(e)	4,434,994	4,878,107
Total Long-Term Debts		38,702,519	44,860,121
Less: Current Portion		(5,174,779)	(4,946,923)
		33,527,740	39,913,198

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, 2003****(Expressed in Eastern Caribbean Currency)**

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 October 12, 2004.

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. Basis of Accounting

These financial statements have been prepared under the historical cost convention, modified by the revaluation of property, plant and equipment as disclosed in note 4.2.

4.2. 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, 2003. 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, 2003 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, 2003
(Expressed in Eastern Caribbean Currency)

4. Principal Accounting Policies (Cont'd)

4.2. 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 \$4,718,861 (2002: \$4,174,743). Depreciation on the original cost basis for 2003 is \$12,383,289 (2002: \$12,221,548).

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.

4.3. 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.

4.4. 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.

4.5. 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, 2003
(Expressed in Eastern Caribbean Currency)

4. Principal Accounting Policies (Cont'd)

4.6. 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.

4.7. 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.

4.8. 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.

4.9. Earnings per Share

Earnings per share is calculated using the weighted average numbers 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.

4.10. Pension Plan

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

4.11. 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, 2003
(Expressed in Eastern Caribbean Currency)

4. Principal Accounting Policies (Cont'd)

4.12. Investments

Marketable securities, which consist primarily of commercial paper with an original maturity date of less than twelve months, are carried at their approximate fair value.

Investments of a long-term nature and which are intended to be held to maturity are carried at cost, except where there has been a permanent diminution in the value of the investment.

4.13. 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. Marketable Securities

	2003	2002
	\$	\$
LIAT (1974) Limited 5.5% interest bond, maturing September 1, 2003.	0	2,660,915
Treasury bills	0	3,000,000
	0	5,660,915

6. Inventories

	2003	2002
	\$	\$
Spares	11,769,080	9,404,829
Fuel and lubricants	256,925	263,801
Stationery	155,892	84,398
Goods in transit	250,511	1,064,776
	12,432,408	10,817,804
Less: provision for obsolescence	(1,086,754)	(1,086,754)
	11,345,654	9,731,050

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the Year Ended December 31, 2003
(Expressed in Eastern Caribbean Currency)

7. Long-Term Investments

	2003	2002
	\$	\$
20,000 Eastern Caribbean Security Exchange Limited Class B Shares	200,000	200,000

8. Property, Plant and Equipment

	Freehold Property \$	Generation \$	Transmission & Distribution \$	Other \$	Total \$
Operational Assets - Valuation					
As of December 31, 2002	92,731,372	106,994,725	118,337,350	14,640,293	332,703,740
Transfers	234,182	369,959	3,928,012	821,229	5,353,382
Disposals	0	(243,545)	0	(342,848)	(586,393)
Revaluation	(387,786)	3,430,143	1,012,054	147,378	4,201,789
As of December 31, 2003	<u>92,577,768</u>	<u>110,551,282</u>	<u>123,277,416</u>	<u>15,266,052</u>	<u>341,672,518</u>
Accumulated Depreciation					
As of December 31, 2002	44,610,290	65,456,326	65,839,501	9,221,140	185,127,257
Charge for the year	2,080,101	5,862,988	7,326,861	1,832,200	17,102,150
Disposals and transfers	0	(219,689)	0	(336,726)	(556,415)
Revaluation	(128,215)	394,067	(1,174,353)	565,681	(342,820)
As of December 31, 2003	<u>46,562,176</u>	<u>71,493,692</u>	<u>71,992,009</u>	<u>11,282,295</u>	<u>201,330,172</u>
Net Book Value					
As of December 31, 2002	<u>48,121,082</u>	<u>41,538,399</u>	<u>52,497,849</u>	<u>5,419,153</u>	<u>147,576,483</u>
As of December 31, 2003	<u>46,015,592</u>	<u>39,057,590</u>	<u>51,285,407</u>	<u>3,983,757</u>	<u>140,342,346</u>
Non-Operational Assets					
As of December 31, 2002	160,536	5,981,240	829,867	480,741	7,452,384
Additions	1,356,127	5,654,659	4,138,603	985,537	12,134,926
Transfers	(234,182)	(369,959)	(3,928,012)	(821,229)	(5,353,382)
As of December 31, 2003	<u>1,282,481</u>	<u>11,265,940</u>	<u>1,040,458</u>	<u>645,049</u>	<u>14,233,928</u>
Net Book Value					
As of December 31, 2002	<u>48,281,618</u>	<u>47,519,639</u>	<u>53,327,716</u>	<u>5,899,894</u>	<u>155,028,867</u>
As of December 31, 2003	<u>47,298,073</u>	<u>50,323,530</u>	<u>52,325,865</u>	<u>4,628,806</u>	<u>154,576,274</u>

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the Year Ended December 31, 2003
(Expressed in Eastern Caribbean Currency)

9. 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.

10. Consumers' Contributions to Line Extension

	Government \$	Other Consumers \$	Total \$
Contributions			
Beginning of year	4,260,035	10,854,392	15,114,427
Received during the year	0	939,588	939,588
Refunds	0	6,784	6,784
End of year	4,260,035	11,787,196	16,047,231
Amortisation			
Beginning of year	2,516,974	4,512,336	7,029,310
For the year	255,602	650,856	906,458
End of year	2,772,576	5,163,192	7,935,768
Balance – 2002	1,743,061	6,342,056	8,085,117
Balance - 2003	1,487,459	6,624,004	8,111,463

11. Long-Term Debts

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, 2003
(Expressed in Eastern Caribbean Currency)

11. 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, 2003 the rate was 6.75%.

This loan is for US\$4,418,283, and is repayable in 60 equal quarterly instalments 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 instalments 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 instalments of US\$122,951 and a final instalment 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
Notes to the Financial Statements
For the Year Ended December 31, 2003
(Expressed in Eastern Caribbean Currency)

11. 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.

12. Customers' Deposits

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

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the Year Ended December 31, 2003
(Expressed in Eastern Caribbean Currency)

13. Deferred Tax Liability

Deferred tax liability comprises:-

	2003	2002
	\$	\$
Accelerated tax depreciation	14,590,839	13,072,343
Unbilled sales	1,210,621	1,288,114
Taxed provisions	(672,530)	(595,473)
	15,128,930	13,764,984

14. Stated Capital

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

	2003	2002
	\$	\$
Issued and fully paid - 5,809,182 ordinary shares without nominal or par value.	29,045,910	29,045,910

The European Investment Bank Loan I agreement with the company provides that the Government of St. Vincent and the Grenadines may, at its option, subscribe for additional shares in the company by the conversion, at the rate of \$5 per share, of the loan balance outstanding, which at year end amounted to \$852,098 (2002: \$2,043,478), as disclosed in note 11 (c) (iii).

15. Self Insurance Fund

The company has created a self insurance fund for the coverage of its transmission and distribution assets, which at December 31, 2003, had a carrying value of \$52.3 million. This reserve has been created by way of appropriation from the retained earnings.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the Year Ended December 31, 2003
(Expressed in Eastern Caribbean Currency)

16. Income Tax

Income tax expense comprises:-

	2003	2002
	\$	\$
Current	1,300,705	2,655,804
Deferred	1,363,946	663,777
	2,664,651	3,319,581

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

	2003		2002	
	\$	%	\$	%
Profit before tax	3,695,068	100	5,765,654	100
Tax calculated at the statutory rate	1,182,422	32	1,845,009	32
Income not subject to taxation	0	0	73,821	1
Depreciation of assets not covered by deferred taxation	1,574,777	43	1,400,751	25
Expenses disallowed as tax deduction	(92,554)	(3)	0	0
Other	6	0	0	0
	2,664,651	72	3,319,581	58

17. Earnings per Share

Earnings per share is calculated upon net earnings for the year of \$1,030,417 (2002: \$2,446,073) and on the average issued share capital of 5,809,182 (2002: 5,809,182) ordinary shares.

Fully diluted earnings per share reflect the diluted effect of the option to subscribe for shares by the conversion of the balance outstanding on the European Investment Bank loan. The loan is converted at \$5.00 per share and reflects the average number of shares for the fully diluted earnings per share calculation of 5,979,602 (2002: 6,217,878).

Net earnings for the calculation of fully diluted earnings per share have been increased by \$34,395 (2002: \$40,176) representing the after tax effect of interest on the loan.

18. Capital Commitments

As of December 31, 2003, the directors had approved capital expenditures totalling \$82.9 million (2002: \$42.9 million), inclusive of Lowman's Bay Power Generator Expansion totalling \$46.7 million, of which \$2.4 million have been contracted for.

19. 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 \$475,137 (2002: \$455,091).

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the Year Ended December 31, 2003
(Expressed in Eastern Caribbean Currency)

20. Financial Instruments

The company does not believe that its operations are subject to any significant concentration of price, credit, liquidity or cash flow risks. As a result, the company has not entered into any contractual arrangement with the view to hedging any risk exposure. The company, however, will continuously monitor its operating environment and assess its exposure to various risks with the view to mitigating any potential loss.

Financial assets of the company include cash, marketable securities, long-term investment and debtors. Financial liabilities of the company include bank overdraft, accounts payable, dividends payable, long-term debts and consumers' deposits.

The fair values of financial assets and liabilities, because of their short term maturities, are not materially different to their carrying amounts.

20.1. 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.

20.2. 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 \$	Total \$
Financial Assets	19,792,878	0	0	18,435,764	38,228,642
Financial Liabilities	8,240,575	2,990,552	35,169,151	17,130,159	63,530,437
Interest Sensitivity Gap					
As of December 31, 2003	<u>11,552,303</u>	<u>(2,990,552)</u>	<u>(35,169,151)</u>		<u>(26,607,400)</u>
As of December 31, 2002	<u>21,665,912</u>	<u>(10,249,831)</u>	<u>(34,146,808)</u>		<u>(22,730,727)</u>

ST. VINCENT ELECTRICITY SERVICES LIMITED**Notes to the Financial Statements****For the Year Ended December 31, 2003****(Expressed in Eastern Caribbean Currency)****20. Financial Instruments (Cont'd)****20.3. 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 option 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 2003 \$	Currency Sensitivity Gap 2002 \$
BDS	0	0	0	(27,942)
KUWAITI DINAR	0	4,434,994	(4,434,994)	(4,878,107)
ECU	0	3,702,693	(3,702,693)	(2,043,478)
EURO	0	1,856,201	(1,856,201)	(1,777,825)
US	0	28,708,631	(28,708,631)	(33,630,073)
STG	0	1,553,351	(1,553,351)	(4,184,763)
EC	38,228,642	23,274,567	14,954,075	10,702,083
TOTAL	38,228,642	63,530,437	(25,301,795)	(35,840,105)

21. Staff Cost

	2003 \$	2002 \$
Staff costs	13,374,527	10,193,838
Number of employees at balance sheet date	271	261

ST. VINCENT ELECTRICITY SERVICES LIMITED

ADDITIONAL INFORMATION

TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2003

PANNELL KERR FORSTER
Chartered Accountants

ST. VINCENT ELECTRICITY SERVICES LIMITED
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For the Year Ended December 31, 2003

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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, 2003, and hence are excluded from the opinion expressed in our report dated October 12, 2004, 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.



October 12, 2004

ST. VINCENT ELECTRICITY SERVICES LIMITED

Financial Statistics

For the Year Ended December 31, 2003

(Expressed in Eastern Caribbean Currency)

	2003	2002	2001	2000	1999	1998
	EC\$	EC\$	EC\$	EC\$	EC\$	EC\$
	000's	000's	000's	000's	000's	000's
SUMMARISED BALANCE SHEET						
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	48,650	45,301	40,680	39,292	31,295	25,171
Other reserves	69,199	66,843	64,096	64,771	56,997	56,769
Long-term liabilities	33,528	39,913	43,198	46,024	43,500	48,313
Deferred income	288	306	326	345	372	400
	180,711	181,409	177,346	179,478	161,210	159,699
Fixed assets (Net)	154,576	155,029	147,273	152,766	140,933	141,880
Long-term investments	200	200	200	0	0	0
Current assets	51,306	55,838	53,934	42,676	37,645	32,269
Current liabilities	(25,371)	(29,658)	(24,061)	(15,964)	(17,368)	(14,450)
	180,711	181,409	177,346	179,478	161,210	159,699
SUMMARISED RESULTS						
Operating Revenues						
Electricity sales	50,822	48,061	46,415	44,022	41,789	39,755
Fuel surcharge	16,023	12,938	14,970	14,510	8,593	7,314
Other	1,779	2,381	2,217	2,009	1,472	727
Total	68,624	63,380	63,602	60,541	51,854	47,796
Operating Expenses						
Fuel cost covered by surcharge	15,958	12,850	14,753	14,400	8,641	7,239
Operating and maintenance						
- Hydro	2,261	1,914	2,353	2,266	2,163	1,979
- Diesel	10,183	9,343	8,356	7,130	7,935	6,964
Transmission & distribution	4,254	3,212	3,725	3,547	2,942	2,932
Administration & other	13,227	11,892	9,779	9,317	7,440	7,733
Depreciation	16,196	15,490	14,918	13,924	13,210	12,686
Total	62,079	54,701	53,884	50,584	42,331	39,533
Operating income	6,545	8,679	9,718	9,957	9,523	8,263
Interest	(2,850)	(2,914)	(3,135)	(3,073)	(3,298)	(3,467)
Net profit before tax	3,695	5,765	6,583	6,884	6,225	4,796
Income tax expense	(2,665)	(3,319)	(5,013)	(2,814)	(3,634)	(1,267)
Net profit after tax	1,030	2,446	1,570	4,070	2,591	3,529
Appraisal element in depreciation	4,719	4,175	4,265	3,927	3,533	3,496
Retained earnings brought forward	45,301	40,680	36,045	31,295	25,171	18,146
Final/Interim dividend	(1,400)	(1,000)	(1,200)	0	0	0
Self insurance fund	(1,000)	(1,000)	00	0	0	0
Retained earnings carried forward	48,650	45,301	40,680	39,292	31,295	25,171

ST. VINCENT ELECTRICITY SERVICES LIMITED

Financial Statistics

For the Year Ended December 31, 2003

(Expressed in Eastern Caribbean Currency)

	2003	2002	2001	2000	1999	1998
GENERATING PLANT						
(KW)						
Site Rated Capacity (KW)						
St Vincent	30,635	31,235	27,717	27,637	23,437	22,554
Bequia	2,156	2,160	2,160	2,160	1,720	1,720
Union Island	1,270	910	910	910	910	960
Canouan	3,120	3,120	3,120	3,120	3,120	1,240
Mayreau	180	0	0	0	0	0
Firm Capacity (KW)						
St Vincent	20,120	16,230	17,400	17,250	16,710	13,630
Bequia	1,080	1,000	1,000	1,000	820	1,040
Union Island	695	311	318	200	410	560
Canouan	1,300	788	1,355	1,482	1,550	725
Mayreau	60	0	0	0	0	0
Peak Demand (KW)						
St Vincent	16,270	16,050	15,230	14,030	14,020	12,860
Bequia	1,140	1,065	1,140	1,100	1,020	1,023
Union Island	434	428	417	390	364	371
Canouan	734	1,065	2,021	1,628	1,525	870
Mayreau	26	0	0	0	0	0
PRODUCTION AND SALES						
Gross Generation (KWhs)						
Hydro	20,712,180	22,026,517	18,509,655	24,769,924	17,407,190	22,088,080
Diesel	87,528,028	79,819,913	80,282,292	68,555,473	72,135,257	63,118,849
	108,240,208	101,846,430	98,791,947	93,325,397	89,542,447	85,206,929
Own Use	2,980,268	1,638,581	1,868,100	1,931,564	2,311,496	2,234,742
Net Generation	105,259,940	100,207,849	96,923,847	91,393,833	87,230,951	82,972,187
Sales (KWhs)						
Domestic	47,194,734	44,185,435	41,829,458	39,818,172	37,811,210	35,497,225
Commercial	39,004,275	36,570,640	35,554,945	33,777,336	32,060,991	30,714,429
Industrial	6,520,330	6,499,779	6,963,546	6,293,714	5,860,582	6,311,500
Street lighting	2,711,316	2,568,841	2,256,761	2,160,760	2,168,187	2,074,953
Total Sales	95,430,655	89,824,695	86,604,710	82,049,982	77,900,970	74,598,107
Loss (% of Net Generation)	9.3%	10.4%	10.6%	10.2%	10.69%	10.09%
Number of Consumers at Year-End						
Domestic	29,535	28,595	27,671	26,732	25,393	24,507
Commercial	3,667	3,554	3,428	3,360	3,139	3,097
Industrial	34	35	34	34	32	32
Street lighting	46	46	46	46	51	51
	33,282	32,230	31,179	30,172	28,615	27,687