ST. VINCENT ELECTRICITY SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007
(With comparative figures for December 31, 2006)

CORPORATE INFORMATION

Registered Office

Kingstown
St. Vincent and the Grenadines

Directors

Mr. Douglas Cole – Chairman, B.Eng. (Hons.), EMBA
Sir Vincent Beache - KCMG
Mr. Maurice Edwards – BSc. CGA, O.B.E.
Mr. Kirk Da Silva – MCMI, AFA, AICB, CFE, Acc. Dir.
Mr. Godfred Pompey – Q.A.T, BSc. MA
Mr. Brian George – B. Eng. (Hons.), MSc.
Mr. Simon Glynn
Mr. Patrick Da Silva
Mr. Roosevelt Trent

Company Secretary

Mrs. Juliette Hinds-Wilson – CMA, FCA, Grad ICSA

Chief Executive Officer

Mr. Thornley Myers – MSc, MASC, Dip. Mgmt.

Solicitors

Saunders & Huggins

Bankers

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

Auditors

KPMG Eastern Caribbean
Chartered Accountants

ST. VINCENT ELECTRICITY SERVICES LIMITED

Table of Contents

KPMG Eastern Caribbean
The Financial Services Centre
Kingstown Park
P.O. Box 561
Kingstown
St. Vincent and the Grenadines

Telephone (784) 456-2669
(784) 456-1644
Fax (784) 456-1576
e-Mail kpmg@kpmg.vc

INDEPENDENT AUDITORS' REPORT

To the Shareholders of:
St. Vincent Electricity Services Limited
Kingstown

Report on the Financial Statements

We have audited the accompanying financial statements of St. Vincent Electricity Services Limited, which comprise the balance sheet as at December 31, 2007, and the statement of income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 control. 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.

KPMG

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Shareholders of:
St. Vincent Electricity Services Limited
Kingstown

Report on the Financial Statements

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of St. Vincent Electricity Services Limited as of December 31, 2007, and of its financial performance, changes in equity and its cash flows for the year then ended International Financial Reporting Standards.

KPMG

Chartered Accountants
Kingstown, St. Vincent and the Grenadines
October 30, 2008

ST. VINCENT ELECTRICITY SERVICES LIMITED
Balance Sheet
As of December 31, 2007
With comparatives as of December 31, 2006
(Expressed in Eastern Caribbean Dollars)

	Notes	2007 $	2006 $
Assets			
Current			
Cash	5	18,165,275	12,064,349
Short-term securities	6	9,896,630	6,512,666
Trade and other receivables	7	35,125,330	29,948,997
Income tax refundable	8	4,705,227	1,960,228
Inventories	9	10,769,541	8,522,480
		78,662,003	59,008,720
Non-current			
Long-term investments	10	200,000	200,000
Property, plant and equipment	11	210,785,886	209,508,618
		210,985,886	209,708,618
Total assets		289,647,889	268,717,338
Liabilities			
Current			
Trade and other payables	12	25,868,049	24,870,534
Dividend payable		2,000,000	-
Borrowings	13	3,194,250	3,181,300
		31,062,299	28,051,834
Non-current			
Borrowings	13	76,603,402	64,936,325
Consumers' contributions to line extensions	14	7,546,081	8,003,905
Grant	15	224,766	239,112
Consumers' deposits	16	7,947,660	7,539,116
Deferred tax liabilities	17	26,604,649	23,774,226
		118,926,558	104,492,684
Total liabilities		149,988,857	132,544,518
Shareholders' equity			
Share capital	18	29,045,910	29,045,910
Revaluation surplus	11	30,541,443	34,019,111
Self insurance fund	11	12,000,000	9,000,000
Retained earnings		68,071,679	64,107,799
Total shareholders' equity		139,659,032	136,172,820
Total liabilities and shareholders' equity		289,647,889	268,717,338

The notes on pages 7 to 34 are an integral part of these financial statements.

Approved By:

Chairman

Director

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Income
For the year ended December 31, 2007
With comparative figures for December 31, 2006
(Expressed in Eastern Caribbean Dollars)

	Notes	2007 $	2006 $
Revenues			
Energy sales		66,092,885	62,871,153
Fuel surcharge recovered		44,592,272	40,957,343
Other revenue		805,770	750,458
		111,490,927	104,578,954
Operating expenses			
Diesel generation		23,599,969	19,999,902
Hydro generation		4,699,140	5,175,898
Transmission & distribution		12,634,904	12,358,452
Fuel surcharge		44,421,412	40,642,995
Administrative expenses		13,354,442	16,193,286
	25	98,709,867	94,370,533
Operating profit		12,781,060	10,208,421
Other (losses)/gains, net	19	(334,886)	(2,306,455)
Profit before finance costs and taxation		12,446,174	7,901,966
Finance costs		(4,129,539)	(1,943,734)
Profit before taxation		8,316,635	5,958,232
Taxation	20	(2,830,423)	(4,956,846)
Net profit for the year		5,486,212	1,001,386
Earnings per share	21	0.94	0.17

The notes on pages 7 to 34 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity
For the year ended December 31, 2007
With comparative figures for December 31, 2006
(Expressed in Eastern Caribbean Dollars)

	Share capital $	Self insurance fund $	Revaluation surplus $	Retained earnings $	Total $
Balance as of December 31, 2005	29,045,910	6,000,000	39,378,056	60,747,468	135,171,434
Revaluation surplus realized	-	-	(5,358,945)	5,358,945	-
Self insurance fund appropriation	-	3,000,000	-	(3,000,000)	-
Profit for the year	-	-	-	1,001,386	1,001,386
Balance as of December 31, 2006	29,045,910	9,000,000	34,019,111	64,107,799	136,172,820
Revaluation surplus realized	-	-	(3,477,668)	3,477,668	-
Self insurance fund appropriation	-	3,000,000	-	(3,000,000)	-
Dividend declared	-	-	-	(2,000,000)	(2,000,000)
Profit for the year	-	-	-	5,486,212	5,486,212
Balance as of December 31, 2007	29,045,910	12,000,000	30,541,443	68,071,679	139,659,032

The notes on pages 7 to 34 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Cash Flows
For the year ended December 31, 2007
With comparative figures for December 31, 2006
(Expressed in Eastern Caribbean Dollars)

	2007 $	2006 $
Cash flows from operating activities		
Profit before taxation	8,316,635	5,958,232
Adjustments for:		
Depreciation	19,215,367	17,258,234
Amortization of consumers' contribution to line extensions	(1,089,870)	(1,082,787)
(Gain) loss on disposal of property, plant and equipment	(10,075)	2,058,682
Finance costs	4,129,539	1,943,734
Foreign exchange loss	344,722	247,773
Amortization of deferred grant	(14,347)	(15,262)
Interest income	(292,192)	(265,673)
Withholding tax from prior years offset to tax credits	-	3,459,335
Operating profit before working capital changes	30,599,779	29,562,268
Change in inventories	(2,247,061)	504,243
Change in trade and other receivables	(5,176,333)	(4,209,317)
Change in trade and other payables	997,515	1,569,530
Cash generated from operations	24,173,900	27,426,724
Interest paid	(3,773,084)	(1,943,734)
Income tax paid	(2,789,154)	(5,224,178)
Interest received	427,494	265,674
Net cash generated from operating activities	18,039,156	20,524,486
Cash flows from investing activities		
Acquisition of short-term securities	(2,956,469)	(265,674)
Proceeds from liquidation of short-term securities	-	954,716
Acquisition of property, plant and equipment	(20,492,635)	(30,849,730)
Proceeds from disposal of property, plant and equipment	10,075	44,740
Net cash used in investing activities	(23,439,029)	(30,115,948)
Cash flows from financing activities		
Proceeds from consumers’ deposits	178,031	387,037
Proceeds from borrowings	12,314,975	16,434,270
Repayment of borrowings	(1,624,253)	(2,621,992)
Net proceeds from consumers’ contributions	632,046	1,509,708
Net cash generated from financing activities	11,500,799	15,709,023
Net increase in cash	6,100,926	6,117,561
Cash - beginning of year	12,064,349	5,946,788
Cash - end of year	18,165,275	12,064,349
Represented by:-		
Cash	18,165,275	12,064,349
	18,165,275	12,064,349

The notes on pages 7 to 34 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

1. Company status

St. Vincent Electricity Services Limited (the company) was incorporated under the laws of St. Vincent and the Grenadines 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. The company operates under the Electricity Supply Act of 1973, and has an exclusive licence for the exercise and performance of functions relating to the supply of electricity in St. Vincent and the Grenadines. The company's registered office is situated at Paul's Avenue, Kingstown, St. Vincent and the Grenadines.

The financial statements were approved for issue by the directors on October 30, 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented and conform in all material respects to International Financial Reporting Standards unless otherwise stated.

(a) *Basis of preparation and statement of compliance*

The financial statements of St. Vincent Electricity Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Standards Board (IASB) and using the historical cost basis, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS 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 event and actions, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revenues and accounting estimates are recognized 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.

Judgments 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 in the next year are discussed in Note 4.

2. Summary of significant accounting policies (cont'd)

(b) *Cash, cash equivalents and short-term investment securities*

Cash and cash equivalents are carried in the balance sheet at cost and include cash on hand and deposits held with banks. Cash equivalents include highly liquid investments with insignificant interest risk and original maturities of ninety (90) days or less at the date of purchase. Investments with maturities between ninety (90) days and one year at the date of purchase are considered to be short-term investment securities. Short-term investment securities consist primarily of investment grade commercial paper, bankers acceptances, and certificates of deposit.

(c) *Dividends*

Dividends that are proposed and declared after the balance sheet date are not shown as a liability on the balance sheet but are disclosed as a note to the financial statements.

Dividends declared to the company's shareholders are recognised as a liability in the company's financial statements in the period in which they become a constructive obligation.

(d) *Foreign currency translation*

(i) Measurement currency

Items included in these financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the company.

These financial statements are presented in Eastern Caribbean dollars which is the measurement currency of the company

(ii) Transactions and balances

Foreign currency transactions are translated into Eastern Caribbean dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities demonstrated in foreign currencies at the balance sheet are translated to Eastern Caribbean dollars at the selling rates 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 the statement of income. Foreign currency monetary items are reported using the exchange rates at the balance sheet date.

(e) *Trade receivables*

Trade receivables are carried initially at fair value and subsequently measured at amortised cost less a 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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies (cont'd)

(f) Inventories

Inventories held for maintenance and capital improvements are stated at the lower of cost, cost being determined on the weighted average basis, and net realizable value. Allowance is made for obsolete, slow-moving and damaged goods.

Goods-in-transit are stated at invoiced cost.

(g) Financial instruments

(i) Classification

The company classifies its investments as either held-for-trading, or held-to-maturity, or available-for-sale. The classification depends on the purpose for which investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Held-for-trading investments 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.

Held-to-maturity investments are securities with fixed maturity where management has both the intent and the ability to hold to maturity.

Available-for-sale financial assets are 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. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(ii) Recognition

The company recognizes a financial asset or financial liability on its balance sheet using the settlement date method. Accordingly, a financial asset or a financial liability is recognized 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. All purchases and sales of investment securities are recognized at settlement date.

(iii) Measurement

a) *Initial measurement*

Financial instruments are measured initially at cost, including transaction costs.

b) *Subsequent measurement*

All held-for-trading and available-for-sale assets are measured at fair value based on quoted market prices where available or amounts derived from discounted cash flow models without any deduction for transaction costs.

2. Summary of significant accounting policies (cont'd)

(g) Financial instruments (cont'd)

(iii) Measurement (cont'd)

b) Subsequent measurement (cont'd)

When the instrument is not actively traded or quoted on recognized exchanges (and for unlisted securities), the company establishes fair value by using discounted cash flow analysis and applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions.

Any held-for-trading and available-for-sale asset that does not have a quoted market price in an active market and where fair value cannot be reliably measured is stated at cost, including transaction costs, less any impairment losses.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective yield of the instrument.

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. When securities become impaired the related accumulated fair value adjustments previously recognized in equity are included in the statement of income as impairment expense on investment securities.

All related gains and losses, realized and unrealized on securities classified as held-for-trading are included in the statement of income as gains and losses from investment securities.

Realised and unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the statement of income as gains and losses from investment securities.

Interest earned whilst trading or holding investment securities are included in the statement of income as interest income.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies (cont'd)

(h) Property, plant and equipment

(i) Owned and constructed assets

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 Agra Monenco Inc., as of January 1, 1993. The value of assets at that date, together with the cost of subsequent additions, less retrials was re-appraised to December 31, 2004 using indices supplied by Agra Monenco 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.

Revaluation surplus realized through the use of the revalued assets is systematically transferred to retained earnings.

(ii) Subsequent expenditure

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

(iii) Depreciation

Land and rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual lives over their estimated useful lives as follows:

- Freehold buildings & construction $2^1/_2$ - 5% per annum
- Plant & machinery 5 - 20% per annum
- Transmission & distribution 5 - 6% per annum
- Motor vehicles 25% per annum
- Furniture and equipment $12^1/_2$% per annum

(iv) Disposal

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

2. Summary of significant accounting policies (cont'd)

(h) Property, plant and equipment (cont'd)

(v) Other

The assets' residual value, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

(i) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the statement of income except to the extent that it relates to items recognised directly into equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities, and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets relating to tax losses are recognised to the extent that it is probable that future taxable profits will be available against which the losses or temporary differences can be utilised.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies (cont'd)

(j) Impairment

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of income, is removed from equity and recognised in the statement of income.

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In assessing impairment of assets that are subject to amortization, 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, impairment in the carrying value is charged to revaluation surplus to the extent that previous increases credited thereto unutilized. Amounts in excess of previous credits for the same asset are charged to operations

An impairment loss in respect of a receivable amount carried at amortised cost is reversed if a subsequent increase in its recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the statement of income. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss shall be reversed, with the amount of the reversal recognised in statement of income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. Summary of significant accounting policies (cont'd)

(k) *Trade and other payables*

Liabilities for trade and other payables which are normally settled on 30 – 90 day terms and conditions are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the company.

(l) *Borrowings*

Borrowings are recognized initially as the proceeds are received and are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) *Provisions*

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) *Consumer deposits*

Given the long-term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date).

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

(o) *Consumer contributions*

In certain specified circumstances, consumers requiring line extensions are required to contribute the estimated capital cost of the extensions. These contributions are amortised over the estimated useful lives of the relevant capital cost on the straight line basis by way of a reduction of the depreciation charge under transmission and distribution costs. Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed. The capital costs of consumer line extensions are included in property, plant and equipment.

(p) *Share capital*

Ordinary shares are classified as equity.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

2. Summary of significant accounting policies (cont'd)

(q) Revenue recognition

Sale of energy

Revenue from energy sales is based on meter readings, which are carried out on a rotational basis throughout each month. The provision for unbilled sales is calculated on the basis of apportionment of revenue derived from the meter reading period under review. In addition to the normal tariff rates charged for energy sales, a fuel surcharge is calculated which is based on the difference between the cost of fuel used to generate energy sales in the current month and the fuel price at the base period. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month.

Unbilled sales

The provision for unbilled sales is calculated on the basis of apportionment of revenue derived from the meter reading period under review. The provision for unbilled sales is included in accrued income. The provision for unbilled fuel surcharge is included in accrued income.

Interest income

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

(r) Employee benefits

Pension

The company provides retirement benefits, under a defined benefit plan and a defined contribution plan, for substantially all of its employees. The pension plans are funded by payments from employees and the company, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is one that defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit plan is a multi-employer scheme. There are five contributing employers; the others are Anguilla Electricity Company Ltd., Montserrat Electricity Services Ltd., St. Lucia Mortgage Finance Company Ltd. and St. Lucia Electricity Services Ltd. Multi-employers schemes pool the assets contributed by the various enterprises that are not under common control, and use the assets to provide benefits to employees of more than one enterprise on the basis that contributed and benefit levels are determined without regard to the identity of the enterprise that employs the employees concerned. Due to the unavailability of recent audited financial statements in respect to this plan, the contributions are recognised as an expense when they are due. The Company's share of the related retirement asset or (liability) has not been reflected in the balance sheet (Note 23).

2. Summary of significant accounting policies (cont'd)

(r) Employee benefits (cont'd)
Pension (cont'd)

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

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value

(s) Functional and presentation currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are present in Eastern Caribbean dollars, which is the company's functional and presentation currency.

(t) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the statement of income.

(u) 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 amortization of the cost of asset to which they relate (Note 15).

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2007, and have not yet been applied in preparing these financial statements:

2. Summary of significant accounting policies (cont'd)

(v) New standards and interpretations not yet adopted (cont'd)

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Company's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Company has no reportable segments.

- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Company's 2009 financial statements. In accordance with the transitional provisions the Company will apply the revised IAS 23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date.

- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. IFRIC 11 will become mandatory for the Company's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

- IFRIC 12 *Service Concession Arrangements* provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. IFRIC 12, which becomes mandatory for the Company's 2008 financial statements, is not expected to have any effect on the financial statements.

- IFRIC 13 *Customer Loyalty Programmes* addresses the accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13, which becomes mandatory for the Company's 2009 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 will become mandatory for the Company's 2008 financial statements, with retrospective application required. The Company has not yet determined the potential effect of the interpretation.

3. Financial instruments and financial risk management

(a) Financial risk factors

The company's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. Management seeks to mitigate potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks.

(i) Currency risk (in Eastern Caribbean Dollars)

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The company does not generally engage in currency hedges, and rather aims to have financial liabilities denominated in local currencies in order to avoid 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 has not used any derivative instruments to hedge its foreign exchange risk. As of balance sheet date, the company has the following significant currency positions:

		2007	
	Financial assets $	**Financial liabilities $**	**Currency sensitivity gap $**
Kuwaiti Dinar (KWD)	-	(2,534,141)	(2,534,141)
European Currency Units (ECU)	-	(1,005,565)	(1,005,565)
Danish Krone (DKK)	-	(50,637)	(50,637)
EURO (EUR)	-	(1,340,202)	(1,340,202)
US Dollar (USD)	5,878,757	(74,359,567)	(68,480,810)
Great Britain Pound (GBP)	-	(507,540)	(507,540)
EC Dollar (XCD)	57,308,497	(43,525,532)	13,782,965
TOTAL	63,187,254	(123,323,184)	(60,135,930)

3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(i) Currency risk (in Eastern Caribbean Dollars) (cont'd)

	2006		
	Financial assets $	**Financial liabilities $**	**Currency sensitivity gap $**
Kuwaiti Dinar (KWD)	-	(2,924,288)	(2,924,288)
European Currency Units (ECU)	-	(1,005,565)	(1,005,565)
US Dollar (USD)	8,113,043	(63,418,956)	(55,305,913)
Great Britain Pound (GBP)	-	(519,568)	(519,568)
EC Dollar (XCD)	39,994,703	(40,919,036)	(924,333)
TOTAL	48,107,746	(108,787,413)	(60,679,667)

Exchange rates of 1 unit of the relevant foreign currencies to the EC dollar (XCD) at year end were as follows:

	USD $	**GBP $**	**EUR $**	**KWD $**	**DKK $**	**ECU $**
At December 31, 2007	2.71	5.42	3.97	0.10	0.53	2.98
At December 31, 2006	2.71	5.30	3.56	0.11	0.48	2.98

Currency risk sensitivity analysis

A 10% weakening of the EC dollar against the following currencies at December 31, would have increased/(decreased) profit by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	2007 $	**2006 $**
USD	7,435,956	6,341,896
GBP	50,754	51,957
EUR	134,020	-
KWD	2,534,141	292,428
DKK	5,063	-

A 10% strengthening of the EC dollar against the above currencies at December 31 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

The exchange rate between the EC dollar and ECU is fixed by contract and does not fluctuate.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer, or factors affecting all instruments traded in the market. The company has no significant exposure to such risks.

(iii) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The company has policies in place to ensure that sales are made to customers with an appropriate credit rating. Accounts receivables are shown net of provision for impairment for doubtful debts. Cash and short-term investments are held with substantial financial institutions, which present minimal risk of default.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2007	**2006**
	$	**$**
Available-for-sale financial assets	200,000	200,000
Held-to-maturity financial assets	9,896,630	6,512,666
Trade receivables	33,666,430	27,742,254
Other receivables	1,458,900	2,206,743
Income tax refundable	4,705,227	1,960,228
Cash	18,165,275	12,064,349
	68,092,462	50,686,240

The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was:

	Carrying amount	
	2007	**2006**
	$	**$**
Domestic	9,290,947	7,803,785
Commercial	15,768,288	13,030,333
Industrial	2,834,433	2,342,271
Government	7,315,410	6,045,181
	35,209,078	29,221,570
Provision for impairment of trade receivables	(1,542,648)	(1,479,316)
Trade receivables, net	33,666,430	27,742,254

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(iv) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities.

The management of the company aims at maintaining flexibility in funding by monitoring budgeting commitments and by keeping committed lines of credit available and by monitoring the timing of its cash flows.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

2007
$

	Carrying amount	Contractual Cashflows	1 Year	2-5 Years	More than 5 Years
Trade payables	7,939,066	(7,939,066)	7,939,066	-	-
Other payables	17,928,983	(17,928,983)	17,928,983	-	-
Dividend payable	2,000,000	(2,000,000)	2,000,000	-	-
Borrowings	79,797,652	(79,797,652)	2,938,578	25,767,075	51,091,997
Customers' contributions to line extensions	7,546,081	(7,546,081)	7,546,081	-	-
Grants	224,766	(224,766)	224,766	-	-
Customer deposits	7,947,660	(7,947,660)	7,947,660	-	-
	123,384,208	(123,384,208)	46,525,134	25,767,075	51,091,997

2006
$

	Carrying amount	Contractual Cashflows	1 Year	2-5 Years	More than 5 Years
Trade payables	7,623,010	(7,623,010)	7,623,010	-	-
Other payables	17,247,524	(17,247,524)	17,247,524	-	-
Borrowings	68,117,625	(68,117,625)	2,279,616	22,263,885	43,574,124
Customers' contributions to line extensions	8,003,905	(8,003,905)	8,003,905	-	-
Grants	239,112	(239,112)	239,112	-	-
Customer deposits	7,539,116	(7,539,116)	7,539,116	-	-
	108,770,292	(108,770,292)	42,932,283	22,263,885	43,574,124

3. Financial instruments and financial risk management (cont'd)

(a) Financial risk factors (cont'd)

(v) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The table below summarises the company's exposure to interest rate risks:

	2007				
	Up to one year $	One to five years $	Over five years $	Non-interest bearing $	Total $
Financial assets	9,896,630	-	-	53,290,624	63,187,254
Financial liabilities	(3,194,250)	-	(84,551,062)	(35,577,872)	(123,323,184)
Interest sensitivity gap	6,702,380	-	(84,551,062)		(77,848,682)

	2006				
	Up to one year $	One to five years $	Over five years $	Non-interest bearing $	Total $
Financial assets	18,577,015	-	-	29,530,731	48,107,746
Financial liabilities	(3,181,300)	-	(72,475,441)	(33,130,672)	(108,787,413)
Interest sensitivity gap	15,395,715	-	(72,475,441)		(57,079,726)

(b) Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists market price is used as the best evidence of the fair value of a financial instrument. Where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at balance sheet dates. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

(i) The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities; and

(ii) The fair value of variable-rate financial instruments is assumed to approximate their carrying amounts.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

4. Critical accounting estimates and judgements

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant use of material adjustment in the next financial year are below:

(a) Allowances for credit losses
(b) Impairment of assets
(c) Determining fair values
(d) Estimation of unbilled sales and fuel charges
(e) Financial asset and liability classification

Accounting policies 2(e), 2(i), 2(q) and 2(g) contain information about the assumptions and their factors relating to allowances for credit losses, impairment of assets, estimation of unbilled sales and fuel charges, and financial asset and liability classification respectively. Note 3 contains information about the assumptions and their factors relating to determining fair values

It is possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the assets.

5. Cash

	2007 $	2006 $
Cash at bank and in hand	18,165,275	12,064,349

6. Short-term securities

	2007 $	2006 $
Securities held to maturity		
National Commercial Bank (SVG) Ltd. 4.5% Certificate of deposit, due December 5, 2008	2,750,476	-
National Commercial Bank (SVG) Ltd. 4.5% Certificate of deposit, due December 5, 2008	2,950,757	-
National Commercial Bank (SVG) Ltd. 4.5% Certificate of deposit, due December 5, 2008	1,238,928	-
Government of St. Vincent and the Grenadines 90 days Treasury Bills	2,956,469	-
National Commercial Bank (SVG) Ltd. 3.75% Certificate of deposit, due November 6, 2007	-	1,168,610
National Commercial Bank (SVG) Ltd. 3.75% Certificate of deposit, due February 9, 2007	-	2,560,778
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due June 10, 2007	-	2,783,278
	9,896,630	6,512,666

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

7. Trade and other receivables

	2007 $	2006 $
Trade receivables	35,209,078	29,221,570
Less: provision for impairment of trade receivables	(1,542,648)	(1,479,316)
Trade receivables, net	33,666,430	27,742,254
Other receivables	1,168,653	1,980,992
Less: provision for impairment of other receivables	(7,642)	(7,642)
Other receivables, net	1,161,011	1,973,350
Prepayments	297,889	233,393
	35,125,330	29,948,997

8. Income tax refundable

In 2006, the company was assessed by the Inland Revenue Department for withholding tax for the period 1996 to 2006 amounting to $3,459,335. This amount was offset by the Inland Revenue Department against existing tax credits of the company.

9. Inventories

	2007 $	2006 $
Spares	9,269,270	6,746,045
Fuel and lubricants	3,614,714	3,235,856
Stationery	185,915	185,915
Good-in-transit	77,149	732,171
	13,147,048	10,899,987
Less: provision for obsolescence	(2,377,507)	(2,377,507)
	10,769,541	8,522,480

10. Long-term investments

	2007 $	2006 $
20,000 Eastern Caribbean Security Exchange Limited Class B Shares	200,000	200,000

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

11. Property, plant and equipment

	Freehold property $	Generation $	Transmission & distribution $	Other $	Total $
Operational assets valuation					
As of December 31, 2006	109,102,414	124,765,154	145,343,246	17,553,115	396,763,929
Transfers	28,019,534	39,995,009	21,021,955	1,132,589	90,169,087
Disposals	-	-	-	(54,944)	(54,944)
As of December 31, 2007	137,121,948	164,760,163	166,365,201	18,630,760	486,878,072
Accumulated depreciation					
As of December 31, 2006	60,224,603	83,721,382	101,781,445	16,198,002	261,925,432
Charge for the year	3,155,147	6,606,590	8,895,511	558,119	19,215,367
Disposals and transfers	-	-	-	(54,944)	(54,944)
As of December 31, 2007	63,379,750	90,327,972	110,676,956	16,701,177	281,085,855
Net book value					
As of December 31, 2006	48,877,811	41,043,772	43,561,801	1,355,113	134,838,497
As of December 31, 2007	73,742,198	74,432,191	55,688,245	1,929,583	205,792,217
Non-operational assets					
As of December 31, 2006	22,051,746	34,752,124	17,173,993	692,258	74,670,121
Additions	5,967,788	7,733,372	5,517,438	1,274,037	20,492,635
Transfers	(28,019,534)	(39,995,009)	(21,021,955)	(1,132,589)	(90,169,087)
As of December 31, 2007	-	2,490,487	1,669,476	833,706	4,993,669
Net book value					
As of December 31, 2006	48,877,811	102,142,816	56,440,620	2,047,371	209,508,618
As of December 31, 2007	73,742,198	76,922,678	57,357,721	2,763,289	210,785,886

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

11. Property, plant and equipment (cont'd)

Revaluation surplus realized, which represents the excess of depreciation on reproduction cost over original cost, during the year amounted to $3,477,668 (2006: $5,358,945). Depreciation on the original cost basis for 2007 is $15,737,699 (2006: $11,878,367).

Self insurance fund

The company has created a self insurance fund for the coverage of its transmission and distribution assets. The transmission and distribution system which is included in property, plant and equipment has a carrying value of $57.4 million at December 31, 2007 (2006: $56.4 million). The value of the fund was $12 million at December 31, 2007 (2006: $9 million).

The fund is held as a reserve and has been created by way of appropriations from the retained earnings.

Borrowing costs amounting to $4,082,229 (2006: $2,356,478) were capitalised during the year.

12. Trade and other payables

	2007 $	2006 $
Trade payables	7,939,066	7,623,010
Accrued expenses	7,388,460	8,076,150
Other payables	3,169,295	2,556,840
Government of St Vincent and the Grenadines	7,371,228	6,614,534
	25,868,049	24,870,534

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

13. Borrowings

	Notes	2007 $	2006 $
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	13(a)(i)	1,885,189	1,607,909
International Development Association	13(a)(ii)	1,200,721	1,255,299
Third Power Project:-			
Lowmans Bay Project	13(b)	30,736,164	22,731,118
Government of St. Vincent and the Grenadines			
United States Agency for International Development	13(c)(i)	13,472,700	13,472,700
European Investment Bank Loan II	13(c)(ii)	1,005,565	1,005,565
European Investment Bank Loan III	13(c)(iii)	5,513,066	5,853,392
Agence Française de Développement Group (Formerly Caisse Française de Développement)	13(d)	716,155	920,802
Kuwait Fund for Arab Economic Development	13(e)	2,534,143	2,845,628
European Investment Bank Lowmans Bay	13(f)	22,733,949	18,425,212
Total long-term debts		79,797,652	68,117,625
Less: Current portion		(3,194,250)	(3,181,300)
		76,603,402	64,936,325

	2007 $	2006 $
Current		
Bank borrowings	3,194,250	3,181,300
	3,194,250	3,181,300
Non-current		
Bank borrowings	58,703,855	44,604,668
Government of St Vincent and the Grenadines	17,899,547	20,331,657
	76,603,402	64,936,325
Total borrowings	79,797,652	68,117,625

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

13. Borrowings (cont'd)

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 installments 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 installments, of US$10,075, plus interest, due July 15, 2029.

The above loans were made by the COB 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 COB 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) Third Power Project

Loan for USD$18,311,000, obtained through the ordinary capital resources of the Bank, repayable in 44 approximately equal and consecutive quarterly installments of US$416,160, plus interest at a rate of 5.5% per annum on the principal amount. Vinlec shall pay a commitment charge of 1% per annum on the amount of the loan unwithdrawn. The loan has been secured by a guarantee of the Government of St. Vincent and the Grenadines and is due to mature in December 2020.

The loan agreement provides for a grace period of 4 years following the date of first draw-down on the loan. Other covenants stipulated in the agreement provide that:

(i) the company's accounts receivables shall not exceed sixty (60) days sales;

(ii) the company maintain a debt service coverage ratio of at least 1.5 times its total debt service;

(iii) no further expansion shall take place at Cane Hall site; and

(iv) the company continues to set aside an amount of at least one million Eastern Caribbean dollars ($1,000,000) annually for the purposes of its self insurance plan in respect to its transmission and distribution assets.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

13. Borrowings (cont'd)

c. Government of St. Vincent and the Grenadines

(i) 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, 2006, 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 asset value of the company's operational assets.

(ii) European Investment Bank Loan II

Loan for the EC dollar equivalent of 3,000,000 ECU's repayable in 30 semi-annual installments of 100,000 ECU's plus interest of 7.5% due on November 30, 2007.

(iii) 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. Agence Française de Développement Group

4% loan of US$680,000 repayable in eighteen semi-annual installments of US$37,780 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 installments 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.

f. European Investment Bank Loan IV

Loan for EUR 8,300,000, to be disbursed as up to USD$10,000,000, repayable in 22 semi-annual installments of US$186,364, plus interest at a fixed rate of 5.505% due to mature in November 2020.

The loan agreement provides for a grace period of 4 years from the date of the first trench. This loan is secured by a guarantee of the Government of St. Vincent and the Grenadines. Financial covenants stipulates that the company shall:

(i) maintain a debt service ratio of at least 1.5; and

(ii) not declare any dividends or make any other distributions to any shareholder, unless debt service ratio is more than 1.5.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

14. Consumers' contributions to line extensions

	Government $	Other consumers $	Total $
Contributions			
Beginning of year	4,260,035	14,802,947	19,062,982
Received during the year	-	633,362	633,362
Refunds	-	(1,316)	(1,316)
End of year	4,260,035	15,434,993	19,695,028
Amortization			
Beginning of the year	3,539,383	7,519,694	11,059,077
For the year	255,602	834,268	1,089,870
End of year	3,794,985	8,353,962	12,148,947
Balance - 2006	720,652	7,283,253	8,003,905
Balance - 2007	465,050	7,081,031	7,546,081

15. Grant

	2007 $	2006 $
Agence Française de Développement Group Grant	239,112	254,374
Amortisation	(14,346)	(15,262)
	224,766	239,112

16. Consumers' deposits

	2007 $	2006 $
Deposits		
Beginning of year	5,190,979	4,988,974
Received during the year	363,308	385,092
Refunds	(185,277)	(183,087)
End of year	5,369,010	5,190,979
Interest		
Beginning of the year	2,348,137	2,163,104
For the year	230,513	185,033
	2,578,650	2,348,137
	7,947,660	7,539,116

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

17. Deferred tax liabilities

Deferred tax liability comprises:-

	2007 $	2006 $
Temporary difference on property, plant and equipment	25,016,133	23,313,397
Taxed provisions	1,588,516	460,829
	26,604,649	23,774,226

18. Share capital

Authorized – Unlimited number of ordinary shares without nominal or par value.

	2007 $	2006 $
Issued and fully paid – 5,809,182 ordinary shares without nominal or par value	29,045,910	29,045,910

19. Other (losses)/gains, net

	2007 $	2006 $
Gain (loss) on disposal of property, plant and equipment	10,075	(2,058,682)
Foreign exchange (loss)	(344,961)	(247,773)
	(334,866)	(2,306,455)

20. Taxation

Income tax expense comprises:-

	2007 $	2006 $
Current	-	894,902
Deferred	2,830,423	4,061,944
	2,830,423	4,956,846

Reconciliation of effective tax rate	2007 %	2007 $	2006 %	2006 $
Profit before tax		8,316,635		5,958,232
Income tax using applicable corporation tax rate	32.0	2,661,323	32.0	1,906,634
Non-deductible expenses	75.5	6,282,622	49.4	2,943,873
Other	(73.5)	(6,113,562)	1.8	106,339
	34.0	2,830,423	83.2	4,956,846

21. Earnings per share

Earnings per share is calculated upon net earnings for the year of $4,441,572 (2006: $1,001,386) and on the average issued share capital of 5,809,182 (2006: 5,809,182) ordinary shares.

22. Capital commitments

As of December 31, 2007, the directors approved capital expenditures totaling $38.5 million (2006: $56.3 million), of which $12 million have been contracted for.

23. 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 ended December 31, 2007, the company's pension expense amounted to $799,033 (2006: $602,737).

24. Contingent liabilities

The company has also been assessed for PAYE of $845,652 including interest of $560,389 on gratuity payments to staff. The company has objected the assessment and management is of the view that the company is not liable for the amounts assessed. If final determination should go against the company, any additional taxes would be accounted for as a charge in current operations.

25. Expenses by nature

	2007 $	2006 $
Fuel cost over base	44,421,412	40,642,995
Fuel at base price	3,474,057	3,333,486
Depreciation on property, plant and equipment	19,215,367	17,237,281
Repairs and maintenance	8,580,990	5,777,085
Employee benefit expense	13,820,804	13,300,906
Other operating expenses	8,107,367	12,995,993
Amortisation of consumer contributions	1,089,870	1,082,787
	98,709,867	94,370,533

26. Related parties

(a) *Identification of related party*
A party is related to the company if:

(i) Directly or indirectly the party:
- Controls, is controlled by, or is under common control with the company.
- Has an interest in the company that gives it significant influence over the company or
- Has joint control over the company.

(ii) The party is a member of the key management personnel of the company
(iii) The party is a close member of the family of any individual referred to in (i) or (ii)
(iv) The party is a post-employment benefit plan for the benefit of employees of the company or any company that is a related party of the company,

(b) *Related party transactions and balances*
A number of transactions have been entered into with related parties in the normal course of business. These transactions were conducted at market rates, or commercial terms and conditions.

(c) *Transactions with key management personnel*
In addition to their salaries, the company 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:

- Short-term employee benefits
- Part-employment benefits
- Termination benefits

The company is controlled by the Government of St. Vincent and the Grenadines.

Transactions with the Government during the year were as follows:

	2007 $	2006 $
Revenue		
Government of St. Vincent and the Grenadines and its corporations	11,936,925	11,936,925

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

26. Related parties (cont'd)

The Government of St. Vincent and the Grenadines receives a 10% discount on tariff sales for all accounts other than street lighting.

Balances arising from supply of services at year end were as follows:

	2007 $	2006 $
Government of St. Vincent and the Grenadines	10,252,096	10,558,775

27. Employee benefit expense

	2007 $	2006 $
Staff costs	13,820,804	13,300,906
Number of employees at balance sheet date	305	290

28. Comparative information

Certain changes have been made to the presentation of the comparative information. These changes were necessary in order to ensure that the comparative information is in accordance with the information being presented in the current year. These changes do not represent adjustments to the financial statements of the comparative period and have no effect on the net profit for that period or the current period.

ST. VINCENT ELECTRICITY SERVICES LIMITED

ADDITIONAL INFORMATION

TO THE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007
(With comparative figures)

ADDITIONAL INFORMATION

Table of Contents

KPMG Eastern Caribbean
The Financial Services Centre
Kingstown Park
P.O. Box 561
Kingstown
St. Vincent and the Grenadines

Telephone (784) 456-2669
(784) 456-1644
Fax (784) 456-1576
e-Mail kpmg@kpmg.vc

ADDITIONAL COMMENTS OF INDEPENDENT AUDITORS

To the Shareholders of:
St. Vincent Electricity Services Limited
Kingstown

The accompanying schedules I and II are presented as supplementary 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, 2007 and hence are excluded from the opinion expressed in our report dated October 30, 2008 to the shareholders on such financial statements.

KPMG

Chartered Accountants

Kingstown, St. Vincent and the Grenadines

October 30, 2008

Schedule I

ST. VINCENT ELECTRICITY SERVICES LIMITED
Financial Statistics
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

	2007 EC$ 000's	2006 EC$ 000's	2005 EC$ 000's	2004 EC$ 000's	2003 EC$ 000's	2002 EC$ 000's	2001 EC$ 000's
SUMMARISED BALANCE SHEET							
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	68,043	64,107	60,747	54,521	48,650	45,301	40,680
Other reserves	84,642	82,338	79,819	81,763	69,199	66,843	64,096
Non –current liabilities	76,603	64,936	50,756	30,045	33,528	39,913	43,198
Deferred income	224	239	254	271	288	306	326
	258,558	240,666	220,622	195,646	180,711	181,409	177,346
Fixed assets (Net)	210,697	209,508	198,020	171,357	154,576	155,029	147,273
Long-term investments	200	200	200	200	200	200	200
Current assets	78,662	59,009	53,417	54,153	51,306	55,838	53,934
Current liabilities	(31,001)	(28,051)	(31,015)	(30,064)	(25,371)	(29,658)	(24,061)
	258,558	240,666	220,622	195,646	180,711	181,409	177,346
SUMMARISED RESULTS							
Operating Revenues							
Electricity sales	66,093	62,871	60,924	56,936	50,822	48,061	46,415
Fuel surcharge	44,592	40,957	33,504	20,693	16,023	12,938	14,970
Other	806	750	831	1,230	1,779	2,381	2,217
Total	111,491	104,578	95,259	78,859	68,624	63,380	63,602
Operating Expenses							
Fuel cost covered by surcharge	44,421	40,642	32,836	20,603	15,958	12,850	14,753
Operating and maintenance							
- Hydro	1,311	2,258	2,434	1,833	2,261	1,914	2,353
- Diesel	16,937	16,309	14,850	12,307	10,183	9,343	8,356
Transmission & distribution	4,055	3,681	5,458	4,285	4,254	3,212	3,725
Administration & other	13,133	16,528	11,873	13,195	12,321	11,892	9,779
Depreciation	19,215	17,258	17,798	18,589	17,102	15,490	14,918
Total	99,072	96,676	85,249	70,812	62,079	54,701	53,884
Operating income	12,419	7,902	10,010	8,047	6,545	8,679	9,718
Interest	(4,130)	(1,944)	(2,257)	(2,311)	(2,850)	(2,914)	(3,135)
Net profit before tax	8,289	5,958	7,753	5,736	3,695	5,765	6,583
Income tax expense	(2,831)	(4,957)	(4,338)	(3,709)	(2,665)	(3,319)	(5,013)
Net profit after tax	5,458	1,001	3,415	2,027	1,030	2,446	1,570
Appraisal element in depreciation	3,478	5,359	5,811	5,344	4,719	4,175	4,265
Retained earnings brought forward	64,107	60,747	54,521	48,650	45,301	40,680	36,045
Final/Interim dividend	(2,000)	0	0	(500)	(1,400)	(1,000)	(1,200)
Self insurance fund	(3,000)	(3,000)	(3,000)	(1,000)	(1,000)	(1,000)	0
Retained earnings carried forward	68,043	64,107	60,747	54,521	48,650	45,301	40,680

Schedule II

ST. VINCENT ELECTRICITY SERVICES LIMITED
Financial Statistics
For the year ended December 31, 2007
(Expressed in Eastern Caribbean Dollars)

	2007	2006	2005	2004	2003	2002
GENERATING PLANT (KW)						
Site Rated Capacity (KW)						
St. Vincent	33,195	33,195	33,195	33,195	30,635	31,235
Bequia	2,931	2,931	2,931	2,156	2,156	2,160
Union Island	1,270	1,270	1,270	1,270	1,270	910
Canouan	3,120	3,120	3,120	3,120	3,120	3,120
Mayreau	180	180	180	180	180	0
Firm Capacity (KW)						
St. Vincent	26,065	26,065	26,065	26,485	20,120	16,230
Bequia	1,900	1,900	1,900	1,860	1,080	1,000
Union Island	1,110	1,110	1,110	1,121	695	311
Canouan	2,700	2,700	2,700	2,600	1,300	788
Mayreau	180	180	180	180	60	0
Peak Demand (KW)						
St. Vincent	19,160	19,160	18,640	17,120	16,270	16,050
Bequia	1,325	1,325	1,325	1,200	1,140	1,065
Union Island	517	517	487	487	434	428
Canouan	2,154	2,154	2,021	1,821	734	1,065
Mayreau	40	40	39	38	26	0
PRODUCTION AND SALES						
Gross Generation (kWhs)						
Hydro	22,713,780	23,193,142	25,539,830	27,146,531	20,712,180	22,026,517
Diesel	118,378,885	111,109,123	106,211,315	93,595,252	87,528,028	79,819,913
	141,092,665	134,302,265	131,751,145	120,741,783	108,240,208	101,846,430
Own Use	3,624,125	3,929,090	4,225,112	3,803,796	2,980,268	1,638,581
Net Generation	137,468,540	130,373,175	127,526,033	116,937,987	105,259,940	100,207,849
Sales (kWhs)						
Domestic	56,747,530	54,867,257	53,687,894	50,493,950	47,194,734	44,185,435
Commercial	58,941,289	54,134,549	53,541,364	47,087,122	39,004,275	36,570,640
Industrial	6,832,412	6,586,653	6,308,552	6,146,615	6,520,330	6,499,779
Street lighting	2,930,481	2,936,597	2,880,824	2,796,146	2,711,316	2,568,841
Total Sales	125,451,712	118,525,056	116,418,634	106,523,833	95,430,655	89,824,695
Loss (% of Net Generation)	8.74%	9.08%	8.17%	8.9%	9.3%	10.4%
Number of Consumers at Year-End						
Domestic	33,705	32,710	31,681	30,304	29,535	28,595
Commercial	4,147	4,055	3,947	3,825	3,667	3,554
Industrial	28	28	29	32	34	35
Street lighting	47	47	47	47	46	46
	37,927	36,840	35,704	34,208	33,282	32,230