VINLEC

ST. VINCENT ELECTRICITY SERVICES LIMITED

ANNUAL REPORT 2006

MISSION STATEMENT

To deliver an electricity supply service of the best quality and value to our customers; to satisfy the interests of the shareholders and employees; to support sustainable development and contribute towards a high quality of life for our people.

CONTENTS

CORPORATE INFORMATION

REGISTERED OFFICE
Paul's Avenue
Kingstown
St. Vincent & the Grenadines

DIRECTORS
Mr. Douglas Cole, Chairman
Sir Vincent Beache (from October 1, 2006)
Mr. Maurice Edwards, BSc., CGA, O.B.E.
Mr. Kirk DaSilva, ACIB, MCMI, AFA
Mr. Simon Glynn
Mr. Roosevelt Trent
Mr. Patrick DaSilva
Mr. Godfred Pompey (from October 1, 2006)
Mr. Theodore Browne, LLB, LLM (up to September 30, 2006)
Bradley Francis, BSC. Eng (up to July 31, 2006)
Mr. Leon Snagg (up to September 30, 2006)

COMPANY SECRETARY
Mrs. Juliette Hinds-Wilson

CHIEF EXECUTIVE OFFICER
Mr. Thornley Myers

SOLICITORS
Hughes and Cummings
Egmont Street, Kingstown
St. Vincent & the Grenadines

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

AUDITORS
KPMG Eastern Caribbean
Chartered Accountants

SENIOR MANAGEMENT
Chief Executive Officer
Mr. Thornley Myers

Manager Engineering
Vacant

Manager Finance
Mrs. Juliette Hinds-Wilson
Senior Generation Engineer
Mr. Leonard Deane

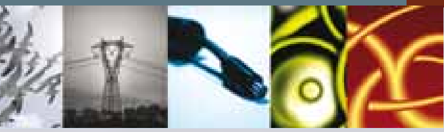
Senior Planning Engineer
Dr. Vaughn Lewis

Senior Transmission & Distribution Engineer
Mr. Elrias Williams

Manager Information Systems
Mr. John Rickards

Manager Internal Audit
Ms. Joan Millington

Manager Human Resource and Administration
Mrs. Jillian Williams-Douglas



CHAIRMAN'S REPORT TO THE SHAREHOLDERS

During the past year the company achieved earnings of $1.million. Revenues totaled $104 million a 9.7% increase over 2005. Fuel surcharge revenue, driven by the increase in fuel prices represented 39% of the revenues, an increase of $7.4 million over the previous year. As an organization we are committed to assisting our customers in becoming more aware of their ability to lower their electricity bills through responsible energy usage. By year end our customer base stood at 36,840 with average energy sales per customer of 3,217 kWh.

The Balance Sheet reflects net assets of $136 million, with property plant and equipment reflecting the most significant increase of $11.5 million. This is primarily attributable to the continued construction of our modern power plant at Lowmans Bay. By year end, final commissioning and testing were in progress. This project, which was in response to strong growth in electricity demand, was a turnkey contract with MAN B&W Diesel for the purchase and installation of two 4.35 MW medium speed diesel engines.

Although 2006 was a challenging year, due to the dedication and commitment of our employees, we were able to effectively deal with the many challenges presented. We look forward with optimism to 2007 as we continue to deliver a reliable electricity service to the Nation.

Douglas Cole
Chairman

DIRECTORS' REPORT

The Directors are pleased to present their report for the year ended December 31, 2006:

1. Financial Statements
   The annexed audited Financial Statements show net earnings for the year of $1,001,386 after accounting for income tax expense of $4,956,846.

2. State of Affairs
   The state of affairs of the company is as set out in the financial statements on pages 10 to 42. There were no significant changes during the financial year.

3. Principal Activities
   The company's principal activities consist of the generation, transmission and distribution of electricity throughout the state of St. Vincent and the Grenadines. There were no significant changes during the year.

4. Directors
   The Directors for the company for the financial year ended December 31, 2006 were

   - Douglas Cole, Chairman
   - Sir Vincent Beache (from October 1, 2006)
   - Maurice Edwards
   - Kirk DaSilva
   - Simon Glynn
   - Roosevelt Trent
   - Patrick DaSilva
   - Godfred Pompey (from October 1, 2006)
   - Theodore Browne (up to September 30, 2006)
   - Bradley Francis (up to July 31, 2006)
   - Leon Snagg (up to September 30, 2006)

5. Auditors
   The retiring auditors KPMG offer themselves for reappointment at a fee to be agreed with the Directors.

On behalf of the Board of Directors

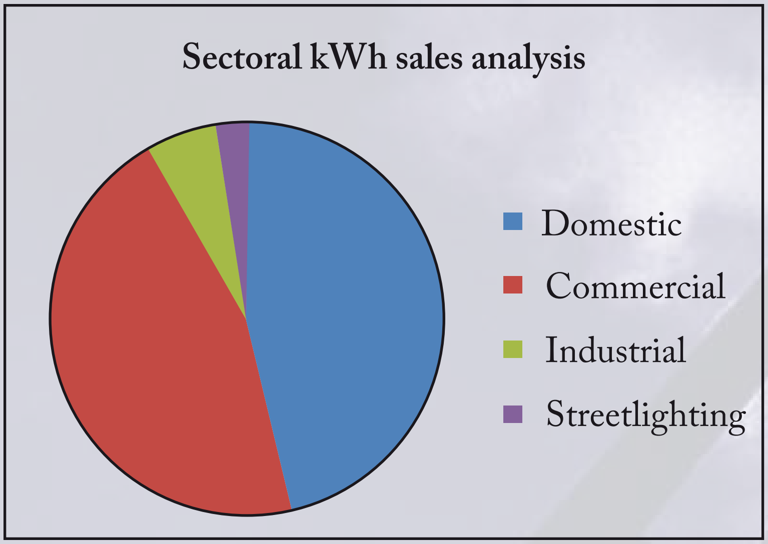
Douglas Cole Chairman	Kirk DaSilva Director	Juliette Hinds-Wilson Corporate Secretary

FINANCIAL PERFORMANCE

The Company recorded improved revenues but a decline in operating earnings for the year ended December 31, 2006. Non fuel income from sales grew by $1.94m (3.1% over 2005) as a result of a 1.8% increase in electricity usage. Electricity revenue growth was driven by increased demand as there was no increase in our tariff base rates.

Fuel prices continued their steady upward movement during the year and this put pressure on the fuel surcharge rate applied to our customers' bills. This variable monthly rate as billed to customers reflects variations in the cost of diesel fuel used in the generation of electricity. This component of our revenues grew by $7.54m (22.2% over 2005), which fundamentally reflects higher fuel prices and fuel consumption compared to last year.

However, as the total increase in non-fuel operating costs was $1.31m, and we incurred a $2.3m loss on the disposal of one of our properties, our pre-tax earnings decreased to $5,958,232 (2005:$7,753,723). These factors combined resulted in our net earnings being only $1,001,386 because of the slightly higher tax burden incurred in 2006. Taxes for the year amounted to EC$4.956 million (current and deferred), compared with EC$4.338 in 2005.

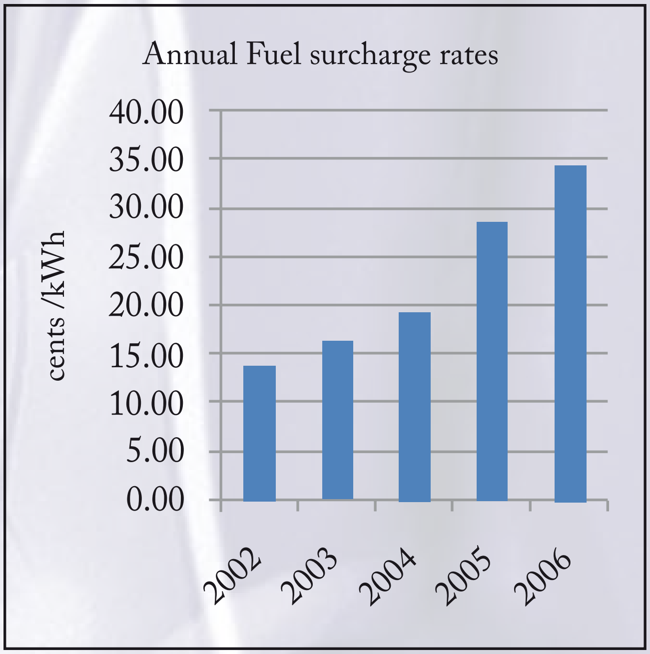


Operating Revenues

The expansion in our electricity sales was led by the domestic sector where a 2.1% increase was recorded. An additional 1029 households were connected to the supply but by year end our average consumption per customer in this sector had declined to 1677kWh (2205: 1697 kWh).

Commercial sector sales also recorded growth (1.1%), albeit at a slower pace. The industrial sector, with a growth rate of 4.4% in 2006, consumed an additional 278,011 kWh during the year.

As world fuel oil prices continued their upward movement during the year, the average fuel surcharge rate was 34.42 cents per kWh up from 28.65 cents in 2005. This translates into a 20.13% increase in the fuel surcharge component of the rate as paid by customers.



Operating Expenses

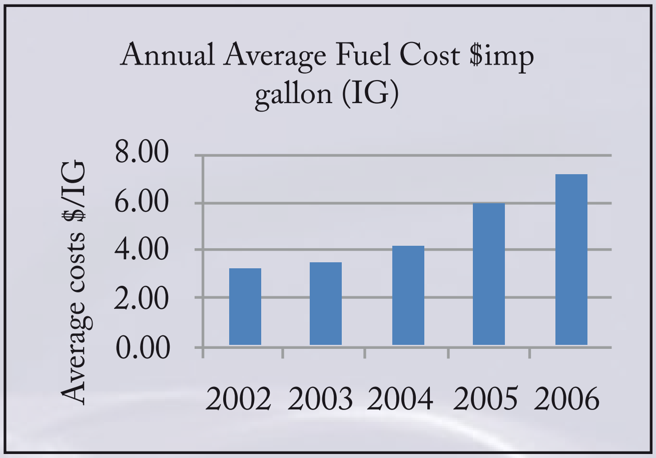
During 2006 the company consumed 6.160 million gallons of diesel fuel at a cost of EC$43.976 million dollars in the generation of electricity. This translates into an average price per gallon of EC$7.1387 compared with EC$5.9527 in 2005; i.e. a 19.92 % increase in the price per gallon.

The non-fuel costs associated with the production and delivery of electricity to our customers increased by 1.48%.

Investments in Plant and Equipment

A total of $30.849m was invested in new plant and equipment during the year. Approximately 70% of this went towards significantly advancing the construction of our new power station complex at Lowmans Bay, designed for up to four medium speed diesel engines. Our transmission network received EC$5.479m of the investment as we upgrade our 33kV transmission lines.

Other projects included the installation of stacks at our Cane Hall power station where $1.38m was spent, and the partial rebuilding of our hydro pipelines at a cost of EC$715,000



HUMAN RESOURCE

Our employee relations remained sound and our emphasis on staff training and development continued. During the year a total of 6,617 training hours were recorded, implying that each employee received an average of 22.81 hours of skill enhancement instruction away from his/her workstation. This was achieved at a cost of EC$716,000, representing 1.13% of our non-fuel income from electricity sales.

OUTLOOK

While it appears clear that there will be continued growth in electricity sales over the next few years, it will not be at the rates experienced during the late 1990's into the early 2000's. However there are challenges to face.

Foremost is the need for least cost expansion in our facilities combined with harnessing greater efficiencies from our processes without increasing our basic charges for electricity. High fuel prices are once again becoming a serious cause for concern and we will look at addressing the possibility of using different types and grades of fuel as a method of cost control.

Thornley Myers
Chief Executive Officer.

ST. VINCENT ELECTRICITY SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

(With comparative figures for December 31, 2005)

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, 2006, 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 which have been prepared in accordance with International Financial Reporting Standards, give a true and fair view of the financial position of St. Vincent Electricity Services Limited as of December 31, 2006, and of its financial performance, changes in equity and its cash flows for the year then ended.

kpmg

Chartered Accountants
Kingstown, St. Vincent and the Grenadines
September 6, 2007

ST. VINCENT ELECTRICITY SERVICES LIMITED
Balance Sheet
As of December 31, 2006
With comparatives as of December 31, 2005
(Expressed in Eastern Caribbean Dollars)

	Notes	2006 $	2005 $
Assets			
Current			
Cash	5	12,064,349	7,346,010
Short-term securities	6	6,512,666	7,201,709
Trade and other receivables	7	29,948,997	25,739,680
Income tax refundable	8	1,960,228	4,103,042
Inventories	9	8,522,480	9,026,723
		59,008,720	53,417,164
Non-current			
Long-term investments	10	200,000	200,000
Property, plant and equipment	11	209,508,618	198,020,544
		209,708,618	198,220,544
Total assets		268,717,338	251,637,708
Liabilities			
Current			
Trade and other payables	12	24,870,534	23,301,004
Income tax payable		-	3,012,756
Borrowings	13	3,181,300	4,701,186
		28,051,834	31,014,946
Non-current			
Borrowings	13	64,936,325	50,755,610
Consumers' contributions to line extensions	14	8,003,905	7,576,984
Grant	15	239,112	254,374
Consumers' deposits	16	7,539,116	7,152,078
Deferred tax liabilities	17	23,774,226	19,712,282
		104,492,684	85,451,328
Total liabilities		132,544,518	116,466,274
Shareholders' equity			
Share capital	18	29,045,910	29,045,910
Revaluation surplus	11	34,019,111	39,378,056
Self insurance fund	11	9,000,000	6,000,000
Retained earnings		64,107,799	60,747,468
Total shareholders' equity		136,172,820	135,171,434
Total liabilities and shareholders' equity		268,717,338	251,637,708

The notes on pages 7 to 33 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, 2006
With comparative figures for December 31, 2005
(Expressed in Eastern Caribbean Dollars)

	Notes	2006 $	2005 $
Revenues			
Energy sales		62,871,153	60,923,631
Fuel surcharge recovered		40,957,343	33,503,845
Other revenue		750,458	750,409
		104,578,954	95,177,885
Operating expenses			
Diesel generation		19,999,902	19,169,415
Hydro generation		5,175,898	5,760,272
Transmission & distribution		12,358,452	13,172,154
Fuel surcharge		40,642,995	32,835,782
Administrative expenses		16,193,286	14,519,566
	25	94,370,533	85,457,189
Operating profit		10,208,421	9,720,696
Other (losses)/gains, net	19	(2,306,455)	289,863
Profit before finance costs and taxation		7,901,966	10,010,559
Finance costs		(1,943,734)	(2,256,836)
Profit before taxation		5,958,232	7,753,723
Taxation	20	(4,956,846)	(4,338,548)
Net profit for the year		1,001,386	3,415,175
Earnings per share	21	0.17	0.59

The notes on pages 7 to 33 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity
For the year ended December 31, 2006
With comparative figures for December 31, 2005
(Expressed in Eastern Caribbean Dollars)

	Share capital	Self insurance fund	Revaluation surplus	Retained earnings	Total
	$	$	$	$	$
Balance as of December 31, 2004	29,045,910	3,000,000	45,189,316	54,521,033	131,756,259
Revaluation surplus realized	-	-	(5,811,260)	5,811,260	-
Self insurance fund appropriation	-	3,000,000	-	(3,000,000)	-
Profit for the year	-	-	-	3,415,175	3,415,175
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

The notes on pages 7 to 33 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Cash Flows
For the year ended December 31, 2006
With comparative figures for December 31, 2005
(Expressed in Eastern Caribbean Dollars)

	2006 $	2005 $
Cash flows from operating activities		
Profit before taxation	5,958,232	7,753,723
Adjustments for:		
Depreciation	17,258,234	17,797,863
Amortization of consumers' contribution to line extensions	(1,082,787)	(1,022,473)
Loss (gain) on disposal of property, plant and equipment	2,058,682	(80,462)
Finance costs	1,943,734	2,256,836
Foreign exchange loss (gain)	247,773	(210,770)
Amortization of deferred grant	(15,262)	(16,238)
Interest income	(265,673)	(312,578)
Withholding tax from prior years offset to tax credits	3,459,335	-
Operating profit before working capital changes	29,562,268	26,165,901
Change in inventories	504,243	3,338,550
Change in trade and other receivables	(4,209,317)	(3,969,852)
Change in trade and other payables	1,569,530	(758,983)
Cash generated from operations	27,426,724	24,775,616
Interest paid	(1,943,734)	(1,545,541)
Income tax paid	(5,224,178)	(406,468)
Interest received	265,674	221,056
Net cash generated from operating activities	20,524,486	23,044,663
Cash flows from investing activities		
Acquisition of short-term securities	(265,674)	(5,220,037)
Proceeds from liquidation of short-term securities	954,716	13,924,575
Acquisition of property, plant and equipment	(30,849,730)	(44,464,179)
Proceeds from disposal of property, plant and equipment	44,740	83,441
Net cash used in investing activities	(30,115,948)	(35,676,200)
Cash flows from financing activities		
Proceeds from consumers' deposits	387,037	383,164
Proceeds from borrowings	16,434,270	24,722,062
Repayment of borrowing	(2,621,992)	(4,332,762)
Dividends paid		(500,000)
Net proceeds from consumers' contributions	1,509,708	585,814
Net cash generated from financing activities	15,709,023	20,858,278
Net increase in cash	6,117,561	8,226,741
Cash - beginning of year	5,946,788	(2,279,953)
Cash - end of year	12,064,349	5,946,788
Represented by:-		
Cash	12,064,349	7,346,010
Bank overdraft	-	(1,399,222)
	12,064,349	5,946,788

The notes on pages 7 to 33 are an integral part of these financial statements.

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 September 6, 2007.

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 whic h 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.

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.

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-inprogress 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	21/2	-	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.

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 specifie d 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.

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 yearend 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, 2006, 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 7 Financial Instruments: Disclosure, and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the company's 2007 financial statements, will require extensive additional disclosures with respect to company's financial instruments and share capital.

- IFRS 8 Operating Segments requires segment disclosure based on the components of the company that management monitors in making decisions about operating matters about operating matters as well as qualitative disclosures on segments. Segments will be reportable based on threshold tests related to revenues, results and assets. The statement is not expected to have any impact on the financial statements.

- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the company's 2007 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 8 Scope of IFRS 2 Share-based Payment addresses the accounting for share-based payment transactions in which some or all goods or services received cannot be specially identified. IFRIC 8 will become mandatory for the company's 2007 financial statements, with retrospective application required. It is not expected to have any impact on the financial statements.

- IFRIC 9 Reassessment of Embedded Derivatives requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the company's 2007 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment an equity instrument for a financial asset carried at cost. IFRIC 10 will become mandatory for the company's 2007 financial statements, and is not expected to have any impact on the financial statements.

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

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

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions addresses the classification of a share-based payment transaction (as equity or cash-settled), in the financial statements of the entity whose employees are entitled to the sharebased payment, where equity instruments of the parent or another group company are transferred in settlement of the obligation. IFRIC 11, which becomes mandatory for the company's 2008 financial statements, is not expected to have any impact on the financial statements.

- IFRIC 12 Service Concession Arrangements addresses the accounting requirements for public -to-private service concession arrangements in private sector entities. IFRIC 12 will become mandatory for the company's 2008 financial statements and is not expected to have any impact on the financial statements.

3. Financial risk management

Financial risk factors
The company's activities expose it to a variety of financial risks: foreign currency risk, price risk, liquidity risk, credit risk, interest rate risk, and underinsurance risk.

Currency risk

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

	Financial assets $	Financial liabilities $	Currency sensitivity gap 2005 $	Currency sensitivity gap 2005 $
KUWAITI DINAR	-	2,924,288	(2,924,288)	(3,422,259)
ECU	-	1,005,565	(1,005,565)	(1,005,565)
EURO	-	-	-	(1,175,408)
US	8,113,043	63,418,956	(55,305,913)	(44,922,613)
STG	-	519,568	(519,568)	(475,580)
EC	9,994,703	40,919,036	(924,333)	(2,218,620)
TOTAL	48,107,746	108,787,413	(60,679,667)	(53,220,045)

3. Financial risk management (cont'd)

Price risk

The company is exposed to price risk because of investments held by the company and described as available -for-sale financial assets at fair value.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Management does not believe significant liquidity risk exists at December 31, 2006.

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	18,577,015	0	0	29,530,731	48,107,746
Financial libilities	3,181,300	0	72,475,441	33,130,672	108,787,413
Interest sensitivity gap					
As of December 31, 2006	15,395,715	0	(72,475,441)		(57,079,726)
As of December 31, 2005	9,833,322	0	(57,907,688)		(48,074,366)

Underinsurance risk

The company is exposed to underinsurance risk on its assets as indicated in Note 11. The company has established a "Self Insurance Fund" (Note 11) and will continue to set aside funds on an annual basis to manage this risk.

3. Financial risk management (cont'd)

Fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The estimated fair value of cash and bank deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

	2006 $	2005 $
Cash at bank and in hand	12,064,349	7,346,010

6. Short-term securities

	2006 $	2005 $
Securities held to maturity		
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due November 6, 2006	-	1,123,663
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due February 9, 2006	-	2,462,288
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due June 10, 2006	-	2,676,229
Bank of Nova Scotia 4.25% Certificate of deposit, due June 30, 2006	-	939,529
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	-
	6,512,666	7,201,709

7. Trade and other receivables

	2006 $	2005 $
Trade receivables	31,198,780	26,856,055
Less: provision for impairment of trade receivables	(1,486,958)	(1,336,958)
Trade receivables, net	29,711,822	25,519,097
Prepayments	237,175	220,583
	29,948,997	25,739,680

8. Income tax refundable

The company was assessed by the Inland Revenue Department for withholding tax for the period 1996 to 2005 amounting to $3,459,335. This amount was offset by the Inland Revenue Department against existing tax credits of the company. The amount of the assessment has been recognised in full in the current year.

9. Inventories

	2006 $	2005 $
Spares	6,746,045	10,493,843
Fuel and lubricants	3,235,856	367,680
Stationery	185,915	160,087
Good-in-transit	732,171	382,620
	10,899,987	11,404,230
Less: provision for obsolescence	(2,377,507)	(2,377,507)
	8,522,480	9,026,723

10. Long-term investments

	2006 $	2005 $
20,000 Eastern Caribbean Security Exchange Limited Class B Shares	200,000	200,000

11. Property, plant and equipment

	Freehold property $	Generation $	Transmission & distribution $	Other $	Total $
Operational assets valuation					
As of December 31, 2005	111,828,597	124,707,693	142,323,937	16,921,606	395,781,833
Transfers	-	57,461	3,019,309	900,624	3,977,394
Disposals	(2,726,183)	-	-	(269,115)	(2,995,298)
As of December 31, 2006	109,102,414	124,765,154	145,343,246	17,553,115	396,763,929
Accumulated depreciation					
As of December 31, 2005	58,397,373	79,333,453	93,104,716	14,723,532	245,559,074
Charge for the year	2,449,991	4,387,929	8,676,729	1,743,585	17,258,234
Disposals and transfers	(622,761)	-	-	(269,115)	(891,876)
As of December 31, 2006	60,224,603	83,721,382	101,781,445	16,198,002	261,925,432
Net book value					
As of December 31, 2005	53,431,224	45,374,240	49,219,221	2,198,074	150,222,759
As of December 31, 2006	48,877,811	41,043,772	43,561,801	1,355,113	134,838,497
Non-operational assets					
As of December 31, 2005	-	37,133,082	9,857,753	806,950	47,797,785
Additions	-	24,023,423	6,040,375	785,932	30,849,730
Transfers	-	(57,461)	(3,019,309)	(900,624)	(3,977,394)
As of December 31, 2006	-	61,099,044	12,878,819	692,258	74,670,121
Net book value					
As of December 31, 2005	53,431,224	82,507,322	59,076,974	3,005,024	198,020,544
As of December 31, 2006	48,877,811	102,142,816	56,440,620	2,047,371	209,508,618

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 $5,358,945 (2005: $5,811,260). Depreciation on the original cost basis for 2006 is $11,878,367 (2005: $11,986,603).

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 $56.4 million at December 31, 2006 (2005: $59.1 million). The value of the fund was $9 million at December 31, 2006 (2005: $6 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 (2005: $2,356,478) were capitalised during the year.

12. Trade and other payables

	2006	2005
	$	$
Trade payables	7,623,010	4,863,786
Accrued expenses	8,076,150	4,660,063
Other payables	2,556,840	4,742,620
Government of St Vincent and the Grenadines	6,614,534	9,034,535
	24,870,534	23,301,004

13. Borrowings

	Notes	2006	2005
		$	$
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	13(a)(i)	1,607,909	1,695,384
International Development Association	13(a)(ii)	1,255,299	1,309,877
Third Power Project:-			
Lowmans Bay Project	13(c)	22,731,118	13,700,441
Second Power Project:-			
Special Fund Resources	13(b)	-	185,982
Government of St. Vincent and the Grenadines			
United States Agency for International Development	13(d)(i)	13,472,700	13,992,240
European Investment Bank Loan II	13(d)(ii)	1,005,565	1,005,565
European Investment Bank Loan III	13(d)(iii)	5,853,392	6,598,757
Agence Française de Développement Group (Formerly Caisse Française de Développement)	13(e)	920,802	1,125,448
Kuwait Fund for Arab Economic Development	13(f)	2,845,628	3,422,259
European Investment Bank Lowmans Bay	13(g)	18,425,212	11,021,621
Total long-term debts		68,117,625	54,057,574
Less: Current portion		(3,181,300)	(3,301,964)
		64,936,325	50,755,610

	2006	2005
	$	$
Current		
Bank overdraft	-	1,399,222
Bank borrowings	3,181,300	3,301,964
	3,181,300	4,701,186
Non-current		
Bank borrowings	44,604,668	29,159,048
Government of St Vincent and the Grenadines	20,331,657	21,596,562
	64,936,325	50,755,610
Total borrowings	68,117,625	55,456,796

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) 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, 2005, the rate was 6.00%.

This loan is for US$4,418,283, and is repayable in 60 equal quarterly installments of US$73,638, plus interest, due March 31, 2006. This loan was made by the COB 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 COB 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.

13. Borrowings (cont'd)

c. 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.

d. 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, 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 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, 2006.

(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.

e. 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.

13. Borrowings (cont'd)

f. 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.

g. European Investment Bank Loan IV

Loan for EUR 8,300,000, to be disbursed as up to USD$10,000,000, repayable in 22 semiannual 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.

14. Consumers' contributions to line extensions

	Government $	Other consumers $	Total $
Contributions			
Beginning of year	4,260,035	13,293,239	17,553,274
Received during the year	-	1,514,523	1,514,523
Refunds	-	(4,815)	(4,815)
End of year	4,260,035	14,802,947	19,062,982
Amortization			
Beginning of the year	3,283,781	6,692,509	9,976,290
For the year	255,602	827,185	1,082,787
End of year	3,539,383	7,519,694	11,059,077
Balance - 2005	976,254	6,600,730	7,576,984
Balance - 2006	720,652	7,283,253	8,003,905

15. Grant

	2006 $	2005 $
Agence Française de Développement Group Grant	254,374	270,612
Amortisation	(15,262)	(16,238)
	239,112	254,374

16. Consumers' deposits

	2006 $	2005 $
Deposits		
Beginning of year	4,988,974	4,806,727
Received during the year	385,092	339,023
Refunds	(183,087)	(156,776)
End of year	5,190,979	4,988,974
Interest		
Beginning of the year	2,163,104	1,962,187
For the year	185,033	200,917
	2,348,137	2,163,104
	7,539,116	7,152,078

17. Deferred tax liabilities

Deferred tax liability comprises:-

	2006 $	2005 $
Temporary difference on property, plant and equipment	23,313,397	18,968,661
Taxed provisions	460,829	743,621
	23,774,226	19,712,282

18. Share capital

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

	2006 $	2005 $
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

	2006 $	2005 $
(Loss)/gain on disposal of property, plant and equipment	(2,058,682)	80,463
Foreign exchange (loss) gain		(247,773)
		209,400
	(2,306,455)	289,863

20. Taxation

Income tax expense comprises:-

	2006 $	2005 $
Current	894,902	3,419,224
Deferred	4,061,944	919,324
	4,956,846	4,338,548

Reconciliation of effective tax rate

	2006 %	2006 $	2005 %	2005 $
Profit before tax		5,958,232		7,753,723
Income tax using applicable corporation tax rate	32.0	1,906,634	32.0	2,481,191
Non-deductible expenses	49.4	2,943,873	24.8	1,924,365
Other	1.8	106,339	(0.9)	(67,008)
	83.2	4,956,846	56.0	4,338,548

21. Earnings per share

Earnings per share is calculated upon net earnings for the year of $1,001,386 (2005: $3,415,175) and on the average issued share capital of 5,809,182 (2005: 5,809,182) ordinary shares.

22. Capital commitments

As of December 31, 2006, the directors approved capital expenditures totaling $56.3 million (2005: $56.3 million), of which $34 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, 2006, the company's pension expense amounted to $580,156 (2005: $494,235).

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

	2006 $	2005 $
Fuel cost over base	40,642,995	32,835,782
Fuel at base price	3,333,486	3,175,764
Depreciation on property, plant and equipment	17,237,281	17,797,863
Repairs and maintenance	5,777,085	5,304,899
Employee benefit expense	13,300,906	12,316,880
Other operating expenses	12,995,993	13,003,528
Amortisation of consumer contributions	1,082,787	1,022,473
	94,370,533	85,457,189

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:

	2006 $	2005 $
Revenue		
Government of St. Vincent and the Grenadines and its corporations	11,936,925	10,877,695

26. Related partie s (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:

	2006 $	2005 $
Government of St. Vincent and the Grenadines	10,558,775	7,086,663

27. Employee benefit expense

	2006 $	2005 $
Staff costs	13,300,906	12,316,880
Number of employees at balance sheet date	290	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.

29. Dividend

After December 31, 2006, a dividend of $500,000 was proposed by the directors for 2006. The dividend has not been provided for and there is no income tax consequence.

ST. VINCENT ELECTRICITY SERVICES LIMITED

ADDITIONAL INFORMATION
TO THE
FINANCIAL STATEMENTS

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

ADDITIONAL INFORMATION

Table of Contents

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, 2006 and hence are excluded from the opinion expressed in our report dated September 6, 2007 to the members on such financial statements.

Chartered Accountants
Kingstown, St. Vincent and the Grenadines
September 6, 2007

ST. VINCENT ELECTRICITY SERVICES LIMITED

Schedule I

Financial Statistics
For the year ended December 31, 2006
(Expressed in Eastern Caribbean Dollars)

	2006 EC$ 000's	2005 EC$ 000's	2004 EC$ 000's	2003 EC$ 000's	2002 EC$ 000's	2001 EC$ 000's	2000 EC$ 000's
SUMMARISED BALANCE SHEET							
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	64,107	60,747	54,521	48,650	45,301	40,680	39,292
Other reserves	82,338	79,819	81,763	69,199	66,843	64,096	64,771
Long-term liabilities	64,936	50,756	30,045	33,528	39,913	43,198	46,024
Deferred income	239	254	271	288	306	326	345
	240,666	220,622	195,646	180,711	181,409	177,346	179,478
Fixed assets (Net)	209,508	198,020	171,357	154,576	155,029	147,273	152,766
Long-term investments	200	200	200	200	200	200	0
Current assets	59,009	53,417	54,153	51,306	55,838	53,934	42,676
Current liabilities	(28,051)	(31,015)	(30,064)	(25,371)	(29,658)	(24,061)	(15,964)
	240,666	220,622	195,646	180,711	181,409	177,346	179,478
SUMMARISED RESULTS							
Operating Revenues							
Electric ity sales	62,871	60,924	56,936	50,822	48,061	46,415	44,022
Fuel surcharge	40,957	33,504	20,693	16,023	12,938	14,970	14,510
Other	750	831	1,230	1,779	2,381	2,217	2,009
Total	104,578	95,259	78,859	68,624	63,380	63,602	60,541
Operating Expenses							
Fuel cost covered by surcharge	40,642	32,836	20,603	15,958	12,850	14,753	14,400
Operating and maintenance							
- Hydro	2,258	2,434	1,833	2,261	1,914	2,353	2,266
- Diesel	16,309	14,850	12,307	10,183	9,343	8,356	7,130
Transmission & distribution	3,681	5,458	4,285	4,254	3,212	3,725	3,547
Administration & other	16,528	11,873	13,195	12,321	11,892	9,779	9,317
Depreciation	17,258	17,798	18,589	17,102	15,490	14,918	13,924
Total	96,676	85,249	70,812	62,079	54,701	53,884	50,584
Operating income	7,902	10,010	8,047	6,545	8,679	9,718	9,957
Interest	(1,944)	(2,257)	(2,311)	(2,850)	(2,914)	(3,135)	(3,073)
Net profit before tax	5,958	7,753	5,736	3,695	5,765	6,583	6,884
Income tax expense	(4,957)	(4,338)	(3,709)	(2,665)	(3,319)	(5,013)	(2,814)
Net profit after tax	1,001	3,415	2,027	1,030	2,446	1,570	4,070
Appraisal element in depreciation	5,359	5,811	5,344	4,719	4,175	4,265	3,927
Retained earnings brought forward	60,747	54,521	48,650	45,301	40,680	36,045	31,295
Final/Interim dividend	0	0	(500)	(1,400)	(1,000)	(1,200)	0
Self insurance fund	(3,000)	(3,000)	(1,000)	(1,000)	(1,000)	0	0
Retained earnings carried forward	64,107	60,747	54,521	48,650	45,301	40,680	39,292

ST. VINCENT ELECTRICITY SERVICES LIMITED

Schedule II

Financial Statistics
For the year ended December 31, 2006
(Expressed in Eastern Caribbean Dollars)

	2006	2005	2004	2003	2002	2001
GENERATING PLANT (KW)						
Site Rated Capacity (KW)						
St. Vincent	33,195	33,195	33,195	30,635	31,235	27,717
Bequia	2,931	2,931	2,156	2,156	2,160	2,160
Union Island	1,270	1,270	1,270	1,270	910	910
Canouan	3,120	3,120	3,120	3,120	3,120	3,120
Mayreau	180	180	180	180	0	0
Firm Capacity (KW)						
St. Vincent	26,065	26,065	26,485	20,120	16,230	17,400
Bequia	1,900	1,900	1,860	1,080	1,000	1,000
Union Island	1,110	1,110	1,121	695	311	318
Canouan	2,700	2,700	2,600	1,300	788	1,355
Mayreau	180	180	180	60	0	0
Peak Demand (KW)						
St. Vincent	19,160	18,640	17,120	16,270	16,050	15,230
Bequia	1,325	1,325	1,200	1,140	1,065	1,140
Union Island	517	487	487	434	428	417
Canouan	2,154	2,021	1,821	734	1,065	2,021
Mayreau	40	39	38	26	0	0
PRODUCTION AND SALES						
Gross Generation (kWhs)						
Hydro	23,193,142	25,539,830	27,146,531	20,712,180	22,026,517	18,509,655
Diesel	111,109,123	106,211,315	93,595,252	87,528,028	79,819,913	80,282,292
	134,302,265	131,751,145	120,741,783	108,240,208	101,846,430	98,791,947
Own Use	3,929,090	4,225,112	3,803,796	2,980,268	1,638,581	1,868,100
Net Generation	130,373,175	127,526,033	116,937,987	105,259,940	100,207,849	96,923,847
Sales (kWhs)						
Domestic	54,867,257	53,687,894	50,493,950	47,194,734	44,185,435	41,829,458
Commercial	54,134,549	53,541,364	47,087,122	39,004,275	36,570,640	35,554,945
Industrial	6,586,653	6,308,552	6,146,615	6,520,330	6,499,779	6,963,546
Street lighting	2,936,597	2,880,824	2,796,146	2,711,316	2,568,841	2,256,761
Total Sales	118,525,056	116,418,634	106,523,833	95,430,655	89,824,695	86,604,710
Loss (% of Net Generation)	9.08%	8.17%	8.9%	9.3%	10.4%	10.6%
Number of Consumers at Year - End						
Domestic	32,710	31,681	30,304	29,535	28,595	27,671
Commercial	4,055	3,947	3,825	3,667	3,554	3,428
Industrial	28	29	32	34	35	34
Street lighting	47	47	47	46	46	46
	36,840	35,704	34,208	33,282	32,230	31,179

NOTES