



ST. VINCENT ELECTRICITY
SERVICES LIMITED

ANNUAL REPORT 2008



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

03	Corporate Information
04	Chairman's Report to the Shareholders
05	Directors' Report
06	Operations Report
16	Auditors' Report to the Shareholders
18	Balance Sheet
19	Statement of Income
20	Statement of Changes in Equity
21	Statement of Cash Flows
22	Notes to the Financial Statements
55	Additional Comments of the Auditors
56	Financial Statistics

REGISTERED OFFICE

Paul's Avenue
Kingstown
St. Vincent & the Grenadines



CORPORATE INFORMATION

DIRECTORS

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

COMPANY SECRETARY

Mrs. Juliette Hinds-Wilson

CHIEF EXECUTIVE OFFICER

Mr. Thornley Myers

SOLICITORS

Saunders & Huggins
 Bonadie 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

Dr. Vaughn Lewis

Manager Finance

Mrs. Juliette Hinds-Wilson

Senior Generation Engineer

Mr. Augustus Ambrose

Senior Planning Engineer

Mr. Ricky Wright

Senior Transmission & Distribution Engineer

Mr. Elrias Williams

Manager Information Systems

Mr. Willis Williams

Manager Internal Audit

Ms. Joan Millington

Manager Human Resource and Administration

Mrs. Jillian Williams-Douglas



CHAIRMAN'S REPORT TO THE SHAREHOLDERS

2008 was one of the most challenging years the organization has had in recent memory. During it we had to face progressively escalating fuel prices as world prices of crude oil reached record levels. As a consequence of this, the fuel surcharge component of our electricity bill also reached an all time high in August. This caused vociferous reaction from customers as this created an extra economic burden on them. The Board is particularly concerned especially as the world market conditions, which although by year end had shown some signs of stabilizing, are likely to reemerge. To this end it is our commitment to ensure that the company addresses viable fuel saving alternatives while ensuring that we focus on absolute fuel efficiency at all of our generating plants.

Despite the challenges previously recited we are happy to report that the company achieved modest results. During the past year the company achieved net earnings of \$3.9 million after accounting for taxes of \$3.3 million. Total operating revenues amounted to \$130 million a 17.6% increase over 2007. Fuel surcharge revenue, driven by the significant increase in fuel prices, represented 50.3% of our operating revenues, an increase of \$20.7 million over the previous year. For the first time ever, they had the dubious honour of outstripping the revenue generated by the basic energy charge. With the escalating cost of energy, the company had to contend with a contraction in its energy sales as consumers, becoming more aware of their ability to lower their electricity bills through responsible energy usage, did just that and this translated into a 2.2% decline in energy revenue.

The Balance Sheet reflects net assets of \$141 million, with cash reserves of \$34 million. This will enable the company to be better positioned to finance and execute its planned capital works programme in the coming year.

Although 2008 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 and anticipation to 2009 as we are positioned to continue to deliver a reliable electricity service to the Nation thereby satisfying the needs of all stakeholders.

Douglas Cole
Chairman



DIRECTORS' REPORT

The Directors are pleased to present their report for the year ended December 31, 2008:

1. Financial Statements

The annexed audited Financial Statements show net earnings for the year of \$3,993,469 after accounting for income tax expense of \$3,317,168.

2. State of Affairs

The state of affairs of the company is as set out in the financial statements on pages 15 to 54. 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, 2008 were

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

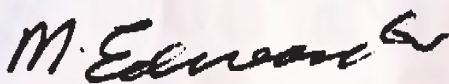
5. Auditors

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

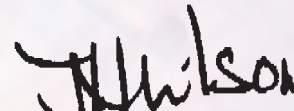
On behalf of the Board of Directors



Douglas Cole
Chairman



Maurice Edwards
Director



Juliette Hinds-Wilson
Corporate Secretary

OPERATIONS REPORT 2008

Corporate Overview

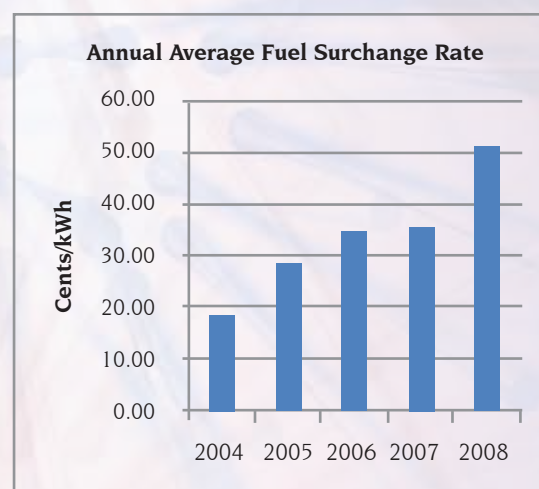
2008 proved to be one of the most challenging years in recent memory of our vertically integrated utility. During that period, we had to deal with the special challenge of sustained high fuel prices at record levels. We are acutely aware of the extra burden which this placed on our customers and are therefore urgently seeking to address viable alternatives including expansion of our hydroelectric network and the possibility of wind energy. In the interim we will continue to focus on absolute fuel efficiency in all our generating plants.

Financial Results

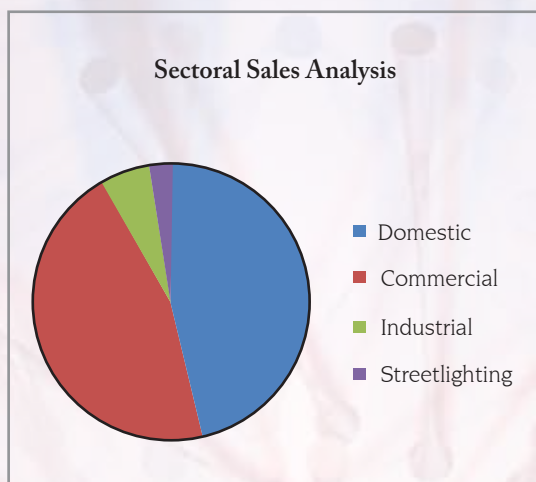
Despite the challenges presented by the significant rise in fuel prices over the year, we are pleased to report moderate results for the period. Our pre-tax earnings amounted to EC\$7.3 million compared with EC\$8.4 million in 2007. Taxes for the year amounted to EC\$3.317 million (current and deferred) resulting in net earnings of EC\$3.993 million, or EC\$0.69 per share. By year end our active customer base stood at 38,778 compared to 37,927 at the end of 2007 despite a 2 % contraction in our energy sales during the year. We also recorded a decrease in the average annual consumption per customer as the cost of fuel prompted many customers to use electricity wisely, in an attempt to control the cost of their electricity bills.

Operating Revenues

Operating revenues for 2008 totaled EC\$130 million, an EC\$19.482 million or 17.6% increase over last year. Our fuel surcharge revenue of EC\$65.5million, which fundamentally reflects higher fuel prices combined with a 2.8% decrease in the quantity of fuel consumed over the previous year, represented 50.3% of our operating revenues. During the year we consumed 6.428 million gallons of diesel fuel at a cost of EC\$69.9 million. As the price of fuel oil on the world market reached record highs, this translated into an average price per gallon of EC\$10.81 compared to the 2007 average price of EC\$7.23 per gallon. This significant cost increase impacted our variable fuel surcharge rate as applied to our customers' bills and was the major source of their discontent during the year.

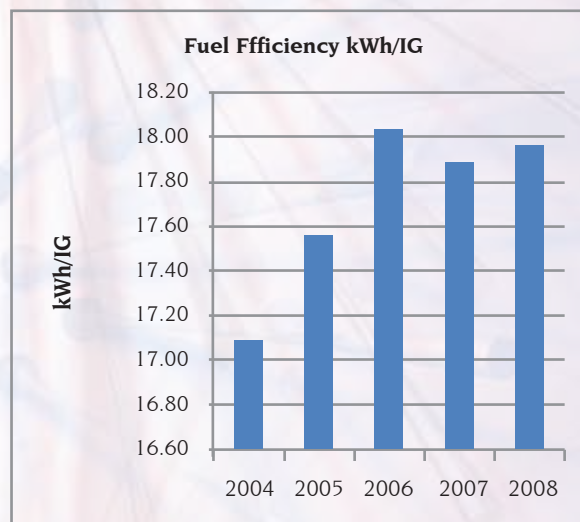
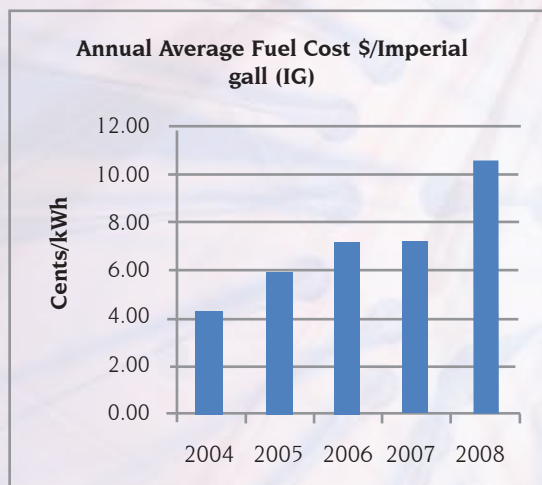


Electricity sales in 2008 declined 2,526,658 kWh, or 2% over 2007 results, with all sectors registering contractions. Domestic electricity sales at 55,532,302 kWh, represented 45% of our sales and accounted for 48% of the decline. The commercial and industrial segments almost equally shared the remaining 52% of the reduction.



Operating Expenses

Operating expenses increased EC\$20.5 million, or 20.8% to EC\$119.1 million in 2008. Power generation costs at EC\$93,458,393 increased \$20.7 million or 28.5% and represent 78% of our operating costs. Diesel fuel and lube oil costs, the company's most significant operating expense increased EC\$ 22.16 million or 44% to EC\$71,118,368. This increase was driven by significantly higher fuel prices. It is the Company's commitment to ensure that everything is done to get the maximum amount of electrical energy (kWh) from each gallon of diesel fuel consumed. To this end our fuel efficiency rate in 2008 was 17.96 kWh per IG, up from 17.88 in 2007. In addition, our hydroelectric plants were able to provide an extra buffer against the fuel prices as our hydro production increased 4.2% to represent 17% of total production. The non-fuel costs associated with the production and delivery of electricity to our customers declined by 3.2%, the equivalent of EC\$1.59m.





ENGINEERING

Generation

The main objective of the Generation Department, as contained in the 2008 budget plan, was to produce a reliable supply of electricity to satisfy customer demands in the most effective and efficient manner available. To achieve the above a number of secondary objectives needed to be accomplished. These included:

- Generating enough electricity to meet forecasted energy demand.
- Maximizing the energy generation from our hydroelectric plants,
- Completion of all planned maintenance activities on the generating plants, ancillary equipment and structures
- Development of our human resource capacity, and
- Sourcing of required inputs to implement maintenance plans.

Based on the results to end December the performance of the Department was satisfactory. During the year total generation of electrical energy in the state was 139,129,242 kWh. Of this, generation from our hydro electric plants contributed 17% or 23,673,460 kWh as we continued to maximize our energy from renewable resources, particularly in the face of escalating fuel costs. Our diesel fuel efficiency at 17.96 kWh/gal compares favourably with our 2007 ratio of 17.88 kWh/gal.

The all time system peak on mainland St. Vincent of 19.980MW was recorded in September. The Bequia system at 1.5MW and Canouan at 2.4MW also registered all time peaks loads during the year.

In our attempt at achieving greater efficiencies from our human resource, the Generation Department was reorganized in August. This saw the creation of the Protection and Automation Section, and the introduction of two new Plant Engineer positions: one with responsibility for our Cane Hall diesel plant and the Hydro Stations on mainland St. Vincent; and the other with responsibility for our power plants on the Grenadine Islands.

Most of the planned 12,000 hr and 24,000 hr overhauls scheduled to be done during the year were completed. These included both units at our Lowmans Bay location, Cane Hall unit #4, Bequia units # 3 & 4 as well as Canouan unit #4. In addition, the annual overhauls at the three hydro stations were successfully carried out.

Cane Hall unit 3 remained unavailable during the year undergoing repairs to the alternator rotor. At end of the year the repair work was at an advanced stage and the genset is expected to be operational in the first quarter of 2009.

Transmission & Distribution

The Transmission and Distribution Department is charged with the responsibility of constructing and maintaining the company's transmission and distribution network. During the year under review the department executed its mandate with a fair degree of success. Under its maintenance programme, 213 poles were replaced in the State; over 700 transformers were inspected resulting in 149 being repaired and 30 requiring replacement; while 21 were upgraded to a higher kVA rating. Maintenance work on streetlights required the replacement of 257 photocells among other things.

The department also attended to approximately 1 500 service calls. The vehicle maintenance section facilitated the work associated with the 146 service calls received.

With respect to the capital works programme, during May 2008 a contract was signed with Interserve Industrial Services out of the United Kingdom, for the construction of two 33kV substations (Cane Hall and South Rivers) and four 33kV lines: 2 running between the Lowmans Bay and Kingstown substations, one between Cane Hall and Kingstown and the other from Cane Hall to South Rivers.

Distribution upgrades were done, one hundred and seventy suspense jobs were completed, and these included significant High Voltage (HV) and Low Voltage (LV) line extension work in some areas. Additionally ninety nine new streetlights were installed.

Planning

The Planning Department is principally concerned with the development and implementation of projects across the company. In addition to this significant mandate the department is charged with the responsibility to:

- carry out analysis of the Power System with the objective of improving its operational efficiency;
- keep the buildings and properties in a well maintained condition.

The restructuring of the Engineering Division in 2008 assigned the new Dispatch Section to the Planning Department. This Section is charged with real time supervision and authorisation of all activities on the T&D system which will ensure that the organisation is able to safely supply its customers' demand with highest quality, reliability and efficiency. This change facilitated greater vigilance in the monitoring of the power system, a reduced number of unplanned outages and provides more focus to optimize the running of the system. The section addressed 2321 emergency calls for the year.

During 2008 these responsibilities were executed through a number of projects. To improve the reliability and potential of our communication system, VINLEC commenced the installation of a fibre optic network that will link all stations on mainland St. Vincent. This network will host our SCADA, data, voice, protection and surveillance systems. Acting on our responsibility to protect the company and country's valuable electricity assets and to perform real time monitoring, our surveillance system was expanded to include the Kingstown Main Office, Richmond and South Rivers Power Stations, and the three power stations at Cumberland. At the Bequia Power Station a mini Supervisory, Control and Data Acquisition system was installed, which brought immediate benefits of remote access to real time and historical data to senior staff members and the Dispatch Section. To lead by example in the conservation of energy, an Energy Efficiency Pilot Project was implemented at the Cane Hall Engineering Complex. This saw a 10% reduction in monthly consumption at this site.

Work towards increasing our renewable energy portfolio continued with wind measurement at Belle Isle Hill and Brighton. Wind at Ribishi Point showed promise and an expression of Interest was sent out to wind park developers, followed by request for proposals to develop a wind park at that location. These proposals are due in early 2009.

Prefeasibility studies and sourcing of funding for tender design and tender document preparations continued with the hydro expansion project. This project should see upgrades of hydro infrastructures which are over 50 years old and the development of a downstream station to the present South Rivers hydro station. There were some activities that increased awareness in Biogas and Geothermal energies. VINLEC was also represented on API and Business Roundtable television programmes to discuss renewable energy initiatives and policies.

The first draft of the Grenadines Expansion Study was submitted. It forecasts the future electricity demand for the Grenadine islands and recommends economical options to meet these projected demands. Interconnection with submarine cable is one of the options being looked at.

To aid in the reduction of losses on the electrical system, 750kVAr's worth of capacitors were added to the T&D network. The department also did estimates and follow-up on new applications for electricity that range from the Windward Highway rehabilitation project, Argyle International Airport to a number of developments in St. Vincent and the Grenadines.

There was major relocation of tanks, substation and equipment at the Cane Hall Power station in preparation for the installation of the new 33kV substation. Hurricane shutters were installed at the Cane Hall Complex, Annexes 1 and 2, and Lowmans Bay, while construction work commenced on the new overnight quarters for maintenance staff on Canouan.



GENERAL AND ADMINISTRATIVE

Customer Service

The year 2008 was a challenging year for the Customer Services Department as for the first time electricity sales in the current year fell below that recorded in the previous year. In addition, the year 2008 also recorded by far the highest fuel surcharge applied to customer bills of 66.88 cents per unit. Thus, globally higher food prices, escalation in fuel costs and increased energy conservation gave greater impetus to the Department's need for maintaining revenue collection, ensuring accurate customer bills, increasing internal process efficiency and building positive customer awareness and loyalty.

As a matter of priority, a 3-member Credit Control Unit was set up in April 2008 and in May 2008, along with the Transmission & Distribution Department; procedures for increasing the effectiveness of disconnections and reconnections (including Outstations and Grenadines) were introduced.

In March 2008, a successful initiative to broaden payment convenience was realized with the use of the Island-wide facilities of the SVG Postal Corporation. Use of their permit-to-post system during 2008 also eliminated delay in bill delivery previously caused by obsolete franking.

In the quest for better quality, a Customer Services Supervisor was appointed in April 2008. Most importantly this led to the installation of an Account Executive Programme for large customers in June 2008. A first batch of fifty (50) large customers was visited, service perceptions noted, and several strategies for enhancement initiated. Towards increased customer information, beginning in May 2008, six (6) radio programmes were completed for repeat airing.

For 2008 with better performance of billing hardware, a billing accuracy of 99.86% was achieved (647 adjustments to 461,579 billed accounts) and this was complemented by the virtual elimination of meter reading overtime due to the filling of meter reading vacancies caused by previous resignations.

Performances in meter reading (a meter per minute), cash-taking (a customer per minute) and an average limit of seven (7) days for the completion of customer requested work orders all helped to allay the tensions visited upon the Department in 2008 by more voracious customer demands.

Finally in December 2008, the total participatory effort by all Customer Services staff in creating standards for all customer service work was completed. This will form the much needed background worksheet for effective performance which aligns individual effort with company goals. This is a spill-off from the OPIP Project, and the comprehensive attention led to a tightening of internal processes.

Operational costs for 2008 did not vary significantly from budget and attention was paid to an area which can potentially erase operational gains i.e. the area of non-technical losses; the meter multiplier verification programme (particularly for high voltage customers) which began in November 2007, continued in 2008, helping to eliminate the potential threat of losses from bad metering and billing data. In this exercise metering errors at one large customer was corrected.

Human Resource and Administration

The Human Resource and Administration Department is responsible for developing and implementing appropriate Human Resource Systems. Recognizing that our employees are our most important resource, our Human Resource systems are geared towards the employment, compensation, development and retention of a talented workforce that will effectively and efficiently serve to achieve the goals and objectives of the company. We also seek to ensure that our employees receive fair and equitable treatment and recognition for their contribution.

The year 2008 was again an active one for the Human Resources and Administration Department. Staff turnover continued to be high this year with the departure of several senior members of staff. The HR Department therefore faced the challenge of recruiting, orienting and training suitable staff and working with other Departments to ensure the continued smooth operations through organizational restructuring, and redeployment of existing staff.

In 2008, the company continued its thrust towards maintaining a well trained staff. Several training programmes were organised for staff at all levels in the organization. The craft Apprenticeship programme continued with the recruitment of four new apprentices. The company also continued to build its cadre of technicians by enrolling three members of staff in engineering diploma programs offered by the University of Trinidad and Tobago.

The focus on Occupational Health and Safety at VINLEC continued in 2008. The company's third safety week activity was planned and executed from 13-17 October. Several other safety initiatives were taken during the year. These included safety audits, health seminars and training programs organized for staff along with the continued maintenance and upkeep of safety equipment and signs at all VINLEC locations.

The department continued its endeavours to create a climate of respect, and camaraderie among employees. During the year employee activities included the Annual Awards Ceremony, the Family Fun Day, the staff Children Party, several events throughout the country hosted by the VINLEC Staff Choir, staff picnics, and end-of-year festive events for community based outstation staff. In 2008, the "Retiree Appreciation Programme" was launched. This programme as the name suggests, aims to show appreciation to the company's retirees for their contribution of service. Through this programme approximately forty- five retirees received a gift of a food basket from the company on their birthday. The Departments' year of activities culminated with the annual Awards Ceremony where employee Desmond Lewis was awarded the coveted accolade of Employee the Year 2008.

Information Systems Department

The main activities of the Information System Department during 2008 were:


- The upgrading of the main server rooms at Cane Hall and Kingstown,
- The upgrading of the entire suite of SunGard HTE applications,
- Recruitment of a Technical support Officer,
- Training in preparation for the Fiber Optic Link Project, and
- The upgrading of all PCs

At completion, the Server Room Upgrading exercise included the installation of raised floors, installation of electronic, keyless entry locks on all server-room doors and the re-cabling of server rooms from the patch panel point. This activity provides an industry standard environment and therefore eases some pre existing discomforts with the status of safety and security of VINLEC's computer facilities.

The SunGard suite of applications, accessible through The Naviline interface, was upgrade to Version 6.0. This was a major undertaking as it affected every module in the suite. The update was accomplished in good time and brought no insurmountable challenges to the technicians. A fair amount of planning prior to installation helped to ensure a smooth transition to the new look and functions. Most users made the necessary adjustments quickly.

The Information Systems Department was successful in recruiting a Technical Support Officer. Success in this task has eluded us for some time, causing hardship on staffing for the first six months of the year. Training of the new TSO commenced immediately after appointment.

Three members of the department were selected to be trained as Fiber Optic Technicians and they all successfully completed the Fiber Optic Installer Certification exam. These members form part of a group of employees charged with executing the Fiber Optic Link project which links all our mainland power stations via fiber.



As the three year lease agreement with IBM matures, a decision was made to upgrade the now owned PCs and extend their useful life. This exercise involved the increase of RAM in all IBM PCs and addition of Hard Drive capacity in some unique cases. This was also necessary because the maintenance arrangement expired with the lease. Maintenance therefore became the ISD's responsibility. An equipment audit was done, the results of which prompted the actions taken. The mass update took about two weeks to complete after the equipment audit, testing and procurement was done.

In October 2008, the Information Systems Department said farewell to its Manager, John Rickards who had been with us for eight years and positively shaped the Department and the IT infrastructure in VINLEC. We place on record our heartfelt thanks to Mr. Rickards for his contribution to the company's success during his period of service.

Internal Audit

The role of internal audit is to provide objective assurance on governance, risk management and control processes. To this end, the Internal Audit Department (IAD) engages in activities designed to:

- Ensure the organisation is performing efficiently and effectively in carrying out its mandate.
- Assess and communicate the business risks of the organisation.
- Evaluate the controls and communicate on their appropriateness to the relevant personnel.

In developing the department's annual work programme, the company's audit universe is reviewed. The review considers the activities of the company, the work programme of the departments and any recent and pertinent organisational changes. This provides the basis to perform an assessment of the existing and emerging risks the company faces in its operations. From this exercise systems/activities are selected for audit based on the criteria of level of risk exposure, accountability for and protection of the company's resources, and business continuity.

Given this approach the following audits were conducted by the IAD in 2008.

- Human resource system
- Analytical review of staff accumulated vacation leave
- Analytical review of staff overtime
- IT systems and security
- SCADA system
- Work permits
- Inventory management

As a result of the audit activities engaged in during 2008, the IAD noted that the system of internal controls in place though adequate needed to be strengthened in some areas where the risks were assessed to be high. Appropriate recommendations were made to the departments concerned and follow up on implementation of corrective action monitored.

Finance Department

During 2008, the Finance Department sought to consolidate the gains of 2007 in the execution of its mandate of providing financial and related services while supporting the goals and objectives of the organization. This was done through engaging in high quality, conscientious and effective service.

Employee development was one of our priorities and by yearend most members of the Stores section had successfully completed either the Stock Control and Inventory Management programme or the Purchasing programme through distance learning. Not to be outdone, one of our Supervisors in the Accounts section successfully completed the ACCA program while some of the junior employees completed various components.



OUTLOOK

Against the backdrop of record high fuel prices, fuel cost reduction will continue to receive priority attention. VINLEC will intensify its efforts geared towards the possibility of utilizing different types of fuel for our electricity generation. As we look towards the installation of two additional base load units at our Lowmans Bay Station, the heavy fuel option is likely to receive favourable consideration. We will also continue to fully exploit production from our hydroelectric plants as a buffer against the fuel prices.

As an organization, we remain committed to satisfying the higher reliability and power quality standards demanded by our emerging service economy increasingly reliant upon telecommunications and information technology.

Thornley Myers
Chief Executive Officer



ST. VINCENT ELECTRICITY SERVICES LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2008

(With comparative figures for December 31, 2007)





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

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(784) 456-1644
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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, 2008, 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.



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, 2008, and of its financial performance, changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink, appearing to be 'KPMG' with a stylized flourish.

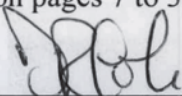
Chartered Accountants
Kingstown, St. Vincent and the Grenadines
June 25, 2009

ST. VINCENT ELECTRICITY SERVICES LIMITED
Balance Sheet
As of December 31, 2008
With comparative figures for December 31, 2007
(Expressed in Eastern Caribbean Dollars)

	Notes	2008 \$	Restated 2007 \$
Assets			
Current			
Cash	5	10,816,542	18,165,273
Short-term securities	6	23,582,468	9,896,630
Trade and other receivables	7	39,308,393	35,125,330
Income tax refundable	8	3,760,726	4,705,227
Inventories	9	10,619,036	10,769,541
		<u>88,087,165</u>	<u>78,662,001</u>
Non-current			
Long-term investments	10	200,000	200,000
Property, plant and equipment	11	217,791,403	210,785,886
Retirement benefit asset	12	1,802,990	1,662,781
		<u>219,794,393</u>	<u>212,648,667</u>
Total assets		<u>307,881,558</u>	<u>291,310,668</u>
Liabilities			
Current			
Trade and other payables	13	33,245,965	25,868,049
Dividend payable		3,501,394	2,000,000
Borrowings	14	4,502,492	3,194,250
		<u>41,249,851</u>	<u>31,062,299</u>
Non-current			
Borrowings	14	79,008,631	76,603,402
Consumers' contributions to line extensions	15	6,816,834	7,546,081
Grant	16	211,279	224,766
Consumers' deposits	17	8,302,367	7,947,660
Deferred tax liabilities	18	30,593,865	28,221,198
		<u>124,932,976</u>	<u>120,543,107</u>
Total liabilities		<u>166,182,827</u>	<u>151,605,406</u>
Shareholders' equity			
Share capital	19	29,045,910	29,045,910
Revaluation surplus		27,188,386	30,541,443
Self insurance fund		15,000,000	12,000,000
Retirement benefit reserve		1,802,990	1,662,781
Retained earnings		68,661,445	66,455,128
Total shareholders' equity		<u>141,698,731</u>	<u>139,705,262</u>
Total liabilities and shareholders' equity		<u>307,881,558</u>	<u>291,310,668</u>

The notes on pages 7 to 38 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, 2008****With comparative figures for December 31, 2007****(Expressed in Eastern Caribbean Dollars)**

	Notes	2008 \$	Restated 2007 \$
Revenues			
Energy sales		64,578,473	66,092,885
Fuel surcharge recovered		65,588,982	44,592,272
Other revenue		1,550,804	805,770
		<u>131,718,259</u>	<u>111,490,927</u>
Operating expenses			
Diesel generation		22,289,960	23,599,969
Hydro generation		4,572,180	4,699,140
Transmission & distribution		10,660,958	12,634,904
Fuel surcharge		66,596,253	44,421,412
Administrative expenses		15,072,072	13,266,835
	25	<u>119,191,423</u>	<u>98,622,260</u>
Operating profit		12,526,836	12,868,667
Other gains/(losses), net	20	380,011	(334,886)
Profit before finance costs and taxation		<u>12,906,847</u>	<u>12,533,781</u>
Finance costs		(5,596,210)	(4,129,539)
Profit before taxation		<u>7,310,637</u>	<u>8,404,242</u>
Taxation	21	(3,317,168)	(3,942,917)
Net profit for the year		<u>3,993,469</u>	<u>4,461,325</u>
Earnings per share	22	0.69	0.77

The notes on pages 7 to 38 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Changes in Equity
For the year ended December 31, 2008
With comparative figures for December 31, 2007
(Expressed in Eastern Caribbean Dollars)

	Share capital	Self insurance fund	Revaluation surplus	Retirement benefit reserve	Retained earnings	Total
	\$	\$	\$	\$	\$	\$
Balance as of December 31, 2006	29,045,910	9,000,000	34,019,111	-	64,107,799	136,172,820
Retirement benefit reserve	-	-	-	1,575,172	-	1,575,172
Deferred tax on retirement benefit reserve	-	-	-	-	(504,055)	(504,055)
Restated balance as of December 31, 2006	29,045,910	9,000,000	34,019,111	1,575,172	63,603,744	137,243,937
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)
Transfer to retirement benefit reserve	-	-	-	87,609	(87,609)	-
Profit for the year	-	-	-	-	4,461,325	4,461,325
Restated balance as of December 31, 2007	29,045,910	12,000,000	30,541,443	1,662,781	66,455,128	139,705,262
Revaluation surplus realized	-	-	(3,353,057)	-	3,353,057	-
Self insurance fund appropriation	-	3,000,000	-	-	(3,000,000)	-
Dividend declared	-	-	-	-	(2,000,000)	(2,000,000)
Transfer to retirement benefit reserve	-	-	-	140,209	(140,209)	-
Profit for the year	-	-	-	-	3,993,469	3,993,469
Balance as of December 31, 2008	29,045,910	15,000,000	27,188,386	1,802,990	68,661,445	141,698,731

The notes on pages 7 to 38 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Statement of Cash Flows
For the year ended December 31, 2008
With comparative figures for December 31, 2007
(Expressed in Eastern Caribbean Dollars)

	2008 \$	Restated 2007 \$
Cash flows from operating activities		
Profit before taxation	7,310,637	8,404,242
Adjustments for:		
Depreciation	18,619,593	19,215,367
Amortization of consumers' contribution to line extensions	(1,195,118)	(1,089,870)
Gain on disposal of property, plant and equipment	(75,380)	(10,075)
Finance costs	5,596,210	4,129,539
Defined benefit pension expense	67,023	134,517
Foreign exchange (gain) loss	(304,631)	344,722
Amortization of deferred grant	(13,487)	(14,347)
Interest income	(1,062,489)	(292,192)
Operating profit before working capital changes	28,942,358	30,821,903
Change in inventories	150,505	(2,247,061)
Change in trade and other receivables	(4,112,156)	(5,176,333)
Change in trade and other payables	7,649,867	997,515
Cash generated from operations	32,630,574	24,396,024
Interest paid	(5,708,985)	(3,773,084)
Income tax paid	-	(2,789,154)
Interest received	991,581	427,494
Net cash generated from operating activities	27,913,170	18,261,280
Cash flows from investing activities		
Acquisition of short-term securities	(16,642,307)	(2,956,469)
Proceeds from liquidation of short-term securities	2,956,469	-
Acquisition of property, plant and equipment	(25,690,672)	(20,492,635)
Proceeds from disposal of property, plant and equipment	140,942	10,075
Contributions paid - defined benefit plan	(207,232)	(222,126)
Net cash used in investing activities	(39,442,800)	(23,661,155)
Cash flows from financing activities		
Proceeds from consumers' deposits	195,533	178,031
Proceeds from borrowings	6,935,473	12,314,975
Repayment of borrowings	(4,147,654)	(1,624,253)
Dividends paid	(498,607)	-
Net proceeds from consumers' contributions	465,871	632,046
Net cash generated from financing activities	2,950,616	11,500,799
Net (decrease) increase in cash	(8,579,014)	6,100,924
Cash - beginning of year	18,165,273	12,064,349
Cash - end of year	9,586,259	18,165,273
Represented by:-		
Cash	10,816,542	18,165,273
Bank overdraft	(1,230,283)	-
	9,586,259	18,165,273

The notes on pages 7 to 38 are an integral part of these financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(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 June 25, 2009.

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 Accounting 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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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 date 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, 2008
(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 fair value through profit and loss, 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.

Fair value through profit and loss 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. 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 fair value through profit and loss 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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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 fair value through profit and loss 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 fair value through profit and loss 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, 2008
(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-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 2½ - 5% per annum
- Plant & machinery 5 - 20% per annum
- Transmission & distribution 5 - 6% per annum
- Motor vehicles 25% per annum
- Furniture and equipment 12½% 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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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, 2008
(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 are 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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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 and 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, 2008
(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. The plan is accounted for as a defined benefit plan under IAS 19 – Employee Benefits

The company's contributions to the defined contribution pension plan are charged to operations in the year to which they relate.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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

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

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 as 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 presented 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 16).

(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, 2008, and have not yet been applied in preparing these financial statements:

- 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 company'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.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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

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

- 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 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.
- Revised IAS 1 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the company's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements. The Service plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the company's 2009 financial statements, with retrospective application required, are not expected to have any impact on the financial statements.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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:

	2008		
	Financial assets	Financial liabilities	Currency sensitivity gap
	\$	\$	\$
Kuwaiti Dinar (KWD)	~	(1,948,937)	(1,948,937)
US Dollar (USD)	5,528,614	(80,333,308)	(74,804,694)
EC Dollar (XCD)	68,178,789	(53,306,717)	14,872,072
TOTAL	73,707,403	(135,588,962)	(61,881,559)

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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

(a) Financial risk factors (cont'd)

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

	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)

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

	USD	GBP	EUR	KWD	DKK
	\$	\$	\$	\$	\$
At December 31, 2008	2.71	3.92	3.79	0.10	0.50
At December 31, 2007	2.71	5.42	3.97	0.10	0.53

Currency risk sensitivity analysis

A 10% weakening of the EC dollar against the following currencies at December 31, would have increased 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 2007.

	2008	2007
	\$	\$
USD	8,033,331	7,435,956
GBP	-	50,754
EUR	-	134,020
KWD	194,894	2,534,141
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, 2008
(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	
	2008	2007
	\$	\$
Available-for-sale financial assets	200,000	200,000
Held-to-maturity financial assets	23,582,468	9,896,630
Trade receivables	37,545,385	33,562,392
Other receivables	1,763,008	1,562,938
Income tax refundable	3,760,726	4,705,227
Cash	10,816,542	18,165,273
	77,668,129	68,092,460

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

	Carrying amount	
	2008	2007
	\$	\$
Domestic	10,962,697	11,214,040
Commercial	12,166,679	10,919,696
Industrial	2,235,280	2,199,353
Government	13,748,357	10,771,951
	39,113,013	35,105,040
Provision for impairment of trade receivables	(1,567,628)	(1,542,648)
Trade receivables, net	37,545,385	33,562,392

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(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:

		2008 \$			
	Carrying amount	Contractual cashflows	1 year	2-5 years	More than 5 Years
Trade payables	4,427,659	(4,427,659)	4,427,659	-	-
Other payables	28,818,306	(28,818,306)	28,818,306	-	-
Dividend payable	3,501,394	(3,501,394)	3,501,394	-	-
Borrowings	83,511,123	(83,511,123)	4,502,492	36,847,140	42,161,491
Customers' contributions to line extensions	6,816,834	(6,816,834)	1,195,118	5,621,716	-
Grants	211,279	(211,279)	13,487	53,948	143,844
Customer deposits	8,302,367	(8,302,367)	354,707	1,418,828	6,528,832
	135,588,962	(135,588,962)	42,813,163	43,941,632	48,834,167

		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

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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:

	2008				
	Up to one year	One to five years	Over five years	Non-interest bearing	Total
	\$	\$	\$	\$	\$
Financial assets	34,112,590	-	-	39,594,813	73,707,403
Financial liabilities	(4,857,199)	(38,265,968)	(48,690,323)	(43,775,472)	(135,588,962)
Interest sensitivity gap	29,255,391	(38,265,968)	(48,690,323)		(61,881,559)

	2007				
	Up to one year	One to five years	Over five years	Non-interest bearing	Total
	\$	\$	\$	\$	\$
Financial assets	9,896,630	-	-	53,290,605	63,187,235
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)

(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, 2008
(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

Cash at bank and in hand

2008	2007
\$	\$
10,816,542	18,165,273

6. Short-term securities

Securities held to maturity

	2008	2007
	\$	\$
National Commercial Bank (SVG) Ltd. 4.5% Certificate of deposit, due December 5, 2008	2,874,248	2,750,476
National Commercial Bank (SVG) Ltd. 4.5% Certificate of deposit, due December 5, 2008	3,083,540	2,950,757
National Commercial Bank (SVG) Ltd. 4.5% Certificate of deposit, due December 5, 2008	1,294,680	1,238,928
Government of St. Vincent and the Grenadines 90 days Treasury Bills	-	2,956,469
National Commercial Bank (SVG) Ltd. 5.0% Certificate of deposit, due October 27, 2009	5,000,000	-
National Commercial Bank (SVG) Ltd. 5.0% Certificate of deposit, due October 27, 2009	5,000,000	-
National Commercial Bank (SVG) Ltd. 5.5% Certificate of deposit, due December 31, 2008	6,330,000	-
	<u>23,582,468</u>	<u>9,896,630</u>

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

7. Trade and other receivables

	2008	2007
	\$	\$
Trade receivables	39,113,013	35,105,040
Less: provision for impairment of trade receivables	(1,567,628)	(1,542,648)
Trade receivables, net	37,545,385	33,562,392
Other receivables	1,246,996	1,272,691
Less: provision for impairment of other receivables	(7,642)	(7,642)
Other receivables, net	1,239,354	1,265,049
Prepayments	523,654	297,889
	39,308,393	35,125,330

8. Income tax refundable

	2008	2007
	\$	\$
Beginning of year	4,705,227	4,705,227
Current tax expense	(944,501)	-
	3,760,726	4,705,227

Income tax refundable represents amounts over paid in previous financial years. These amounts are available to offset future tax liabilities.

9. Inventories

	2008	2007
	\$	\$
Spares	10,523,893	9,269,270
Fuel and lubricants	2,254,635	3,614,714
Stationery	110,275	185,915
Good-in-transit	107,740	77,149
	12,996,543	13,147,048
Less: provision for obsolescence	(2,377,507)	(2,377,507)
	10,619,036	10,769,541

10. Long-term investments

	2008	2007
	\$	\$
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, 2008
(Expressed in Eastern Caribbean Dollars)

11. Property, plant and equipment

	Freehold property \$	Generation \$	Transmission & distribution \$	Other \$	Total \$
Operational assets valuation					
As of December 31, 2007	117,439,126	189,707,648	161,100,538	18,630,760	486,878,072
Transfers	-	4,284,264	2,883,863	1,456,983	8,625,110
Disposals	-	-	-	(1,839,313)	(1,839,313)
As of December 31, 2008	117,439,126	193,991,912	163,984,401	18,248,430	493,663,869
Accumulated depreciation					
As of December 31, 2007	62,810,020	91,213,582	111,038,693	16,023,560	281,085,855
Charge for the year	2,583,076	8,265,203	6,820,655	950,659	18,619,593
Disposals and transfers	-	-	-	(1,773,751)	(1,773,751)
As of December 31, 2008	65,393,096	99,478,785	117,859,348	15,200,468	297,931,697
Net book value					
As of December 31, 2007	54,629,106	98,494,066	50,061,845	2,607,200	205,792,217
As of December 31, 2008	52,046,030	94,513,127	46,125,053	3,047,962	195,732,172
Non-operational assets					
As of December 31, 2007	-	2,490,487	1,669,476	833,706	4,993,669
Additions	-	10,703,489	13,377,762	1,609,421	25,690,672
Transfers	-	(4,284,264)	(2,883,863)	(1,456,983)	(8,625,110)
As of December 31, 2008	-	8,909,712	12,163,375	986,144	22,059,231
Net book value					
As of December 31, 2007	54,629,106	100,984,553	51,731,321	3,440,906	210,785,886
As of December 31, 2008	52,046,030	103,422,839	58,288,428	4,034,106	217,791,403

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(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 \$3,353,057 (2007: \$3,477,668). Depreciation on the original cost basis for 2008 is \$15,266,551 (2007: \$15,737,699).

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 \$59 million at December 31, 2008 (2007: \$57.4 million). The value of the fund was \$15 million at December 31, 2008 (2007: \$12 million).

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

12. Retirement benefit asset

The company provides retirement benefits, under a regional multi-employer defined benefit plan and a defined contribution plan, for substantially all of its employees.

(a) Defined benefit plan

The company contributes to the regional CDC Caribbean Pension Plan which is administered by Sagikor Life Inc.

The most recent actuarial valuation of the plan is dated December 31, 2008. The plan was valued using the "Projected Unit Credit" method of valuation.

The principal actuarial assumptions used in determining the present value of plan obligations were as follows:

	2008	2007
	%	%
Discount rate at end of year	7.50	7.00
Expected return on plan assets at end of year	8.00	7.00
Future promotional salary increases	2.00	3.50
Future inflationary salary increases	4.50	2.50
Future pension increases	3.00	3.00
Proportion of employees opting for early retirement	0.00	0.00

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

12. Retirement benefit asset (cont'd)

(a) Defined benefit plan (cont'd)

The amounts recognised in the balance sheet are determined as follows:

	2008	2007
	\$	\$
Present value of funded obligations	(5,721,071)	(5,972,184)
Fair value of plan assets	5,056,635	7,804,510
Unrecognised actuarial loss/(gain)	2,467,426	(169,545)
Defined benefit asset	<u>1,802,990</u>	<u>1,662,781</u>

The amount of \$1,802,990 (2007 - \$1,662,781) is recognised as a defined benefit asset as it will be available to the company to fund a contribution reduction in the future. The Trustees of the scheme are precluded from paying out the \$1,802,990 (2007: \$1,662,781) to the company.

The amounts recognised in the statement of income for the year ended were as follows:

	2008	2007
	\$	\$
Current service costs	(220,979)	(236,031)
Interest costs	(429,583)	(411,559)
Expected return on plan assets	549,629	513,073
Acturial gain recognised during the year	33,910	-
Defined obligation benefit as at December 31	<u>(67,023)</u>	<u>(134,517)</u>

The credit has been included as part of Staff Costs (Note 27) within Administrative Expenses on the income statement.

Movement in asset recognised in the balance sheet was as follows:

	2008	2007
	\$	\$
Defined benefit asset as at January 1	1,662,781	1,575,172
Net expenses recognised in the income statement	(67,023)	(134,517)
Contributions	207,232	222,126
At end of year	<u>1,802,990</u>	<u>1,662,781</u>

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

12. Retirement benefit asset (cont'd)

(a) Defined benefit plan (cont'd)

The movements in the defined benefit obligation for the year ended were as follows:

	2008	2007
	\$	\$
Defined benefit obligation as at January 1	(5,972,184)	(5,698,007)
Interest costs	(429,583)	(411,559)
Current service costs	(220,979)	(236,031)
Benefits paid	112,556	109,276
Actuarial gain	789,119	264,137
Defined obligation benefit as at December 31	(5,721,071)	(5,972,184)

The movements in the plan assets for the year ended were as follows:

	2008	2007
	\$	\$
Fair value of plan assets as at January 1	7,804,510	7,273,179
Expected return on plan assets	549,629	513,073
Contributions	207,232	222,126
Benefits paid	(112,556)	(109,276)
Actuarial loss	(3,392,180)	(94,592)
Fair value of plan assets as at December 31	5,056,635	7,804,510

Actuarial gains and losses recognized directly in equity were as follows:

	2008	2007
	\$	\$
Cumulative unrecognized gain as at January 1	(169,545)	-
Actuarial gain for the year – plan obligation	(789,119)	(264,137)
Actuarial loss for the year – plan assets	3,392,180	94,592
	2,433,516	(169,545)
Actuarial gain recognised during the year	33,910	-
Cumulative unrecognised loss (gain) as at December 31	2,467,426	(169,545)

Plan assets consists of the following:

	2008	2007
	%	%
Bonds	0.0	0.0
Equities	93.0	98.0
Property	0.0	0.0
Other	7.0	2.0
	100.0	100.0

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

12. Retirement benefit asset (cont'd)

(a) Defined benefit plan (cont'd)

The actual return on plan assets for the year ended was as follows:

	2008	2007
	\$	\$
Return on plan assets	(2,842,548)	418,481

Amounts for current and previous periods are as follows:

	2008	2007
	\$	\$
Present value of defined benefit obligation	(5,721,071)	(5,972,184)
Fair value of plan assets	5,056,635	7,804,510
(Deficit) / surplus	(664,436)	1,832,326
Experience adjustments on plan obligations	431,379	264,137
Experience adjustments on plan assets	(3,392,180)	(94,592)
Current year cost - Senior Executives	44,603	44,435

(b) Defined contribution plan

The company has contributed to a defined contribution plan for all its other employees which is administered by Colonial Life Insurance Company (Trinidad) Limited. The most recent actuarial valuation carried out on January 1, 2000 revealed a surplus of assets. The company's contributions to the plan are expensed when incurred. During the year ended December 31, 2008, the company's contribution to the plan amounted to \$593,093 (2007: \$381,993).

13. Trade and other payables

	2008	2007
	\$	\$
Trade payables	4,427,659	7,952,939
Accrued expenses	7,346,159	7,374,878
Other payables	2,542,186	3,169,005
Government of St Vincent and the Grenadines	18,929,961	7,371,227
	33,245,965	25,868,049

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

14. Borrowings

	Notes	2008 \$	2007 \$
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	14(a)(i)	1,548,784	1,885,189
International Development Association	14(a)(ii)	1,146,143	1,200,721
Third Power Project:-			
Lowmans Bay Project	14(b)	37,671,637	30,736,164
Government of St. Vincent and the Grenadines			
United States Agency for International Development	14(c)(i)	12,386,035	13,472,700
European Investment Bank Loan II	14(c)(ii)	-	1,005,565
European Investment Bank Loan III	14(c)(iii)	4,333,846	5,513,066
Agence Française de Développement Group (Formerly Caisse Française de Développement)			
Kuwait Fund for Arab Economic Development	14(d)	511,509	716,155
	14(e)	1,948,937	2,534,143
European Investment Bank Lowmans Bay	14(f)	22,733,949	22,733,949
Total long-term debts		82,280,840	79,797,652
Less: Current portion		(3,272,209)	(3,194,250)
		<u>79,008,631</u>	<u>76,603,402</u>
		2008 \$	2007 \$
Current			
Bank borrowings		3,272,209	3,194,250
Bank overdraft (unsecured)		1,230,283	-
		<u>4,502,492</u>	<u>3,194,250</u>
Non-current			
Bank borrowings		63,624,443	58,703,855
Government of St Vincent and the Grenadines		15,384,188	17,899,547
		<u>79,008,631</u>	<u>76,603,402</u>
Total borrowings			
		<u>83,511,123</u>	<u>79,797,652</u>

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

14. 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.

During 2008, the currencies in which the loan was repayable were amended, by conversion, to the United States dollar. The loan balance at conversion, of US\$571,845 is repayable in 42 semi-annual installments of US\$13,615 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 CDB to the Government of St Vincent and the Grenadines for on-lending by the Government to the company. The loan agreements provide that:

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

(b) Caribbean Development Bank (CDB) 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. The company 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 July 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, 2008
(Expressed in Eastern Caribbean Dollars)

14. 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, 2007, 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 semiannual installments of 100,000 ECU's plus interest of 7.5% due on November 30, 2008.

(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\$454,545, plus interest at a fixed rate of 5.505% due to mature in May 2020.

The loan agreement provides for a grace period of 4 years from the date of the first tranche. 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, 2008
(Expressed in Eastern Caribbean Dollars)

15. Consumers' contributions to line extensions

	Government	Other consumers	Total
	\$	\$	\$
Contributions			
Beginning of year	4,260,035	15,434,993	19,695,028
Received during the year	-	474,217	474,217
Refunds	-	(8,346)	(8,346)
End of year	4,260,035	15,900,864	20,160,899
Amortization			
Beginning of the year	3,794,985	8,353,962	12,148,947
For the year	255,602	939,516	1,195,118
End of year	4,050,587	9,293,478	13,344,065
Balance - 2007	465,050	7,081,031	7,546,081
Balance - 2008	209,448	6,607,386	6,816,834

16. Grant

	2008	2007
	\$	\$
Agence Française de Développement Group Grant	224,766	239,112
Amortisation	(13,487)	(14,346)
	211,279	224,766

17. Consumers' deposits

	2008	2007
	\$	\$
Deposits		
Beginning of year	5,369,010	5,190,979
Received during the year	379,470	363,308
Refunds	(183,937)	(185,277)
End of year	5,564,543	5,369,010
Interest		
Beginning of the year	2,578,650	2,348,137
For the year	218,726	230,513
Paid during the year	(59,552)	-
	2,737,824	2,578,650
	8,302,367	7,947,660

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

18. Deferred tax liabilities

Deferred tax liability comprises:-

	2008	Restated 2007
	\$	\$
Temporary difference on property, plant and equipment	30,016,909	27,689,108
Defined benefit asset	576,956	532,090
	<u>30,593,865</u>	<u>28,221,198</u>

19. Share capital

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

	2008	Restated 2007
	\$	\$
Issued and fully paid – 5,809,182 ordinary shares without nominal or par value	29,045,910	29,045,910

20. Other gains/(losses), net

	2008	2007
	\$	\$
Gain on disposal of property, plant and equipment	75,380	10,075
Foreign exchange gain (loss)	304,631	(344,961)
	<u>380,011</u>	<u>(334,886)</u>

21. Taxation

Income tax expense comprises:-

	2008	Restated 2007
	\$	\$
Current	944,501	-
Deferred	2,372,667	3,942,917
	<u>3,317,168</u>	<u>3,942,917</u>

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

21. Taxation (cont'd)

Reconciliation of effective tax rate

	2008 %	2008 \$	Restated 2007 %	Restated 2007 \$
Profit before tax		7,310,637		8,404,242
Income tax using applicable corporation tax rate	32.0	2,339,405	32.0	2,689,357
Non-deductible expenses	89.8	6,564,179	75.2	6,322,484
Other	(76.4)	(5,586,416)	(60.3)	(5,068,924)
	45.4	3,317,168	46.9	3,942,917

22. Earnings per share

Earnings per share is calculated upon net earnings for the year of \$3,993,469 (2007: \$4,461,325) and on the average issued share capital of 5,809,182 (2007: 5,809,182) ordinary shares.

23. Capital commitments

As of December 31, 2008, the directors approved capital expenditures totaling \$38.5 million (2007: \$56.3 million), of which \$12 million have been contracted for.

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

	2008 \$	Restated 2007 \$
Fuel cost over base	66,596,253	44,421,412
Fuel at base price	3,374,351	3,474,057
Depreciation on property, plant and equipment	18,619,593	19,215,367
Repairs and maintenance	7,671,753	10,231,388
Employee benefit expense	13,181,235	13,454,139
Other operating expenses	10,943,356	8,915,767
Amortisation of consumer contributions	(1,195,118)	(1,089,870)
	119,191,423	98,622,260

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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:

	2008 \$	2007 \$
Revenue		
Government of St. Vincent and the Grenadines and its corporations	15,254,381	12,833,121

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

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- Has joint control over the company.

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(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,

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Transactions with the Government during the year were as follows:

Revenue

Government of St. Vincent and the Grenadines and its corporations

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(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:

	2008	2007
	\$	\$
Government of St. Vincent and the Grenadines	13,748,356	10,771,951

27. Employee benefit expense

	2008	2007
	\$	\$
Staff costs	13,181,235	13,454,139
Number of employees at balance sheet date	305	305

28. Restatement of comparative information

During the year ended December 31, 2008, the Company undertook an actuarial valuation of its defined benefit pension plan. The Company decided to reflect the results of the actuarial valuation in its financial statements for the year ended December 31, 2008 in accordance with IAS 19 – *Employee Benefits*.

In previous periods, the plan was accounted for as a defined contribution plan under IAS 19 as sufficient information was not available to account for it as a defined benefit plan in accordance with IAS 19. Choosing to record the plan as a defined benefit plan in the current financial year constitutes a change in accounting policy, which under IAS 8 – *Accounting policies, Changes in accounting estimates and Errors* requires retrospective application up to the earliest comparative period shown.

As a result of the restatement, the profit after tax for the year ended December 31, 2007 has increased by \$59,572 and retained earnings for the year then ended was \$67,539,587. There was no impact on current tax payable for the financial year ended December 31, 2007, however there was an increase in the deferred tax liability as at December 31, 2007 of \$2,059,854.

ST. VINCENT ELECTRICITY SERVICES LIMITED
Notes to the Financial Statements
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

29. Subsequent events

At a media conference made on January 30, 2009, the Governor of the Central Bank of Trinidad and Tobago affirmed the current financial problems encountered by CL Financial Limited (CL), Colonial Life (Trinidad) Ltd. (CLICO), CLICO Investment Bank (CIB), British American Insurance Company (Trinidad) Limited and Caribbean Money Market Brokers (CMMB), all members of the CL Financial Group (The Group).

As a result, the Central Bank, the Government of Trinidad and Tobago and The Group have reached an agreement on a strategy to deal with the underlying financial challenges. The main elements of the strategy are as follows:

- The Central Bank of Trinidad and Tobago takes control of CIB under Section 44D of the Central Bank Act;
- CIB's banking license will be revoked;
- All the third party assets and liabilities on the books of CIB and CMMB will be transferred to First Citizens Bank. Third party liabilities will be matched by resources from the sale of CIB holdings of certain high quality assets. Moreover, the Central Bank will provide short term liquidity as needed to ensure that these liabilities are serviced; and
- CL will divest 55% holdings in Republic Bank Limited and shares in Methanol Holdings Trinidad Limited to help fund CLICO's sizeable Statutory Fund deficit. The Government has committed to provide any additional funding that is needed by CLICO in exchange for collateral and an equity interest in CLICO.

As at December 31, 2008, the company has a defined contribution plan with CLICO for a substantial number of its employees.

The Government and Central Bank of Trinidad and Tobago, where CL is incorporated, the Government of Barbados, where CLICO is incorporated, and other regional Governments including the Government of St Vincent and the Grenadines have undertaken by way of public pronouncements, to protect the interests of The Group's respective depositors, and insurance and pension fund clients. The outcome of these undertakings cannot be guaranteed. These financial statements do not include any allowance for impairment since it cannot accurately be determined at this time, whether any adjustment will be necessary.



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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, 2008 and hence are excluded from the opinion expressed in our report dated June 25, 2009 to the shareholders on such financial statements.

Chartered Accountants
Kingstown, St. Vincent and the Grenadines
June 25, 2009

ST. VINCENT ELECTRICITY SERVICES LIMITED
Financial Statistics
For the year ended December 31, 2008
(Expressed in Eastern Caribbean Dollars)

Schedule I

	2008	2007	2006	2005	2004	2003	2002
	EC\$	EC\$	EC\$	EC\$	EC\$	EC\$	EC\$
	000's	000's	000's	000's	000's	000's	000's
SUMMARISED BALANCE SHEET							
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	68,661	66,455	64,107	60,747	54,521	48,650	45,301
Other reserves	89,704	87,920	82,338	79,819	81,763	69,199	66,843
Non –current liabilities	79,008	76,603	64,936	50,756	30,045	33,528	39,913
Deferred income	211	224	239	254	271	288	306
	266,630	260,248	240,666	220,622	195,646	180,711	181,409
Fixed assets (Net)	217,791	210,697	209,508	198,020	171,357	154,576	155,029
Long-term investments	200	200	200	200	200	200	200
Retirement benefit asset	1,802	1,663	0	0	0	0	0
Current assets	88,087	78,662	59,009	53,417	54,153	51,306	55,838
Current liabilities	(41,250)	(31,001)	(28,051)	(31,015)	(30,064)	(25,371)	(29,658)
	266,630	260,248	240,666	220,622	195,646	180,711	181,409
SUMMARISED RESULTS							
Operating Revenues							
Electricity sales	64,578	66,093	62,871	60,924	56,936	50,822	48,061
Fuel surcharge	65,589	44,592	40,957	33,504	20,693	16,023	12,938
Other	1,551	806	750	831	1,230	1,779	2,381
Total	131,718	111,491	104,578	95,259	78,859	68,624	63,380
Operating Expenses							
Fuel cost covered by surcharge	66,596	44,421	40,642	32,836	20,603	15,958	12,850
Operating and maintenance							
- Hydro	1,851	1,883	2,258	2,434	1,833	2,261	1,914
- Diesel	14,360	16,217	16,309	14,850	12,307	10,183	9,343
Transmission & distribution	3,254	4,417	3,681	5,458	4,285	4,254	3,212
Administration & other	14,131	12,804	16,528	11,873	13,195	12,321	11,892
Depreciation	18,620	19,215	17,258	17,798	18,589	17,102	15,490
Total	118,812	98,957	96,676	85,249	70,812	62,079	54,701
Operating income	12,906	12,534	7,902	10,010	8,047	6,545	8,679
Interest	(5,596)	(4,130)	(1,944)	(2,257)	(2,311)	(2,850)	(2,914)
Net profit before tax	7,310	8,404	5,958	7,753	5,736	3,695	5,765
Income tax expense	(3,317)	(3,943)	(4,957)	(4,338)	(3,709)	(2,665)	(3,319)
Net profit after tax	3,993	4,461	1,001	3,415	2,027	1,030	2,446
Appraisal element in depreciation	3,353	3,478	5,359	5,811	5,344	4,719	4,175
Retained earnings brought forward	66,455	63,604	60,747	54,521	48,650	45,301	40,680
Deferred tax on retirement benefit reserve	(140)	(88)	(503)	0	0	0	0
Final/Interim dividend	(2,000)	(2,000)	0	0	(500)	(1,400)	(1,000)
Self insurance fund	(3,000)	(3,000)	(3,000)	(3,000)	(1,000)	(1,000)	(1,000)
Retained earnings carried forward	68,661	66,455	63,604	60,747	54,521	48,650	45,301

ST. VINCENT ELECTRICITY SERVICES LIMITED**Financial Statistics****Schedule II****For the year ended December 31, 2008****(Expressed in Eastern Caribbean Dollars)**

	2008	2007	2006	2005	2004	2003
GENERATING PLANT (KW)						
Site Rated Capacity (KW)						
St. Vincent	33,195	33,195	33,195	33,195	33,195	30,635
Bequia	2,931	2,931	2,931	2,931	2,156	2,156
Union Island	1,270	1,270	1,270	1,270	1,270	1,270
Canouan	3,120	3,120	3,120	3,120	3,120	3,120
Mayreau	180	180	180	180	180	180
Firm Capacity (KW)						
St. Vincent	26,065	26,065	26,065	26,065	26,485	20,120
Bequia	1,900	1,900	1,900	1,900	1,860	1,080
Union Island	1,110	1,110	1,110	1,110	1,121	695
Canouan	2,700	2,700	2,700	2,700	2,600	1,300
Mayreau	180	180	180	180	180	60
Peak Demand (KW)						
St. Vincent	19,980	19,160	19,160	18,640	17,120	16,270
Bequia	1,500	1,325	1,325	1,325	1,200	1,140
Union Island	517	517	517	487	487	434
Canouan	2,447	2,154	2,154	2,021	1,821	734
Mayreau	43	40	40	39	38	26
PRODUCTION AND SALES						
Gross Generation (kWhs)						
Hydro	23,673,460	22,713,780	23,193,142	25,539,830	27,146,531	20,712,180
Diesel	115,455,782	118,378,885	111,109,123	106,211,315	93,595,252	87,528,028
	139,129,242	141,092,665	134,302,265	131,751,145	120,741,783	108,240,208
Own Use	5,003,096	3,624,125	3,929,090	4,225,112	3,803,796	2,980,268
Net Generation	134,126,146	137,468,540	130,373,175	127,526,033	116,937,987	105,259,940
Sales (kWhs)						
Domestic	55,532,302	56,747,530	54,867,257	53,687,894	50,493,950	47,194,734
Commercial	58,280,375	58,941,289	54,134,549	53,541,364	47,087,122	39,004,275
Industrial	6,183,035	6,832,412	6,586,653	6,308,552	6,146,615	6,520,330
Street lighting	2,929,342	2,930,481	2,936,597	2,880,824	2,796,146	2,711,316
Total Sales	122,925,054	125,451,712	118,525,056	116,418,634	106,523,833	95,430,655
Loss (% of Net Generation)	8.35%	8.74%	9.08%	8.17%	8.9%	9.3%
Number of Consumers at Year-End						
Domestic	34,495	33,705	32,710	31,681	30,304	29,535
Commercial	4,208	4,147	4,055	3,947	3,825	3,667
Industrial	27	28	28	29	32	34
Street lighting	48	47	47	47	47	46
	38,778	37,927	36,840	35,704	34,208	33,282

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