Accountants &
business advisers

St. Vincent Electricity Services Limited

Financial Statements
Year Ended December 31, 2005

Contents

REGISTERED OFFICE

Kingstown
St. Vincent and the Grenadines

DIRECTORS

Mr. Douglas Cole – Chairman, B. Eng. (Hons), MBA
Mr. Theodore Browne - LLB, LLM
Mr. Maurice Edwards - BSc. CGA, O.B.E.
Mr. Kirk Da Silva - MCMI, AFA
Mr. Bradley Francis - BSc. Eng.
Mr. Simon Glynn
Mr. Leon Snagg
Mr. Patrick Da Silva
Mr. Roosevelt Trent

COMPANY SECRETARY

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

CHIEF EXECUTIVE OFFICER

Mr. Thornley Myers

SOLICITORS

Hughes & Cummings

BANKERS

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

AUDITORS

Pannell Kerr Forster
Chartered Accountants
Arnos Vale
St. Vincent

Pannell Kerr Forster
Chartered Accountants

PKF
Accountants &
business advisers

AUDITORS' REPORT

To the Shareholders of
St. Vincent Electricity Services Limited

We have audited the accompanying balance sheet of St. Vincent Electricity Services Limited as of December 31, 2005, and the related statements of changes in equity, operations and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of December 31, 2005, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Pannell Kerr Forster

July 7, 2006

Telephone: (784) 456-2300 | Facsimile: (784) 456-2184 | E-mail: info@pkfsvg.com
P O Box 35 | Arnos Vale | St Vincent & the Grenadines
Partners | Floyd A. Patterson | Brenda Williams

St. Vincent Electricity Services Limited

Balance Sheet
As at December 31, 2005

	Notes	2005 $	2004 $
ASSETS			
Current Assets			
Cash		7,346,010	100,495
Short-term securities	5	7,201,709	15,906,247
Debtors and prepayments		25,739,680	21,678,306
Income tax refundable		4,103,042	4,103,043
Inventories	6	9,026,723	12,365,273
Total Current Assets		53,417,164	54,153,364
Long-Term Investments	7	200,000	200,000
Property, Plant and Equipment	8	198,020,544	171,357,206
Total Assets		251,637,708	225,710,570
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Bank overdraft		1,399,222	2,380,448
Accounts payable and accrued liabilities		23,301,004	23,348,692
Provision for income tax		3,012,756	0
Current portion of long-term debts	9	3,301,964	3,834,495
Dividend payable		0	500,000
Total Current Liabilities		31,014,946	30,063,635
Long-Term Debts	9	50,755,610	30,044,549
Consumers' Contributions to Line Extensions	10	7,576,984	8,013,643
Grant	11	254,374	270,612
Consumers' Deposits	12	7,152,078	6,768,914
Deferred Tax Liability	13	19,712,282	18,792,958
Total Liabilities		116,466,274	93,954,311
Shareholders' Equity			
Stated capital	14	29,045,910	29,045,910
Revaluation surplus	8	39,378,056	45,189,316
Self insurance fund	15	6,000,000	3,000,000
Retained earnings		60,747,468	54,521,033
Total Shareholders' Equity		135,171,434	131,756,259
Total Liabilities and Shareholders' Equity		251,637,708	225,710,570

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

APPROVED ON BEHALF OF THE BOARD: -

Chairman

Director

St. Vincent Electricity Services Limited

Statement of Changes in Equity
For the Year Ended December 31, 2005

	Stated Capital $	Self Insurance Fund $	Revaluation Surplus $	Retained Earnings $	Total $
Balance as of December 31, 2003	29,045,910	2,000,000	39,327,725	48,649,959	119,023,594
Revaluation surplus realized	0	0	(5,343,779)	5,343,779	0
Increase in revaluation surplus	0	0	11,205,370	0	11,205,370
Self insurance fund appropriation	0	1,000,000	0	(1,000,000)	0
Interim dividend	0	0	0	(500,000)	(500,000)
Net earnings for the year	0	0	0	2,027,295	2,027,295
Balance as of December 31, 2004	29,045,910	3,000,000	45,189,316	54,521,033	131,756,259
Revaluation surplus realized	0	0	(5,811,260)	5,811,260	0
Self insurance fund appropriation	0	3,000,000	0	(3,000,000)	0
Net earnings for the year	0	0	0	3,415,175	3,415,175
Balance as of December 31, 2005	29,045,910	6,000,000	39,378,056	60,747,468	135,171,434

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

Statement of Operations
For the Year Ended December 31, 2005

	Notes	2005 $	2004 $
Revenues			
Electricity		60,923,631	56,935,771
Fuel surcharge		33,503,845	20,693,324
Other income		830,872	1,230,567
		95,258,348	78,859,662
Operational Costs			
Diesel generation		19,169,415	18,603,034
Hydro generation		5,760,272	4,876,725
Transmission & distribution		13,172,154	11,170,152
Fuel cost covered by surcharge		32,835,782	20,603,189
Administrative expenses		14,519,566	15,337,321
Foreign exchange (gain) loss		(209,400)	221,568
		85,247,789	70,811,989
Earnings before Finance Charges		10,010,559	8,047,673
Finance Charges		2,256,836	2,311,282
Earnings before Income Tax		7,753,723	5,736,391
Income Tax Expense	16	4,338,548	3,709,096
Net Earnings for the Year		3,415,175	2,027,295
Earnings per Share	17	0.59	0.35
The following expense is included in the foregoing:-			
Depreciation		17,797,863	18,588,704

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

Statement of Cash Flows
For the Year Ended December 31, 2005

	2005 $	2004 $
Cash Flows from Operating Activities		
Earnings before income tax	7,753,723	5,736,391
Adjustments for		
Depreciation	17,797,863	18,588,704
Amortization of consumers' contribution to line extensions	(1,022,473)	(1,018,049)
Gain on disposal of property, plant and equipment	(80,462)	(43,164)
Interest	2,256,836	2,311,282
Foreign exchange (gain) loss	(210,770)	204,395
Amortization of deferred grant	(16,238)	(17,272)
Interest income	(312,578)	(763,808)
Operating Profit before Working Capital Changes	26,165,901	24,998,479
Decrease (increase) in inventories	3,338,550	(1,019,619)
Increase in debtors and prepayments	(3,969,852)	(3,299,760)
(Decrease) increase in creditors, accrued liabilities and provisions	(758,983)	7,449,558
Cash Generated from Operations	24,775,616	28,128,658
Interest paid	(1,545,541)	(1,580,120)
Income tax paid	(406,468)	(2,431,387)
Interest received	221,056	821,555
Net Cash Generated from Operating Activities	23,044,663	24,938,706
Cash Flows from Financing Activities		
Proceeds from customer deposits	383,164	174,764
Proceeds from long-term loans	24,722,062	0
Repayment of long-term debts	(4,332,762)	(5,027,870)
Dividends paid	(500,000)	0
Net proceeds from consumers' contributions	585,814	920,229
Net Cash Generated from (Used in) Financing Activities	20,858,278	(3,932,877)
Cash Flows from Investing Activities		
Purchase of short-term securities	(5,220,037)	(15,906,247)
Proceeds from liquidation of short-term securities	13,924,575	0
Additions to property, plant and equipment	(44,464,179)	(24,164,678)
Proceeds from disposal of property, plant and equipment	83,441	43,576
Net Cash Used in Investing Activities	(35,676,200)	(40,027,349)
Net Increase (Decrease) in Cash	8,226,741	(19,021,520)
Cash - Beginning of Year	(2,279,953)	16,741,567
Cash - End of Year	5,946,788	(2,279,953)
Represented by:-		
Cash	7,346,010	100,495
Bank overdraft	(1,399,222)	(2,380,448)
	5,946,788	(2,279,953)

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

1. Incorporation

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

2. Principal Activity

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

3. Date of Authorization of Issue

These financial statements were authorized for issue by the Board of Directors on July 7, 2006.

4. Principal Accounting Policies

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

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the company:-

4.1. Property, Plant and Equipment

a. Property, plant and equipment, except land which is carried at market value, are stated at replacement cost new as of December 31, 2004. Reproduction cost new, and observed depreciation is determined on the basis of an independent appraisal of the assets made by Agra Monenco Inc., as of January 1, 1993. The value of assets at that date, together with the cost of subsequent additions, less retirals 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.

4. Principal Accounting Policies (Cont'd)

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

b. Revaluation surplus realized through the use of the revalued assets is systematically transferred to retained earnings. Revaluation surplus realized, which represents the excess of depreciation on reproduction cost over original cost, during the year amounted to $5,811,260 (2004: $5,343,779). Depreciation on the original cost basis for 2005 is $11,986,603 (2004: $13,244,925).

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

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

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

4.2. Cash, Cash Equivalents and Short-term Investment Securities

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.

4.3. Inventories

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

4.4. Provision for Doubtful Debts

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

4. Principal Accounting Policies (Cont'd)

4.5. Unbilled Sales

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

4.6. Translation of Foreign Currencies

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

4.7. Taxation

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

4.8. Deferred Grant Income

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

4.9. Earnings per Share

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

4.10. Pension Plan

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

4.11. Impairment of Assets

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

4. Principal Accounting Policies (Cont'd)

4.12. Investment Securities

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

i. Securities held-for-trading

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

Interest earned whilst trading securities is reported as interest income.

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

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

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

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

4. Principal Accounting Policies (Cont'd)

4.12. Investment Securities (Cont'd)

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

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

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

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

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

4.13. Financial Instruments

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.

5. Short-term Securities

	2005 $	2004 $
Securities held to maturity		
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due November 12, 2005	0	13,924,575
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due November 6, 2006.	1,123,663	1,080,445
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due February 9, 2006.	2,462,288	0
National Commercial Bank (SVG) Ltd. 4% Certificate of deposit, due June 10, 2006.	2,676,229	0
Bank of Nova Scotia 4.25% Certificate of deposit, due June 30, 2006	939,529	901,227
	7,201,709	15,906,247

6. Inventories

	2005 $	2004 $
Spares	10,493,843	13,312,824
Fuel and lubricants	367,680	641,849
Stationery	160,087	102,211
Goods in transit	382,620	195,143
	11,404,230	14,252,027
Less: provision for obsolescence	(2,377,507)	(1,886,754)
	9,026,723	12,365,273

7. Long-Term Investments

	2005 $	2004 $
20,000 Eastern Caribbean Security Exchange Limited Class B Shares	200,000	200,000

8. Property, Plant and Equipment

	Freehold Property $	Generation $	Transmission & Distribution $	Other $	Total $
Operational Assets Valuation					
As of December 31, 2004	111,815,378	123,438,427	139,292,358	16,704,569	391,250,732
Transfers	13,218	1,502,871	2,797,974	739,388	5,053,451
Disposals	0	0	0	(522,350)	(522,350)
As of December 31, 2005	111,828,596	124,941,298	142,090,332	16,921,607	395,781,833
Accumulated Depreciation					
As of December 31, 2004	55,879,228	74,427,948	84,589,519	13,383,888	228,280,583
Charge for the year	2,520,505	4,905,263	8,515,197	1,856,898	17,797,863
Disposals and transfers	0	0	0	(519,372)	(519,372)
As of December 31, 2005	58,399,733	79,333,211	93,104,716	14,721,414	245,559,074
Net Book Value					
As of December 31, 2004	55,936,150	49,010,479	54,702,839	3,320,681	162,970,149
As of December 31, 2005	53,428,863	45,608,087	48,985,616	2,200,193	150,222,759
Non-Operational Assets					
As of December 31, 2004	45,100	4,288,938	3,467,697	585,322	8,387,057
Additions	7,179,479	26,688,481	9,550,777	1,045,442	44,464,179
Transfers	(13,218)	(1,502,871)	(2797,974)	(739,388)	(5,053,451)
As of December 31, 2005	7,211,361	29,474,548	10,220,500	891,376	47,797,785
Net Book Value					
As of December 31, 2004	55,981,250	53,299,417	58,170,536	3,906,003	171,357,206
As of December 31, 2005	60,640,224	75,082,635	59,206,116	3,091,569	198,020,544

9. Long-Term Debts

	Notes	2005 $	2004 $
Caribbean Development Bank Loans			
First Power Project:-			
International Development Association	8(a)(i)	1,695,384	2,061,599
International Development Association	8(a)(ii)	1,309,877	1,364,455
Third Power Project: -			
Lowmans Bay Project	8 (c)	13,700,441	0
Second Power Project:-			
Special Fund Resources	8(b)	185,982	984,018
Government of St. Vincent and the Grenadines			
United States Agency for International Development	8(d)(i)	13,992,240	14,496,538
European Investment Bank Loan II	8(d)(ii	1,005,565	2,407,016
European Investment Bank Loan III	8(d)(iii)	6,598,757	7,323,417
Agence Française de Development Group			
(Formerly Caisse Française de Development)	8(e)	1,125,448	1,330,095
Kuwait Fund for Arab Economic Development	8(f)	3,422,259	3,911,906
European Investment Bank Lowmans Bay	8(g)	11,021,621	0
Total Long-Term Debts		54,057,574	33,879,044
Less: Current Portion		(3,301,964)	(3,834,495)
		50,755,610	30,044,549

a. Caribbean Development Bank (CDB) First Power Project

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

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

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

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

9. Long-Term Debts (Cont'd)

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

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

(i) all payments of principal and interest shall be made by the company to CDB and such payments shall be deemed payments by the company to the Government.

(ii) the loans are to be secured by execution of a debenture giving a first floating charge over the undertaking and its uncalled capital.

b. Caribbean Development Bank (CDB) Second Power Project

Loan obtained through the Special Funds Resources of the Bank. The fixed interest rate of 4% is combined with a spread to vary with the interest on the Ordinary Capital Resources (OCR) of the bank. At December 31, 2005, the rate was 6.00%.

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

(i) all payments of principal and interest shall be made by the company to CDB and such payments shall be deemed payments by the company to the Government.

(ii) the loan is to be secured by execution of a debenture giving a first floating charge over the undertaking and its uncalled capital.

c. Caribbean Development Bank (CDB) Third Power Project

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

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

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

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

9. Long-Term Debts (Cont'd)

c. Caribbean Development Bank (CDB) Third Power Project (Cont'd)

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

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

d. Government of St. Vincent and the Grenadines

(i) United States Agency for International Development

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

(ii) European Investment Bank Loan II

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

(iii) European Investment Bank Loan III

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

e. Agence Française de Development 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.

f. Kuwait Fund for Arab Economic Development

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

9. Long-Term Debts (Cont'd)

g. European Investment Bank Loan IV

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

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

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

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

10. Consumers' Contributions to Line Extensions

	Government $	Other Consumers $	Total $
Contributions			
Beginning of year	4,260,035	12,707,425	16,967,460
Received during the year	0	586,299	586,299
Refunds	0	(485)	(485)
End of year	4,260,035	13,293,239	17,553,274
Amortization			
Beginning of year	3,028,179	5,925,638	8,953,817
For the year	255,602	766,871	1,022,473
End of year	3,283,781	6,692,509	9,976,290
Balance – 2004	1,231,856	6,781,787	8,013,643
Balance - 2005	976,254	6,600,730	7,576,984

11. Grant

	2005 $	2004 $
Agence Francaise de Development Group Grant	270,612	287,884
Amortisation	16,238	17,272
	254,374	270,612

12. Customers' Deposits

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

	2005 $	2004 $
Deposits		
Beginning of year	4,806,727	4,631,963
Received during the year	339,023	347,426
Refunds	(156,776)	(172,662)
End of year	4,988,974	4,806,727
Interest		
Beginning of year	1,962,187	1,759,200
For the year	200,917	202,987
	2,163,104	1,962,187
	7,152,078	6,768,914

13. Deferred Tax Liability

Deferred tax liability comprises:-

	2005 $	2004 $
Temporary difference on property, plant and equipment	18,968,661	18,138,850
Taxed provisions	743,621	654,108
	19,712,282	18,792,958

14. Stated Capital

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

	2005 $	2004 $
Issued and fully paid - 5,809,182 ordinary shares without nominal or par value.	29,045,910	29,045,910

15. Self Insurance Fund

The company has created a self insurance fund for the coverage of its transmission and distribution assets, which at December 31, 2005, had a carrying value of $59.2 million. This reserve has been created by way of appropriation from the retained earnings.

16. Income Tax

Income tax expense comprises:-

	2005 $	2004 $
Current	3,419,224	45,068
Deferred	919,324	3,664,028
	4,338,548	3,709,096

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

	2005 $	2005 %	2004 $	2004 %
Profit before tax	7,753,723	100	5,736,391	100
Tax calculated at the statutory rate	2,481,191	32	1,835,645	32
Expenses not allowable for tax deduction	1,924,365	25	1,845,826	31
Other	(67,008)	(1)	27,625	1
	4,338,548	56	3,709,096	64

17. Earnings per Share

Earnings per share is calculated upon net earnings for the year of $3,415,175 (2004: 2,027,295) and on the average issued share capital of 5,809,182 (2004: 5,809,182) ordinary shares.

18. Capital Commitments

As of December 31, 2005, the directors approved capital expenditures totaling $56.3 million (2004: $75.5 million), of which $34 million have been contracted for.

19. Retirement Benefits

The company provides retirement benefits, under a defined benefit plan and a defined contribution plan, for substantially all of its employees. The most recent actuarial valuations, which were carried out on December 31, 1995 and January 1, 2000, revealed surplus of assets in both plans. The company's contributions to the plans are expensed when incurred. During the year, the company's pension expense amounted to $704,044 (2004: $433,521).

20. 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 to withholding tax on the amounts assess. If final determination should go against the company, any additional taxes would be accounted for as a charge in current operations.

21. Financial Instruments

21.1. Credit Risk: Accounts Receivable

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

21.2. Interest Rate Risk

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

	Up to One Year $	One to Five Years $	Over Five Years $	Non-Interest Bearing $	Total $
Financial Assets	14,534,508	0	0	25,732,309	40,266,817
Financial Liabilities	4,701,186	0	57,907,688	30,877,988	93,486,862
Interest Sensitivity Gap					
As of December 31, 2005	9,833,322	0	(57,907,688)		(48,074,366)
As of December 31, 2004	9,782,120	(3,391,035)	(33,422,428)		(27,031,343)

21. Financial Instruments (Cont'd)

21.3. Currency Risk

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

	Financial Assets $	Financial Liabilities $	Currency Sensitivity Gap 2005 $	Currency Sensitivity Gap 2004 $
KUWAITI DINAR	0	3,422,259	(3,422,259)	(3,911,906)
ECU	0	1,005,565	(1,005,565)	(2,461,589)
EURO	0	1,175,408	(1,175,408)	(1,440,825)
US	7,228,763	52,151,376	(44,922,613)	(28,233,642)
STG	0	475,580	(475,580)	(566,201)
EC	33,038,054	35,256,674	(2,218,620)	(96,884)
TOTAL	40,266,817	93,486,862	(53,220,045)	(36,711,047)

22. Staff Cost

	2005 $	2004 $
Staff costs	12,417,428	14,590,998
Number of employees at balance sheet date	290	274

Accountants &
business advisers

St. Vincent Electricity Services Limited

Additional Information
Financial Statements
Year Ended December 31, 2005

Contents

Pannell Kerr Forster
Chartered Accountants

Accountants & business advisers

ADDITIONAL COMMENTS OF AUDITORS

To the Directors of St. Vincent Electricity Services Limited

The accompanying pages are presented as additional information only. In this respect, they do not form part of the financial statements of St. Vincent Electricity Services Limited for the year ended December 31, 2005, and hence are excluded from the opinion expressed in our report dated July 7, 2006, to the directors on such financial statements. The information on these pages has been subject to audit procedures only to the extent necessary to express an opinion on the financial statements of the company and, in our opinion, is fairly presented in all respects material to those financial statements.

Pannell Kerr Forster

July 7, 2006

Telephone: (784) 456-2300 | Facsimile: (784) 456-2184 | E-mail: info@pkfsvg.com
P O Box 35 | Arnos Vale | St Vincent & the Grenadines
Partners | Floyd A. Patterson | Brenda Williams

Financial Statistics
For the Year Ended December 31, 2005

	2005 EC$ 000's	2004 EC$ 000's	2003 EC$ 000's	2002 EC$ 000's	2001 EC$ 000's	2000 EC$ 000's
SUMMARISED BALANCE SHEET						
Shares issued	29,046	29,046	29,046	29,046	29,046	29,046
Retained earnings	60,747	54,521	48,650	45,301	40,680	39,292
Other reserves	79,819	81,763	69,199	66,843	64,096	64,771
Long-term liabilities	50,756	30,045	33,528	39,913	43,198	46,024
Deferred income	254	271	288	306	326	345
	220,622	195,646	180,711	181,409	177,346	179,478
Fixed assets (Net)	198,020	171,357	154,576	155,029	147,273	152,766
Long-term investments	200	200	200	200	200	0
Current assets	53,417	54,153	51,306	55,838	53,934	42,676
Current liabilities	(31,015)	(30,064)	(25,371)	(29,658)	(24,061)	(15,964)
	220,622	195,646	180,711	181,409	177,346	179,478
SUMMARISED RESULTS						
Operating Revenues						
Electricity sales	60,924	56,936	50,822	48,061	46,415	44,022
Fuel surcharge	33,504	20,693	16,023	12,938	14,970	14,510
Other	831	1,230	1,779	2,381	2,217	2,009
Total	95,259	78,859	68,624	63,380	63,602	60,541
Operating Expenses						
Fuel cost covered by surcharge	32,836	20,603	15,958	12,850	14,753	14,400
Operating and maintenance						
- Hydro	2,434	1,833	2,261	1,914	2,353	2,266
- Diesel	14,850	12,307	10,183	9,343	8,356	7,130
Transmission & distribution	5,458	4,285	4,254	3,212	3,725	3,547
Administration & other	11,873	13,195	12,321	11,892	9,779	9,317
Depreciation	17,798	18,589	17,102	15,490	14,918	13,924
Total	85,249	70,812	62,079	54,701	53,884	50,584
Operating income	10,010	8,047	6,545	8,679	9,718	9,957
Interest	(2,257)	(2,311)	(2,850)	(2,914)	(3,135)	(3,073)
Net profit before tax	7,753	5,736	3,695	5,765	6,583	6,884
Income tax expense	(4,338)	(3,709)	(2,665)	(3,319)	(5,013)	(2,814)
Net profit after tax	3,415	2,027	1,030	2,446	1,570	4,070
Appraisal element in depreciation	5,811	5,344	4,719	4,175	4,265	3,927
Retained earnings brought forward	54,521	48,650	45,301	40,680	36,045	31,295
Final/Interim dividend	0	(500)	(1,400)	(1,000)	(1,200)	0
Self insurance fund	(3,000)	(1,000)	(1,000)	(1,000)	00	0
Retained earnings carried forward	60,747	54,521	48,650	45,301	40,680	39,292

St. Vincent Electricity Services Limited

Financial Statistics
For the Year Ended December 31, 2005

	2005	2004	2003	2002	2001	2000
GENERATING PLANT (KW)						
Site Rated Capacity (KW)						
St. Vincent	33,195	33,195	30,635	31,235	27,717	27,637
Bequia	2,931	2,156	2,156	2,160	2,160	2,160
Union Island	1,270	1,270	1,270	910	910	910
Canouan	3,120	3,120	3,120	3,120	3,120	3,120
Mayreau	180	180	180	0	0	0
Firm Capacity (KW)						
St. Vincent	26,065	26,485	20,120	16,230	17,400	17,250
Bequia	1,900	1,860	1,080	1,000	1,000	1,000
Union Island	1,110	1,121	695	311	318	200
Canouan	2,700	2,600	1,300	788	1,355	1,482
Mayreau	180	180	60	0	0	0
Peak Demand (KW)						
St. Vincent	18,640	17,120	16,270	16,050	15,230	14,030
Bequia	960	1,200	1,140	1,065	1,140	1,100
Union Island	650	487	434	428	417	390
Canouan	1,300	1,821	734	1,065	2,021	1,628
Mayreau	60	38	26	0	0	0
PRODUCTION AND SALES						
Gross Generation (KWhs)						
Hydro	25,539,830	27,146,531	20,712,180	22,026,517	18,509,655	24,769,924
Diesel	106,211,315	93,595,252	87,528,028	79,819,913	80,282,292	68,555,473
	131,751,145	120,741,783	108,240,208	101,846,430	98,791,947	93,325,397
Own Use	4,225,112	3,803,796	2,980,268	1,638,581	1,868,100	1,931,564
Net Generation	127,526,033	116,937,987	105,259,940	100,207,849	96,923,847	91,393,833
Sales (KWhs)						
Domestic	53,687,894	50,493,950	47,194,734	44,185,435	41,829,458	39,818,172
Commercial	53,541,364	47,087,122	39,004,275	36,570,640	35,554,945	33,777,336
Industrial	6,308,552	6,146,615	6,520,330	6,499,779	6,963,546	6,293,714
Street lighting	2,880,824	2,796,146	2,711,316	2,568,841	2,256,761	2,160,760
Total Sales	116,418,634	106,523,833	95,430,655	89,824,695	86,604,710	82,049,982
Loss (% of Net Generation)	8.17%	8.9%	9.3%	10.4%	10.6%	10.2%
Number of Consumers at Year-End						
Domestic	31,681	30,304	29,535	28,595	27,671	26,732
Commercial	3,947	3,825	3,667	3,554	3,428	3,360
Industrial	29	32	34	35	34	34
Street lighting	47	47	46	46	46	46
	35,704	34,208	33,282	32,230	31,179	30,172