

GRENADA ELECTRICITY SERVICES LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31ST DECEMBER, 2005

GRENADA ELECTRICITY SERVICES LIMITED

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GRENADA ELECTRICITY SERVICES LIMITED

DIRECTORS AND OFFICERS

DIRECTORS:

(As at December 31, 2005)

G. Robert Blanchard Jr. -Chairman
Nigel Wardle
Vernon Lawrence - Managing Director/Chief executive officer
Arthur Campbell
Malcolm Harris
Alister Bain
Lawrence Samuel
Ronald Roseman
Daniel Curtis
Chester Palmer
Nelson Louison
Ashton Frame

MANAGING DIRECTOR:

Vernon Lawrence

SECRETARY:

Claudia Alexis (Ms.)

REGISTERED OFFICE:

Halifax Street
St. George's
Grenada

BANKERS:

National Commercial Bank of Grenada Limited
NCB House
Grand Anse
St. George's, Grenada

RBTT Bank Grenada Limited
Cnr. Cross & Halifax Streets
St. George's, Grenada

Bank of Nova Scotia
Cnr. Granby and Halifax Streets
St. George's, Grenada

FirstCaribbean International Bank (Barbados) Limited
Church Street
St. George's, Grenada

SOLICITORS:

Grant Joseph & Company
Lucas Street
St. George's, Grenada

AUDITORS:

Pannell Kerr Forster
Chartered Accountants
Pannell House
Grand Anse
St. George's, Grenada

**REPORT OF THE AUDITORS TO THE MEMBERS OF
GRENADA ELECTRICITY SERVICES LIMITED**

We have audited the accompanying balance sheet at 31st December, 2005 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of those charged with governance. 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. These standards require that we plan and perform the audit to obtain reasonable assurance about 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 overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above as set out on pages 4 to 14 present fairly in all material respects, the financial position of the Company at 31st December, 2005 and the results of its operations for the year then ended in conformity with International Financial Reporting Standards.

GRENADA:

13th March, 2006

Chartered Accountants:

GRENADA ELECTRICITY SERVICES LIMITED

BALANCE SHEET AT 31ST DECEMBER, 2005

(Expressed in Eastern Caribbean Currency Dollars)

	Notes	2005 \$	2004 \$
ASSETS			
CURRENT ASSETS			
Cash and due from banks		3,569,640	376,711
Accounts receivable	3	22,599,529	20,988,400
Segregated retirement investment		10,756,968	10,735,786
Inventories	4	18,534,699	11,987,131
Prepayments		<u>500,471</u>	<u>2,802,388</u>
		55,961,307	46,890,416
INVESTMENTS	5	1,703,709	7,856,957
PROPERTY, PLANT AND EQUIPMENT	6	72,248,748	79,280,745
Suspense, jobs in progress		672,335	1,041,627
Capital work in progress	7	<u>20,274,586</u>	<u>4,138,918</u>
TOTAL ASSETS		<u>150,860,685</u>	<u>139,208,663</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Bank overdraft		5,000,263	3,798,034
Amount due to related company	13	1,324,441	325,303
Current portion of long-term debt	8	5,706,312	4,617,839
Accounts payable and accrued expenses		15,033,799	13,657,858
Consumers' deposits		5,415,198	4,958,829
Consumers' advances for construction		1,631,255	2,286,635
Current portion of provision for retirement benefits		500,000	500,000
Provision for profit sharing		1,543,733	2,176,387
Provision for income tax		<u>435,879</u>	<u>-</u>
		36,590,880	32,320,885
PROVISION FOR RETIREMENT BENEFITS		13,070,301	11,757,228
LONG TERM DEBT	8	<u>43,198,905</u>	<u>33,933,978</u>
		<u>92,860,086</u>	<u>78,012,091</u>
SHAREHOLDERS' EQUITY			
Stated capital	9	30,830,464	30,830,464
Share premium	10	1,509,376	1,509,376
Revaluation reserve	11	3,828,527	3,828,527
Retained earnings		<u>21,832,232</u>	<u>19,443,541</u>
PROVISION FOR HURRICANE INSURANCE RESERVE	12	58,000,599	55,611,908
		<u>-</u>	<u>5,584,664</u>
		<u>58,000,599</u>	<u>61,196,572</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>150,860,685</u>	<u>139,208,663</u>

The notes on pages 8 to 14 form part of these financial statements

: Director

: Director

GRENADA ELECTRICITY SERVICES LIMITED

**STATEMENT OF INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2005
(Expressed in Eastern Caribbean Currency Dollars)**

	2005	2004
	\$	\$
INCOME		
Sales - non fuel charge	52,900,135	50,071,598
- fuel charge	47,642,123	30,473,871
Unbilled sales adjustments	<u>2,456,984</u>	<u>(1,500,927)</u>
Total sales	102,999,242	79,044,542
Sundry revenue	2,032,446	2,001,920
Profit on disposal of fixed assets	<u>23,768</u>	<u>53,944</u>
	<u>105,055,456</u>	<u>81,100,406</u>
OPERATING COSTS		
Production costs	12,882,946	14,538,078
Fuel consumed	51,166,856	32,810,997
Provision for hurricane insurance reserve	2,000,000	2,000,000
Distribution services	16,788,998	11,470,062
Planning and engineering	<u>949,475</u>	<u>907,166</u>
	<u>83,788,275</u>	<u>61,726,303</u>
Administration	<u>11,290,392</u>	<u>9,701,606</u>
Profit for year before interest	9,976,789	9,672,497
Deduct: interest	<u>3,595,638</u>	<u>3,480,092</u>
	<u>6,381,151</u>	<u>6,192,405</u>
OTHER CHARGES		
Donations	319,058	309,620
Profit sharing	<u>2,216,521</u>	<u>1,815,339</u>
	<u>2,535,579</u>	<u>2,124,959</u>
Profit for year before income tax	3,845,572	4,067,446
Deduct: Provision for income tax	<u>1,456,881</u>	<u>1,300,439</u>
Profit for year after income tax	<u>2,388,691</u>	<u>2,767,007</u>
Earnings per share	<u>0.13</u>	<u>0.15</u>

The notes on pages 8 to 14 form part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2005
(Expressed in Eastern Caribbean Currency Dollars)**

	Stated Capital	Revaluation Reserve	Share Premium	Retained Earnings	Total
Balance at 1 st January, 2004	30,830,464	3,828,527	1,509,376	20,476,534	56,644,901
Dividends paid	-	-	-	(3,800,000)	(3,800,000)
Profit for the year after income tax	-	-	-	<u>2,767,007</u>	<u>2,767,007</u>
Balance at 31 st December, 2004	30,830,464	3,828,527	1,509,376	19,443,541	55,611,908
Profit for the year after income tax	-	-	-	<u>2,388,691</u>	<u>2,388,691</u>
Balance at 31 st December, 2005	<u>\$30,830,464</u>	<u>\$3,828,527</u>	<u>\$1,509,376</u>	<u>\$21,832,232</u>	<u>\$58,000,599</u>

The notes on pages 8 to 14 form part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31ST DECEMBER, 2005
(Expressed in Eastern Caribbean Currency Dollars)**

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Profit before income tax	3,845,572	4,067,446
Adjustments for:		
Depreciation	11,590,947	11,067,290
Profit on disposal of fixed assets	<u>(23,768)</u>	<u>(53,944)</u>
	15,412,751	15,080,792
Changes In Operating Assets/Liabilities		
Increase in receivables and prepayments	<u>(330,214)</u>	<u>(2,145,504)</u>
Increase in accounts payable and accrued charges	1,176,930	6,050,338
Increase in provision for retirement benefits	1,313,073	932,821
Increase in inventory	<u>(6,547,568)</u>	<u>(3,088,069)</u>
Increase in related company balance	999,138	236,793
Decrease in provision for profit sharing	<u>(632,654)</u>	<u>(33,407)</u>
Income tax paid	<u>-</u>	<u>(829,023)</u>
Cash provided by operating activities	<u>11,391,456</u>	<u>16,204,741</u>
INVESTING ACTIVITIES		
Decrease in investments	1,091,477	19
Disposal of fixed assets	91,100	102,138
Decrease in suspense jobs in progress	369,292	81,615
Increase in capital work in progress	<u>(16,135,668)</u>	<u>(2,170,791)</u>
Decrease in short term investments	5,061,771	4,845,960
Increase in segregated investment	<u>(21,182)</u>	<u>(366,091)</u>
Increase in consumer contribution to line extension	228,463	119,438
Purchase of fixed assets	<u>(4,854,745)</u>	<u>(5,286,947)</u>
Cash used in investing activities	<u>(14,169,492)</u>	<u>(2,674,659)</u>
FINANCING ACTIVITIES		
Loan proceeds	15,163,358	-
Dividends paid	-	<u>(3,800,000)</u>
Decrease in provision for hurricane insurance reserve	<u>(5,584,664)</u>	<u>(6,415,336)</u>
Repayment of loan	<u>(4,809,958)</u>	<u>(4,299,402)</u>
Decrease in deferred income	<u>-</u>	<u>(436,540)</u>
Cash provided/(used) in financing activities	<u>4,768,736</u>	<u>(14,951,278)</u>
Net increase/(decrease) in cash and cash equivalents	1,990,700	<u>(1,421,196)</u>
Net overdraft - at the beginning of year	<u>(3,421,323)</u>	<u>(2,000,127)</u>
Net overdraft - at the end of year	<u>(1,430,623)</u>	<u>(3,421,323)</u>
REPRESENTED BY		
Cash and due from banks	3,569,640	376,711
Bank overdraft	<u>(5,000,263)</u>	<u>(3,798,034)</u>
	<u>(1,430,623)</u>	<u>(3,421,323)</u>

The notes on pages 8 to 14 form part of these financial statements

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2005

1. REGISTRATION AND PRINCIPAL ACTIVITY

The Company is public and is registered in Grenada. It is engaged in the generation and supply of electricity throughout Grenada, Carriacou and Petit Martinique. It is a subsidiary of Grenada Private Power Limited.

The Company was issued a certificate of continuance under Section 365 of the Companies Act on November 8th, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

These financial statements are expressed in Eastern Caribbean Currency Dollars and are prepared on the historical cost convention. The accounting policies conform with International Financial Reporting Standards (IFRS) in all material respects.

(b) Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amount 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 reporting period. Actual results could differ from these estimates.

(c) Foreign Currencies

Foreign currency transactions during the year were converted into Eastern Caribbean Currency Dollars at the exchange rates prevailing at the dates of the transactions. Assets and liabilities at the balance sheet date are expressed in EC\$ at the following rates:

EC\$2.7169 to US\$1.00 - (2004: EC\$2.7169)

Differences on exchange on current liabilities are reflected in the income statement in arriving at net income for the year, while differences on long term loans are deferred until realised.

(d) Fixed Assets

Some fixed assets are stated at historical cost. The Company's land, Queens Park building and generation equipment were revalued by professional valuers in 1989 while the Company's assets in Carriacou were revalued by professional valuers in 1994. These valuations were accepted by the Directors and included in the fixed assets. Depreciation is provided on the straight line basis over the estimated useful lives of the depreciable assets at the following rates:-

	% Per Annum
Building and construction	2.5 - 25
Plant and machinery	5 - 12.5
Motor vehicles	33 1/3
Furniture and fittings	12.5 - 20

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 31ST DECEMBER, 2005 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Stores

Stores are valued at the lower of cost and net realisable value. Cost is determined on an average basis.

(f) Provision for Bad and Doubtful Debts

Provision is made based on 2% of Annual Gross Sales. Accounts are written off against the provision when they are considered to be bad. The total provision at 31st December, 2005 amounted to EC\$2,831,133 (2004 - EC\$3,048,339). Included therein is a specific provision of \$325,573 on consumer accounts and \$420,092 on other debtors.

(g) Consumers' Contribution to Line Extension

In certain specified circumstances, consumers requiring line extensions are required to contribute towards the cost of the extension. The excess of any such contributions over the cost of the extensions is reflected in the Statement of Income in the period in which the job is completed.

The balance of contributions is written off over the estimated useful life of the relevant assets and is reflected in the Statement of Income as a deduction from the depreciation charge for Transmission and Distribution. Contributions received in respect of jobs not yet started or completed at the year end are grouped with creditors, accrued charges and provisions.

(h) Provision for Unbilled Sales

Revenue from sales of electricity is based on meter readings which are done on a rotational basis each month. The Company, recognising that a number of consumers would not be billed in the consumption month, has decided to include in its sales 50% of the month's billings to represent unbilled sales.

The provision and adjustment with comparatives at 31st December, 2005 are calculated as follows:

	2005 EC\$	2004 EC\$
Sales revenue for December after discounts	<u>9,556,625</u>	4,642,658
50% of above = provision at 31/12/05	4,778,313	2,321,329
= provision at 31/12/04	<u>2,321,329</u>	<u>3,822,256</u>
Increase/(decrease) in provision during the year	<u>2,456,984</u>	<u>(1,500,927)</u>

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2005

(continued)

2. SIGNIFICANT ACCOUNTING POLICIES

(i) Investments

Available for sale

Investments are classified as available for sale as they are intended to be held for an indefinite period. These investments may be sold in response to needs for liquidating or changes in interest rates, exchange rates or equity prices. These investments are stated at cost as fair market values are not available.

Held to Maturity

Investments in which management has the intent and ability to hold to the fixed maturity date are classified as held to maturity. These investments are stated at amortised cost.

3. ACCOUNTS RECEIVABLE

	2005	2004
	EC\$	EC\$
Consumers' accounts	18,231,441	19,210,172
Less: Provision for doubtful debts	<u>2,411,041</u>	<u>2,656,664</u>
	15,820,400	16,553,508
Provision for unbilled sales	4,778,313	2,321,329
Other debtors	<u>2,000,816</u>	<u>2,113,563</u>

4. STORES

The following is a breakdown of stock on hand

Motor vehicle spares	460,449	400,309
Distribution	12,817,840	5,739,289
Generation spares	4,187,855	4,193,522
Fuel and lubricating oil	339,089	221,893
General stores	2,021,391	2,186,290
Stationery	<u>62,604</u>	<u>67,747</u>

	19,889,228	12,809,050
Less: Obsolescence provision	<u>1,354,529</u>	<u>821,919</u>

	<u>18,534,699</u>	<u>11,987,131</u>
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5. INVESTMENTS

Available for sale

536 ordinary shares in the National Commercial Bank of Grenada Limited	16,080	16,080
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Government of Grenada Treasury Bills	<u>848,000</u>	<u>1,939,477</u>
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	<u>864,080</u>	<u>1,955,557</u>
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Short Term – held to maturity

Certificates of deposit	835,474	5,897,245
US\$ - certificate of deposit	<u>4,155</u>	<u>4,155</u>

	<u>839,629</u>	<u>5,901,400</u>
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	<u>1,703,709</u>	<u>7,856,957</u>
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GRENADA ELECTRICITY SERVICES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
AT 31ST DECEMBER, 2005**

(continued)

6. FIXED ASSETS

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
Balance at January 1st, 2005						
Cost	285,826	21,460,512	74,400,699	7,330,734	6,830,961	110,308,732
Valuation	<u>1,114,336</u>	<u>3,286,716</u>	<u>48,524,123</u>	-	-	<u>52,925,175</u>
Additions for the year	1,400,162	24,747,228	122,924,822	7,330,734	6,830,961	163,233,907
Sales/disposals	-	65,967	3,428,662	1,147,532	212,584	4,854,745
	<u>-</u>	<u>-</u>	<u>(555,813)</u>	<u>(245,864)</u>	<u>(135,226)</u>	<u>(936,903)</u>
Balance at December 31st, 2005	<u>1,400,162</u>	<u>24,813,195</u>	<u>125,797,671</u>	<u>8,232,402</u>	<u>6,908,319</u>	<u>167,151,749</u>
ACCUMULATED DEPRECIATION						
Balance at January 1 st , 2005	-	8,638,116	59,366,287	5,376,261	4,648,455	78,029,119
Charge for year	-	1,218,081	8,670,928	1,120,391	581,547	11,590,947
Written back on sales/disposals	-	-	(555,813)	(188,770)	(124,988)	(869,571)
	<u>-</u>	<u>-</u>	<u>(555,813)</u>	<u>(188,770)</u>	<u>(124,988)</u>	<u>(869,571)</u>
Balance at December 31st, 2005	<u>-</u>	<u>9,856,197</u>	<u>67,481,402</u>	<u>6,307,882</u>	<u>5,105,014</u>	<u>88,750,495</u>
Balance at December 31st, 2005	1,400,162	14,956,998	58,316,269	1,924,520	1,803,305	78,401,254
Less: Consumer contribution to line extension	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,152,506)</u>
Net book value - December 31st, 2005	<u>\$1,400,162</u>	<u>\$14,956,998</u>	<u>\$58,316,269</u>	<u>\$1,924,520</u>	<u>\$1,803,305</u>	<u>\$72,248,748</u>
Balance at December 31st, 2004	1,400,162	16,109,112	63,558,535	1,954,473	2,182,506	85,204,788
Less: Consumer contribution to line extension	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,924,043)</u>
Net book value - December 31st, 2004	<u>\$1,400,162</u>	<u>\$16,109,112</u>	<u>\$63,558,535</u>	<u>\$1,954,473</u>	<u>\$2,182,506</u>	<u>\$79,280,745</u>

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2005

(continued)

7 CAPITAL WORK IN PROGRESS

	2005	2004
Software upgrades	1,544,701	1,232,220
Building and construction	600,093	575,393
Distribution	31,958	37,348
Transmission project	1,518,668	1,195,868
Power station expansion - Queen's Park	<u>16,579,166</u>	<u>1,098,089</u>
	<u>20,274,586</u>	<u>4,138,918</u>

8. LOAN CAPITAL

	Balance at 31/12/05	Instalments due within one year	Net Long Term Debt 2005	2004
(a) European Investment Bank (EIB)	<u>6,074,842</u>	<u>939,052</u>	<u>5,135,790</u>	<u>6,074,843</u>
(b) FINCOR				
Loan 1	14,198,570	1,598,178	12,600,392	10,255,228
Loan 2	<u>17,603,908</u>	<u>2,595,574</u>	<u>15,008,334</u>	<u>17,603,907</u>
	<u>31,802,478</u>	<u>4,193,752</u>	<u>27,608,726</u>	<u>27,859,135</u>
(c) National Insurance Scheme	<u>11,027,897</u>	<u>573,508</u>	<u>10,454,389</u>	-
	<u>\$48,905,217</u>	<u>\$5,706,312</u>	<u>\$43,198,905</u>	<u>\$33,933,978</u>

- (a) The EIB loan is repayable over twelve (12) years at a rate of interest of 3.70% per annum, and is guaranteed by the Government of Grenada.
- (b) The total loan commitment from Fincor is EC\$50,000,000 of which EC\$43,806,721 was drawn down while \$12,004,243 was repaid at balance sheet date. The loans are repayable over ten (10) years. Loan (1) bears interest at the rate of 8.80% per annum, while the rate on loan (2) is 9% per annum.
- (c) The loan commitment is EC\$15,316,523 of which EC\$11,027,897 was drawn down during the financial year. The loan bears interest at the rate of 7.0% per annum. Repayment of the loan is over ten (10) years with quarterly payments of \$535,650.84 inclusive of interest.

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2005

(continued)

9. STATED CAPITAL

	2005	2004
	EC\$	EC\$
Authorised		
25,000,000 ordinary shares	<u>40,566,400</u>	<u>40,566,400</u>
Issued 19,000,000 ordinary shares of no par value	<u>30,830,464</u>	<u>30,830,464</u>

10. SHARE PREMIUM

Arising on the sale of 4,000,000 ordinary shares	<u>1,509,376</u>	<u>1,509,376</u>
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11. REVALUATION RESERVE

Balance at 31st December, 2005	<u>3,828,527</u>	<u>3,828,527</u>
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12. PROVISION FOR HURRICANE INSURANCE RESERVE

Balance at January 1 st , 2005	5,584,664	12,000,000
Add: Transfer during the year	<u>2,000,000</u>	<u>2,000,000</u>
	7,584,664	14,000,000
Less: Expenses incurred during the year	<u>7,584,664</u>	<u>8,415,336</u>
Balance at December 31 st , 2005	<u>\$ -</u>	<u>\$5,584,664</u>

The reserve represents amounts charged to profits in lieu of insurance. The \$16m charged to the reserve account was exhausted during the post Hurricane Ivan restoration efforts. An additional amount of \$1.44m included in operating cost was incurred bringing the total expenditure to \$17.44m.

GRENADA ELECTRICITY SERVICES LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2005

(continued)

13. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial operating decisions. This amount of \$1,324,441 is due to WRB Enterprise Inc for management fees and expenses incurred on the Company's behalf.

14. FINANCIAL INSTRUMENTS

Due to their short term maturity, the carrying value of certain balance sheet financial instrument is assumed to approximate their fair values. These include cash and cash equivalents, trade debtors and trade payables. Investments at fair value are assumed to be equal to their carrying value.

(a) Interest rate risk

Interest rate risk is the risk of loss arising from changes in prevailing interest rates. The company manages this risk by borrowing at fixed interest rates as disclosed in note 8.

(b) Credit risk

Credit risk is an estimate of the risk of bad debts. Trade receivables are shown net of provision for bad and doubtful receivables.

15. CONTINGENT LIABILITY

The company has a contingent liability to the Government of Grenada for \$20,000 in respect of customs bonds.

16. CAPITAL COMMITMENT

During the year an agreement was signed with Wartsila Finland Oy for the installation of generators at Queens Park at a cost of EC\$30,633,047.50. An amount of EC\$15,467,690.00 was unpaid at the end of the financial year.