ST. LUCIA ELECTRICITY SERVICES LIMITED

REVIEW OF OPERATIONS

For the six months ended 30th June 2004

The Directors are pleased to present the unaudited results of the Company for the six months ended 30th June, 2004.

Overall performance to date was well above budget. Costs were generally effectively managed and the results for the six months were substantially above expectation. At this point, and barring any serious reversal, there is nothing to suggest that corporate targets for the year will not be achieved.

Net Income for the year to date was EC$12.3m, compared with EC$9.8m in the corresponding period in 2003 and sales for the year to date grew at 6.6%. With the exception of the industrial sector which registered a decline of 6%, all other sectors showed growth with the hotel sector the most buoyant at 15%. Sales were boosted by the high profile and hugely popular visitor attractions of International Cricket and St. Lucia Jazz, the re-opening of at least one hotel and better overall occupancies at the larger properties. For the first time, sales exceeded 22m kWh in each of the months of April, May and June.

Fuel prices reached EC$3.9875 per imperial gallon in May 2004, the highest in the last 24 months and compared to an average of EC$3.0807 for June last year. A Fuel Surcharge Cost adjustment Factor of 21.8 cents per unit was applied in June, 2004, compared to 17.7 cents per unit last year. The Company sought to sensitise the public by publishing press releases showing the direct link between movements in world prices for crude oil and the knock-on effects on the Fuel Surcharge Cost Adjustment Factor, and the need to utilise electricity more efficiently.

Operations continued to be excellent despite the very fragile reserve generating margin. Although there were only a couple of minor incidents of load shedding leading to the loss of supply to customers, there was need on more than one occasion to call on the larger hotels to operate their stand-by units during two major overhauls and/or emergency repairs during peak load conditions. Scheduled major 40,000 and 60,000 hour overhauls for the year were completed, on CDSPS Nos. 4 and 3 in April and June respectively. This provides some breathing space, in terms of available generating capacity but the desired comfort level will only be attained when the expansion project at Cul-de-Sac is completed early next year. A new all-time system peak demand of 45.2 MW was recorded in May and again in June, almost 600kW higher than June, 2003. Fuel efficiency at of 19.41 kWh per imperial gallon was very acceptable.

Pole, line and equipment maintenance continued on the T&D System to ensure that all was in order for the hurricane season. Although there were a few periods of significant wind and rain during June 2004, the system stood up very well. The Supervisory Control and Data Acquisition (SCADA) system continued to operate satisfactorily, and the work planned on the upgrading of the SCADA and Workstation Operating Systems is due to commence in the third quarter of the year.

The Alternative Energy Group encountered difficulties in acquiring suitable land for the "Wind Power Pilot Project" and the Company has solicited the assistance of Government to resolve this matter. Further delays could mean that the Company's goal of obtaining a 10% renewable energy mix by 2007 may not be realised, as at least a year's data is needed to initiate design and pursue financing for a wind farm project.

Major activities continued on the CDSPS Phase C Expansion Project. Unresolved issues between the consultants (PB Power) and the prime contractor (Wartsila) resulted in work on the engine hall slowing to a virtual halt. Two piles have failed to satisfy the requirement of a Factor of Safety of 2.5. A risk analysis assessment for the above pile loading has been requested by PB Power while they await additional results from tests expected to take place in mid-July. Apart from the problems with the piling indicated above, other civil and mechanical works progressed satisfactorily. Wartsila advise that the unit will arrive on site on July 28, but it is difficult to see how they will meet the planned pre-Christmas commissioning date. Loan Funds of US$5,353,400 have been drawn down, with an outstanding commitment of US$10,588,094 remaining on this project.

Tender documents for both the Millennium Highway and the Rodney Bay Marina Underground Cable Projects have been completed and submitted by PB Power. The Planning Department is finalising the implementation schedule. Plans to reinforce the network around the Beausejour Cricket Stadium have commenced well in advance of the 2007 World Cup activities. This is more critical now that it has been confirmed that St. Lucia will be hosting first round matches and one of the semi-finals. Significant progress was made in the area of GIS project implementation, with the successful installation of the GPS Antenna and Base Station, and the provision of training for staff from the Planning and Information Systems Departments in the use of the new equipment.

Debt Management continues to receive very close attention, and manageable debt (i.e. total debt less public and related sector) represents just about 1.8 weeks, which is acceptable. Efforts continue at a high level within Government to effect offsets of amounts due by the Company to Government for 2004 corporate taxes and 2003 final dividend.

A satellite Customer Service Office in Soufriere was officially opened for business in May and all indications are that this facility is very well received as the customers in the western corridor of the island utilise the office to transact business.

Union negotiations continued through the end of June with agreement on wages still outstanding as the Union and the Company reached positions of 6.5% and 5.5% respectively. One of the Union's main contentions related to the lack of progress with the possible implementation of a system of Performance Based Incentive Pay. There were two incidents of apparently coordinated absences by unionised employees but, Supervisory and Management staff stepped forward to ensure that the impact on the Company's operations was minimal. Negotiations have since been successfully concluded with the wages settlement at 6% for the two years 2004 and 2005.

The Company's largest shareholder, CDC Group Plc, sold its entire shareholding of 5,025,982 shares. CBPF Saint Lucia Ltd., and First Citizens Bank Ltd. of Trinidad & Tobago each purchased 2,240,000 shares and the remaining 545,982 shares were purchased by eight different local and regional investors.