



# BELIZE ELECTRICITY LIMITED

ANNUAL REPORT 2002

*Delivering on our Commitment to  
Reliable and Efficient Service*







## About the Cover

An aerial view of the mouth of the Halouver Creek in Belize City near the Marine Parade area at sunset. "The Great House" featured in this photo is one of the prominent colonial style buildings in the city.

## Country Profile

Belize, spanning an area of 8,867 square miles, is the only English-speaking country in Central America. Located on the Eastern Coast of Central America, Belize is bounded in the north and northwest by Mexico and in the south and west by Guatemala. Belize's location allows it to boast the unique profile of being both a Central American and a Caribbean country that is home to a culturally diverse population of about 255,000 people. More than 25% of the population of Belize is concentrated in Belize City with a population of about 70,000.

From Creole, Mestizo, Chinese, and Garinagu, to East Indian, Mennonite and Maya, Belize is undoubtedly blessed with a rare blend of cultures. While their beliefs and traditions may differ, these people are linked together by a shared Belizean identity manifested in their use of the most commonly spoken dialect,

Kriol, which is derived from the English language.

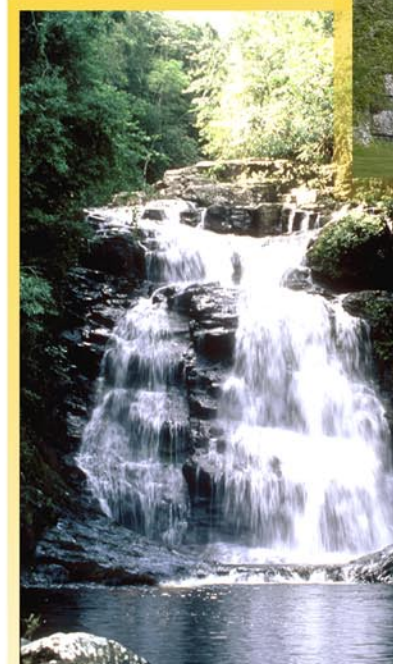
Belize achieved independence from England on September 21, 1981 and is governed by a parliamentary democratic system. Belmopan City, located at the geographical center of Belize, is the capital of the country. Belize has a sub-tropical climate with average temperatures between 70–90 degrees Fahrenheit. This is one of the main reasons for high tourist arrivals from North America and Europe during winter months.

With the longest coral barrier reef in the Western Hemisphere, a picturesque tropical forest and breathtaking ancient Mayan temples, it is hardly surprising that tourism is one of the fastest growing industries in Belize. The

Belize Tourism Board recorded almost 200,000 visitors in 2002, with snorkeling, diving, Mayan Site and National Park tours

being the more popular vacation activities. Other major attractions in Belize are the cayes (islets) just off the country's coast, the towering Victoria Peak that stands at 3,675 feet, numerous underground caves, and the only Jaguar Reserve in the world. As more than 40% of Belize's land is committed to conservation efforts, there is always a reserve to visit just around the corner.

In addition to tourism, the Belizean economy is also rooted in agricultural exports, which include sugar, citrus, and bananas. Timber, merchandising and construction also contribute to the economy. The Belizean dollar has been pegged to the United States dollar at a fixed rate of \$1US to \$2BZ since May 1976.



*Belize has a lot to offer even to the most discriminating tourist. Pictured above are some of the attractions Belize boasts.*



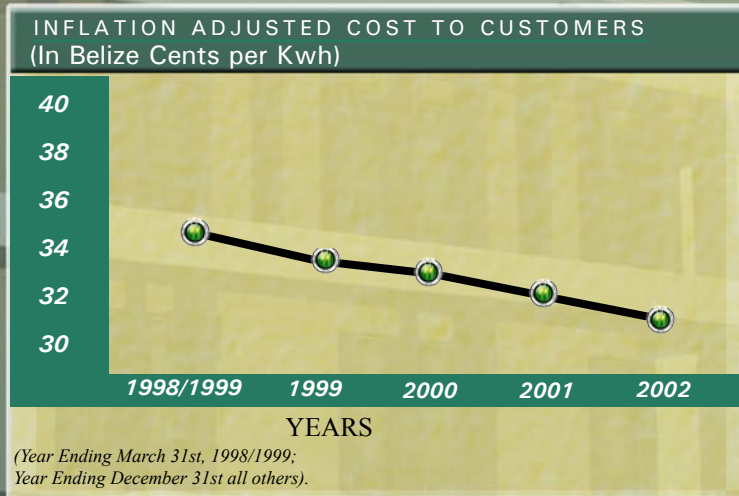
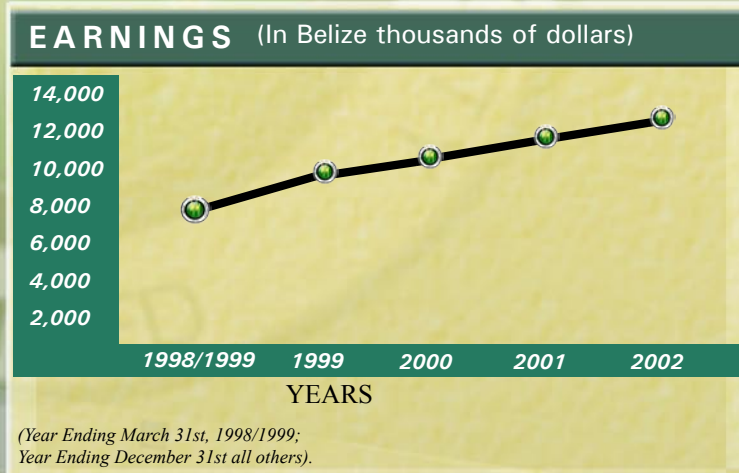
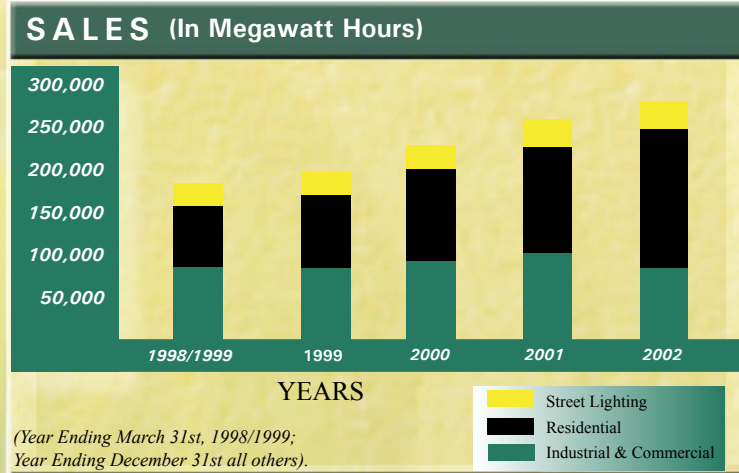
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## Corporate Profile

**Belize Electricity Limited** is the primary distributor of electricity in Belize. Serving almost 60,000 customers, the company meets the country's peak demand of almost 54 MW from multiple sources of energy. These include its own diesel-fired generation, power purchases from BECOL, the operator of the only commercial hydroelectric facility in Belize and from Comision Federal de Electricidad, the Mexican state-owned power company. All major load centers are connected to the country's national electricity system, which is connected to the Mexican electric grid, allowing the utility to optimize its power supply options. Fortis Inc. of Canada owns a 67 per cent interest in the company.



| (In Belize thousands of dollars)    |         |         |
|-------------------------------------|---------|---------|
| ANNUAL COMPARISON                   | 2002    | 2001    |
| Operating Revenues                  | 96,020  | 90,800  |
| Earnings applicable to shareholders | 13,040  | 12,060  |
| Total Assets                        | 297,520 | 276,950 |
| Shareholders' equity                | 121,400 | 109,570 |

In the year 2002, BEL continued to deliver on its commitment to improving service. Since there were no major weather related events, the company was able to focus on its operations to build on the previous years' success. By year-end, tangible results were achieved as the duration of outages improved 27.4 per cent year-over-year. Since 1999, system loss has been reduced from 13.5% to 11.5%, while safety performance was improved significantly.

These results were achieved through much hard work and sacrifice on the part of our employees. Relentless attention to cost control and productivity yielded a reduction in operating expenses per MWH sold from approximately \$71 to \$57, even as the customer per employee ratio was improved from approximately 234 to 252 customers per employee. The overall result was an improvement in earnings per share from 44 cents per share to 47 cents per share.

Throughout the year, BEL continued to focus on extending the distribution system and improving service. Through the **Power III Project**, a rural electrification initiative jointly undertaken by BEL and the Government, more than 700 new streetlights and 47 miles of distribution lines were installed, availing service to approximately 18,000 new housing lots. In addition, the **Power IV Project**, which aims to connect isolated load centers in southern Belize to the national grid, also made significant progress. When completed in 2003, the Project will enable the company to place two of its last three remaining isolated diesel plants on standby.

During the year, the Company availed of the technical knowledge and expertise from other Fortis Companies to improve operational performance and system reliability and to enhance customer service delivery. Responding to rising customer expectations, significant emphasis was placed on employee development and training to improve overall productivity and service. Line crews participated in hotline training and practical training as part of the National Rural Electric Cooperative Association Certification Program. These initiatives will enhance the company's ability to deliver superior service.

Customers are sharing in the company's success and registered their satisfaction once again by giving the company an 82% approval rating in 2002. Through our continued focus on cost control, the company has been able to avoid increasing rates even as electricity rates in the region soared, driven by rising oil prices and inflation. Year 2002 rounds out 10 years of stability in which inflation adjusted rates in Belize have been reduced by 25%.





## Report to Shareholders

In 2002, high oil prices increased the cost of supplying power by more than 20%. Instead of passing this cost on immediately, excess cost was deferred to a rate stabilization account (RSA) with the approval of the Public Utilities Commission, to prevent sharp hikes in customers' electricity bill. At the end of the year, the balance in the RSA was in excess of \$18 million. The RSA balance was positively impacted early in 2003 as we successfully negotiated an amendment to the power purchase agreement with Comission Federal de Electricidad, the Mexican State-owned utility.

The amendment effectively reduced the price of purchased power from CFE by more than 20%, retroactive to January 2002. The company hopes to continue to reduce the RSA balance without negatively impacting rates, through continued focus on productivity improvements and as fuel prices return to moderate levels.

Continuing emphasis on reliability is essential to help stabilize costs and improve customer service. By year's end, peak power from CFE was costing in excess of 78 dollars per MWh, more than twice the average rates to customers. In addition, because more than 50% of our supply is purchased from Mexico through CFE, loss of supply from CFE results in widespread outages for extended periods. In 2002, the Company commenced a \$28 million project to purchase and install a 25 MW ISO-rated gas turbine. This project will provide additional energy supply to help meet peak energy demand and back-up capacity. The unit is expected to be fully operational in mid-2003.

Belize continued to experience robust economic growth in 2002, driven by growth in the tourism sector, shrimp farming, and increased investment in infrastructure improvements.

As a result, the Company experienced strong energy sales growth of approximately 8.6 per cent in 2002 while the customer base grew by approximately 5 per cent. Consequently, adding new and diverse in-country generation sources continue to be a priority. BEL continued to pursue the development of more hydropower through Belize Electric Company Limited, the operator of the Mollejon hydroelectric facility, as well as power generated from biomass, through other independent power producers.

*Left to Right: BEL's Chairman Robert Usher and President and CEO Lynn Young.*

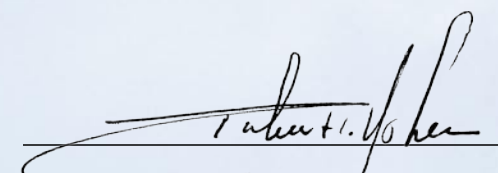
## Report to Shareholders

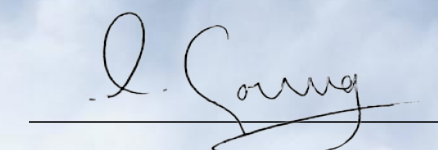


*Aerial view of the spill way at the Mollejon Hydroelectric facility in the Cayo District. The Chalillo Project will increase the average hydro energy production to more than 160 GWh from 80 GWh.*

BECOL is pursuing the development of the Chalillo Project, an upstream storage and generation facility that will increase average hydro energy production from 80 GWh to more than 160 GWh. BEL believes that the increased energy production from Chalillo is the least-cost energy alternative in Belize and will provide a number of significant long-term benefits for customers and for the country. The Chalillo Project will increase reliability of service through more consistent production of electricity and will enable more stable electricity costs due to reduced reliance on fossil fuels. It will also increase the self-sufficiency of Belize to meet the country's growing energy demands. Construction of the Chalillo Project is scheduled to commence in early 2003 with completion in 2005.

In December, additional support for the Chalillo Project was received when, in response to a challenge initiated by opponents to the project, the Supreme Court of Belize ruled that all approvals were in order. An earlier ruling denied a challenge of the approval of the revised power purchase agreement by the Public Utilities Commission. As we review our achievements in 2002, we can truly feel satisfied that we are "delivering on a commitment to improved service." Global instability and economic uncertainty will present significant challenges in the immediate future, not only for BEL, but also for the entire country of Belize and the region. At BEL, we feel comforted that we have laid the groundwork for continued success. With purposeful focus and a dedicated workforce, we believe that we can overcome the challenges and consistently deliver value to customers and shareholders alike.

  
Robert Usher  
Chairman

  
Lynn Young  
President and Chief Executive Officer



**EARNINGS**

Earnings per share for the year increased to \$0.47 in 2002 from \$0.44 per share on a restated basis in 2001. This increase in earnings can be attributed to increases in energy sales and other revenues with decreases in operating expenses. Growth in earnings was somewhat dampened by increases in finance charges, depreciation expense, and foreign exchange losses arising from the strengthening of the Euro against the US Dollar. During the year, the Euro strengthened against the US dollar by 12%, which converted to \$637,965 in loss on foreign exchange, related to the Company's Euro denominated loan.

Finance charges increased over 2001 as a result of increased debt levels to finance the company's capital expansion programs and Cost of Power Rate Stabilization Account (CPRSA). Depreciation expense increased as compared to previous year due to the Company's ongoing capital expenditure program including the commissioning of completed assets under The Power III – the rural expansion project.

A final dividend of 5 cents per share was paid to shareholders on January 2, 2003 for shareholders on record as at December 26, 2002, bringing the total dividend paid for the year ended December 2002 to 20 cents per share.

**SALES & REVENUES**

Annual Energy revenues in 2002 grew from \$90.8 million to \$96 million, a 5.7% increase over the previous year. Energy sales grew from 257 GWh to 279 GWh or 8.6% over the previous year. Energy revenues grew at a lower rate than GWh energy sales due to the decrease in the true average tariff resulting from the tariff application approved by the Public Utilities Commission that became effective July 1, 2002.

The increase in energy sales was mainly driven by growth in the residential and street light sectors. Normal economic growth, the streetlight campaign, and the rural expansion project contributed to the increase in GWh sales. The Company's loss reduction and revenue protection program, which was designed to ensure that all energy sales are appropriately measured and billed also helped to reduce losses and increase sales. Energy sales were also positively impacted by growth in the company's customer base, which grew by approximately 5% from 57,083 customers in 2001 to 59,815 customers as at December 2002.

**EXPENSES**

During the year, the company purchased 57% of its energy requirements from CFE, the Mexican state-owned power company, up almost 14% over the year before. Purchased Power expense in 2002 was \$48.8 million, as compared \$44.9 million in 2001, an increase of 8.7%. The increase in purchased power expense was primarily the result of higher energy sales and higher prices from CFE due to higher oil prices. Self-generation from its own diesel-fired generation was used by the company to meet peak and backup demand during 2002.

Operating Expenses decreased by 12.5% or from \$18.3 million in 2001 to \$16 million in 2002. Decrease in operating expenditures is mainly the result of operating efficiencies and company-wide cost cutting initiatives coming forward from 2001.

**NET PROFIT**

Net profit for 2002 increased to \$13.0 million, an increase of 8.2% as compared to \$12.1 million earned on a restated basis in 2001. The 2001 amount was restated to reflect a change in Accounting Policy adopted as of January 1, 2002, which requires recognition of foreign exchange gains and losses directly into income and to be applied retroactively. The cumulative effect of the change as of January 1, 2001 was an \$872,776 reversal of deferred gain and a corresponding increase in retained earnings. The 2001 comparative financial statements have also been restated to record \$296,422 of additional foreign exchange gain for the year with a corresponding reversal of deferred gain.

**CAPITAL EXPENDITURE**

The capital program for 2002 was \$29 million. The continuation of the Power IV project, which encompasses the interconnection of the southern part of the country to the national grid, and the commencement of the Gas Turbine project in the latter part of 2002 contributed to this level of expenditure. The addition of this 25MW ISO rated gas turbine generating set will improve BEL's ability to meet the country's peak power demand and to have backup capacity in case of loss of supply from any of the main energy sources. Other capital projects in progress during the year included the continuation of the rural and urban distribution expansions under the Power III project, improvements to the transmission and distribution systems, upgrades to general property and the acquisition of new utility vehicles.

During the year, the Company made three significant loans, two to fund its capital expansion program and one to bridge finance deferred cost of power in the CPRSA account. The first loan of US\$14 million was finalized with RBTT Merchant Bank Limited out of Trinidad & Tobago in September 2002. The second loan was finalized with Toronto-Dominion Bank for the continuation of the Power IV project for US\$5.4 million. The third loan was finalized locally with the Belize Bank Limited for BZ\$5 million and was utilized to assist in meeting operating cash flow needs negatively affected by the increasing Rate Stabilization Accounts.

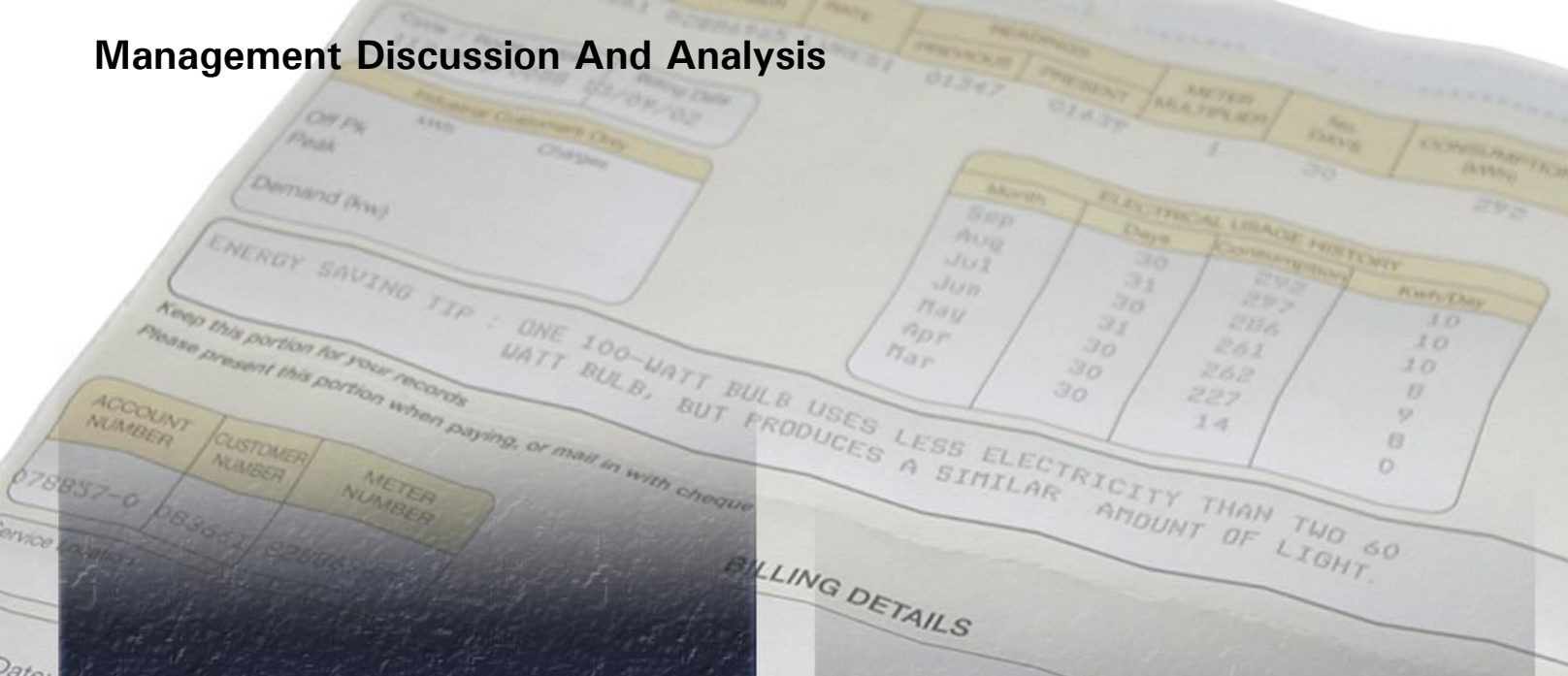
*The acquisition of new utility trucks was one of the capital project initiated this year.*

**REGULATION**

Belize Electricity Limited is regulated under the amended 1992 Electricity Act, the Public Utilities Commission Act of 1999, and the Electricity Tariffs, Charges and Quality of Service Standards Bye-laws of 2001. The company's license to generate, transmit, distribute and supply electricity in Belize expires in 2015. Under the terms of the license, the Company has the right of first refusal on any subsequent license grant.

Under the Electricity Tariffs, Charges and Quality of Service Standards Bye-laws, the average electricity tariff is separated into three components, a fixed component to cover overhead expenses and provide the Company with a reasonable return on investment, a variable component that reflects the cost of electricity and a deferred cost of power recovery or rebate component. The quality of service standards will be monitored and formalized over a transition period from January 1, 2000 through June 30, 2005 and will become effective July 1, 2005.





**REGULATION (CONTINUED)**

Pursuant to the Bye-laws, the Company established a Cost of Power Rate Stabilization Account ("CPRSA") effective January 1, 2000, designed to normalize changes in the price of electricity due to fluctuating fuel costs. The CPRSA stabilizes electricity rates for consumers while providing the Company with a mechanism that permits the recovery of its cost of electricity over time. At December 31, 2002, the balance in this account was \$16.2 million. In addition, effective July 1, 2002 a Hurricane Cost of Power Rate Stabilization Account ("HCRSA") was also established pursuant to the bylaws to normalize hurricane reconstruction costs impacts on the consumer. At December 31, 2002 the balance in this account was \$2.4 million to be fully recovered by year-end 2005

The company filed its second tariff application and quality of service standards report with the PUC for the Annual Tariff Period (ATP) of July 1, 2002 to June 30, 2003 in March 2002. Consequently, the PUC approved the company's application to keep the stabilized mean electricity rate at \$0.354/KWh over the tariff period July 1, 2002 to June 30, 2003. This rate is inclusive of a \$0.02/ KWh reduction in the true mean electricity rate offset by a \$0.01/KWh recovery of amounts deferred in the CPRSA and a \$0.01/KWh recovery of amounts deferred in the HCRSA.

**OUTLOOK**

Belize Electricity anticipates electricity demand growth to continue to remain high at approximately 8 to 10 per cent for 2003. Economic growth, countrywide housing investments, and the rural expansion project continue to spur demand. Additionally, the company continues its drive to connect self-generators in the primary industries to the grid.

The GDP of Belize is forecast to grow by approximately 5 per cent in 2003. This growth is expected to be driven by increased activity in the construction, tourism, aquaculture, and other primary industries, which were dampened by hurricanes and the effects of terrorist attacks in 2001.

The Company's long-term strategy is to mitigate the impact of fuel price increases by diversifying its sources of energy supply while increasing productivity, cutting costs, reducing losses, and improving reliability. Robust sales growth in 2003 will continue to drive demand for system expansions. This, along with the need for additional generation capacity, will require a relatively high level of capital expenditure over the planning period.

*BEL's President and CEO Lynn Young was appointed Chairman of the Caribbean Electric Utility Services Corporation (CARILEC) at the 2002 CEOs Symposium hosted by BEL from June 25-28 in Belize City at the Radisson Fort George Hotel. CARILEC is a regional association that advances the capability of the Caribbean electric utility industry and promotes better understanding of the industry.*

*The Public Utilities Commission approved BEL's annual tariff application in June, keeping the stabilized mean electricity rate at \$0.354/kWh for tariff period July 1, 2002 to June 30, 2003.*

*On August 29, 2002, BEL and General Electric Package Power Inc. (GE) signed a US \$8.8 million contract for BEL's purchase of a Gas Turbine Generator Set. Installation and startup costs are estimated to cost an additional US\$5.2 million. The 25MW ISO-rated Gas Turbine Generator Set will provide much needed energy supply to help the utility meet peak power demand and also serve as back-up in case of loss of supply from any of the main three supply sources.*



*Outgoing CARILEC Chairman Frank Crothers presenting a gift to new Chairman Lynn Young at the 2002 CEOs Symposium held in Belize City.*

**OPERATIONS**

**Customer Service and Satisfaction**

With an expanding customer base that grew to almost 60,000 this year from 57,000 in 2001, BEL continued its focus on reliability and improving customer services. The company made significant improvements in service reliability by focusing on improvements to its external plant. Improvements to the San Pedro distribution system, proactive vegetation management and

renewed focus on problem areas that compromise the reliability of service delivery resulted in an improvement in duration of outages over last year's figures by 27.4 percent.

The company purchased new meter-reading equipment this year to improve meter reading. The equipment is more robust in design and provides more data on-hand for meter readers, thereby improving the efficiency in meter reading and ultimately revenue collection.

An intensive streetlight maintenance program was initiated in January to address the number of malfunctioning streetlights countrywide. In January and February alone, more than 850 streetlights were repaired, improving security in communities across the country.

*Lineman Lloyd Leslie conducting maintenance on street light in Belize City.*



*Employees explaining operations of meter to a new customer.*

*Customer Accounts Clerk Trecia Gabourel prepares new handheld meter reading devices for data transfer to Customer Information System.*



In 2002, there was much focus on the “people” side of electricity service delivery. Employees in the energy supply, distribution and customer services sectors were given orientation sessions to the operations of the other departments. The result was the identification of areas for improvement in the process of service delivery. These areas were addressed accordingly and appropriate action taken.

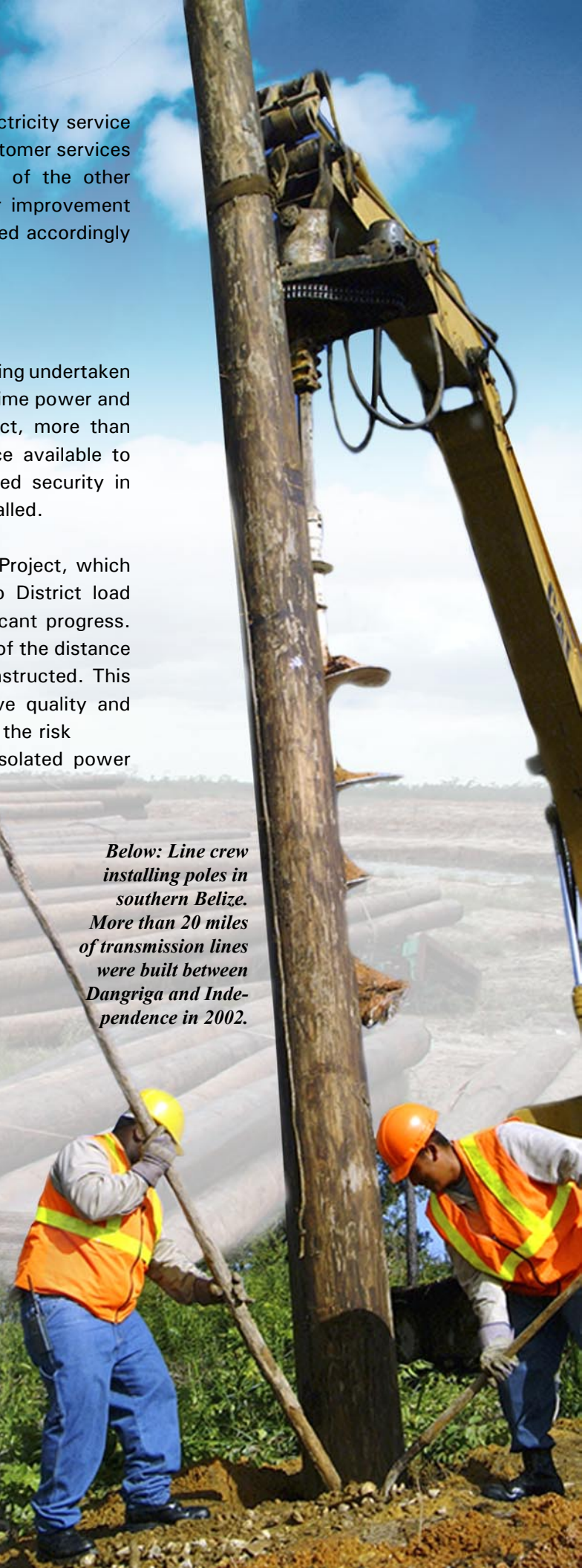
### System Expansion

The Power III Project, an ongoing rural electrification project being undertaken in partnership with the Government of Belize, extended first-time power and streetlights to many rural areas in Belize. Under this project, more than 47 miles of distribution lines were installed, making service available to almost 18,000 new housing lots. The Project also improved security in communities countrywide as 714 new streetlights were installed.

Despite delays caused by inclement weather, the Power IV Project, which aims to connect isolated Independence Village and Toledo District load centers in southern Belize to the national grid, made significant progress. More than 20 miles of transmission lines, equivalent to 50% of the distance between Dangriga Town and Independence Village was constructed. This Project, when completed in 2003, will significantly improve quality and reliability of electricity supply in these areas and help reduce the risk of environmental contamination as two of the last three isolated power stations will be placed on standby.

*Stockpile of poles to be used in line construction at Independence Village under the Power IV Project.*

*Below: Line crew installing poles in southern Belize. More than 20 miles of transmission lines were built between Dangriga and Independence in 2002.*



### Energy Supply

BEL met the country’s peak demand of approximately 54 MW from multiple sources of energy – hydro energy from BECOL, imported energy from Mexico, and energy generated in-company. With the company experiencing an 8-10 per cent growth in energy demand in recent years, there is an immediate need to improve the company’s ability to meet peak power demand and have back-up capacity in case of loss of supply from any of its main sources. To ensure its ability to meet supply, BEL signed a US \$8.8 million contract with GE in August for the purchase of a Gas Turbine Generator set. The unit is expected to be fully operational in June 2003. As the unit will be located near a residential area, BEL held a Public Meeting with various stakeholders and residents who live near the proposed site. At the Public Meeting, information was shared with the various stakeholders and residents and questions pertaining to the installation and operation of the Generator set answered.

An Environmental Impact Assessment (EIA) was submitted to the Department of the Environment (DOE) in November and the National Environmental Appraisal Committee (NEAC) approved the project in mid-December. Major components of the System were ordered and work continues on the installation of the unit, which will be strategically located at the center of the national grid near 50% of the company’s demand.

### Technology

The company continues to leverage the use of technology to enhance employee communications and information sharing with workers in the operations sectors. This year, thin clients, disk-less computers that provide network connectivity to end users, were

installed at key locations in branch offices countrywide. These web devices provide employees in the field with the capability to access information on the corporate intranet and to communicate more effectively with colleagues working at other locations.

With the assistance of Fortis expertise, BEL operations personnel conducted a thermo scan survey of the critical equipment on Feeders across the country. This survey helped identify points in the distribution system requiring repair, thereby enabling preventative maintenance to be undertaken. Initiatives such as these are critical to the company’s ability to provide reliable service to customers.

To better position line crews to keep pace with ever increasing customer service demands for reliability and efficient service, the company purchased six new utility vehicles at the end of the year.

*Distribution personnel being trained in the safe operation of the new utility trucks.*



*BEL purchased six new utility trucks to help the company keep pace with customer demand for reliable and efficient service.*





## Environment

As part of its ongoing environmental management program aimed at making its operations fully compliant with international environmentally acceptable standards, BEL initiated a number of preventative and mitigative measures countrywide.

The primary focus in 2002 was on areas where the company still had generation plants in operation, namely the generating stations at Independence Village and Toledo District. A Bio-remediation cell, commonly used to treat or reduce concentrations of petroleum hydrocarbons in impacted soils, was constructed in the generating station in the Toledo District. This cell is used to treat contaminated soil from both the Toledo and nearby Independence power stations. Drain tanks were also built at each generating station to drain used lube oil filters, thereby minimizing possible environmental impact.

*Employees participating in Hotline training. Once employed, this procedure is expected to improve system reliability by reducing down time resulting from outages.*

## Training

Responding to an expanding customer base with rising customer expectations, much emphasis was placed on training in all sectors of the company to improve overall productivity and service delivery.

Management staff participated in Leadership Development Training designed to foster leadership, team building, coaching, and change management skills. Management staff in the Operations sector also participated in Job Planning and Risk Management Training, which emphasized safety awareness and practices along with organizational effectiveness. A subsequent Work Observation Program was initiated to monitor the implementation of the knowledge gained from the training on the job.

In operations, distribution personnel participated in Hot Line training. This training covered the principles, procedure, and safety issues surrounding the use of hot-sticks. Training in this area is critical, as it will improve system reliability by reducing down time.



# -SAFETY-



## SAFETY & SHARED VISION AT BEL



*BEL had safety booths at many trade shows including the National Agriculture and Trade Show in Belmopan City.*

## Safety

Safety training for employees in all sectors of the company is at the core of improved customer service and employee development. BEL implemented key components of its comprehensive safety management program designed to increase safety awareness and improve safety practices. Employees at all levels received training in First-Aid. Operations personnel participated in a more extensive two-day First-Aid course with emphasis on electrical shocks, falls, burns, and dangers associated with vegetation management on the job. Employees were also required to participate in Defensive Driving Training courses held during the year. This training is

intended to bring about improvements to BEL's overall safety performance.

The initiatives to heighten safety awareness and practices were also extended to the general public. The company shared safety information with the general public through presentations and strategic advertising. To help with safety advocacy efforts, BEL obtained a Hazard Hamlet Safety Demo Kit and showcased it at various venues and events: trade shows, fairs, schools, and at the Annual General Meeting of Shareholders. This kit has proven to be a very helpful tool in safety education.

*Employees such as Lineman Aston Richards are required to engage in safe work practices.*





*Safety Engineer Phillip Waight used the Hazard Hamlet Safety Demo Kit to make presentations to a number of schools and community groups.*

BEL is committed to adding value to and improving the quality of life in the communities it serves. One way in which the company meets this commitment is through charitable giving, sponsorships, and community involvement.

The Company co-sponsored the Krem-BEL New Year's Day Cycling Race for the second straight year. This race, which runs from the northernmost district, Corozal, to Belize City, has gained popularity and has helped prepare local cyclists for international competition.

BEL also sponsored BEL Rookies, the six-time male amateur softball team, for the second straight year. The team won the district championship and the right to represent Belize in the Confederacion Centro Americana de Softbol (CONCASOFT) tournament held in San Pedro Sula, Honduras.

BEL was a part sponsor of a technical study commissioned by the Association of Professional Engineers of Belize (APEB) in the aftermath of Hurricane Iris. The study, "Hurricane Iris – Lessons Learned for the Engineering and Construction Industries of Belize," documented deficiencies in the building industry and highlighted corrective measures that need to be taken to prevent the storm damages that occurred in Southern Belize.

The company also rallied around causes that help the youth, future leaders, grow and develop. This year BEL provided an additional eight scholarships to the University of Belize; made a contribution towards the development of the YMCA of Belize's Youth Education, Training and



*BEL made several contributions to many different causes for youth including the YMCA of Belize towards the construction of a Youth Education, Training and Family Center in Belize City.*

Family Center in Belize City; and contributed to the National Youth Cadet Service Corps in the Belize District for the construction of a classroom to be used by the youths for general educational and vocational studies.

BELIZE ELECTRICITY LIMITED  
INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2002



|   |    |
|---|----|
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AUDITORS' REPORT  
TO THE BOARD OF DIRECTORS  
OF BELIZE ELECTRICITY LIMITED

We have audited the balance sheets of Belize Electricity Limited as at December 31, 2002 and 2001 and the statements of income, retained earnings and cash flows for the years 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 Canadian generally accepted auditing standards. 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operation and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

January 20, 2003



KPMG, KPMG, A firm established under Belize law is a member of KPMG International, a Swiss non-operating association.

SJP Ermeav FCA  
Fellow of the Institute of  
Chartered Accountants in  
England and Wales

BELIZE ELECTRICITY LIMITED

BALANCE SHEET

DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

ASSETS

PROPERTY, PLANT AND EQUIPMENT (Notes 1b and 5)  
RATE STABILIZATION ACCOUNT ( Note 1e)  
TRANSMISSION RIGHTS (Note 1m)  
GOODWILL (Note 1g)  
Total long-term assets

CURRENT ASSETS

CASH AND SHORT TERM INVESTMENTS  
ACCOUNTS RECEIVABLE (Notes 1d and 2)  
INVENTORIES (Notes 1c and 4)  
PREPAYMENTS (Note 3)  
Total current assets

TOTAL

SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY

ORDINARY SHARES (Note 12)  
CAPITAL CONTRIBUTIONS (Note 16)  
INSURANCE RESERVE (Note 18)  
RETAINED EARNINGS  
Total shareholders' equity

LONG-TERM LIABILITIES

LONG-TERM DEBT (Note 9)  
DEBENTURES (Note 10)  
Total long-term liabilities

CONSUMER DEPOSITS

CURRENT LIABILITIES

BANK OVERDRAFT (Note 6)  
ACCOUNTS PAYABLE AND ACCRUALS (Note 7)  
ACCRUED RETIREMENT BENEFITS (Note 1j)  
CURRENT PORTION OF LONG-TERM DEBT (Note 9)  
OTHER SHORT-TERM DEBT (Note 6)  
CORPORATE TAX PAYABLE (Note 14)  
Total current liabilities

TOTAL

|  | DECEMBER<br>2002  | DECEMBER<br>2001* |
|--|-------------------|-------------------|
| <b>ASSETS</b>                                  |                   |                   |
| PROPERTY, PLANT AND EQUIPMENT (Notes 1b and 5) | \$ 252,658        | \$ 238,070        |
| RATE STABILIZATION ACCOUNT ( Note 1e)          | 18,585            | 11,474            |
| TRANSMISSION RIGHTS (Note 1m)                  | 1,907             | 2,168             |
| GOODWILL (Note 1g)                             | 79                | 90                |
| Total long-term assets                         | 273,229           | 251,802           |
| <b>CURRENT ASSETS</b>                          |                   |                   |
| CASH AND SHORT TERM INVESTMENTS                | 1,051             | 1,236             |
| ACCOUNTS RECEIVABLE (Notes 1d and 2)           | 14,066            | 12,169            |
| INVENTORIES (Notes 1c and 4)                   | 8,832             | 11,414            |
| PREPAYMENTS (Note 3)                           | 340               | 333               |
| Total current assets                           | 24,289            | 25,152            |
| <b>TOTAL</b>                                   | <b>\$ 297,518</b> | <b>\$ 276,954</b> |
| <b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>    |                   |                   |
| <b>SHAREHOLDERS' EQUITY</b>                    |                   |                   |
| ORDINARY SHARES (Note 12)                      | \$ 54,950         | \$ 54,950         |
| CAPITAL CONTRIBUTIONS (Note 16)                | 13,363            | 9,082             |
| INSURANCE RESERVE (Note 18)                    | 4,375             | 3,875             |
| RETAINED EARNINGS                              | 48,715            | 41,665            |
| Total shareholders' equity                     | 121,403           | 109,572           |
| <b>LONG-TERM LIABILITIES</b>                   |                   |                   |
| LONG-TERM DEBT (Note 9)                        | 88,394            | 88,406            |
| DEBENTURES (Note 10)                           | 38,394            | 36,615            |
| Total long-term liabilities                    | 126,788           | 125,021           |
| <b>CONSUMER DEPOSITS</b>                       | <b>5,988</b>      | <b>5,612</b>      |
| <b>CURRENT LIABILITIES</b>                     |                   |                   |
| BANK OVERDRAFT (Note 6)                        | 1,258             | -                 |
| ACCOUNTS PAYABLE AND ACCRUALS (Note 7)         | 25,960            | 23,516            |
| ACCRUED RETIREMENT BENEFITS (Note 1j)          | 260               | 675               |
| CURRENT PORTION OF LONG-TERM DEBT (Note 9)     | 13,746            | 10,514            |
| OTHER SHORT-TERM DEBT (Note 6)                 | 2,000             | 1,942             |
| CORPORATE TAX PAYABLE (Note 14)                | 115               | 102               |
| Total current liabilities                      | 43,339            | 36,749            |
| <b>TOTAL</b>                                   | <b>\$ 297,518</b> | <b>\$ 276,954</b> |

Chairman

President and Chief Executive Officer

\*Restated (See Note 17)  
See accompanying notes to financial statements.



## STATEMENT OF INCOME AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

|  | DECEMBER<br>2002 | DECEMBER<br>2001* |
|--|------------------|-------------------|
| <b>ELECTRICITY REVENUES</b> (Note 1f)                    | \$ 96,017        | \$ 90,799         |
| <b>COST OF WHOLESALE POWER</b>                           | (48,816)         | (44,925)          |
|  | 47,201           | 45,874            |
| OTHER REVENUE  | 3,031            | 2,629             |
| OPERATING EXPENSES                                       | (16,020)         | (18,315)          |
| DEPRECIATION AND AMORTIZATION                            | (10,876)         | (10,323)          |
| FINANCE CHARGES (Note 9)                                 | (8,374)          | (7,093)           |
| GAIN/(LOSS) ON FOREIGN EXCHANGE (Notes 1a and 9)         | (638)            | 442               |
| <b>NET EARNINGS BEFORE TAXES</b>                         | 14,324           | 13,214            |
| CORPORATE TAX (Notes 1k and 14)                          | (1,279)          | (1,153)           |
| <b>EARNINGS APPLICABLE TO SHAREHOLDERS</b>               | \$ 13,045        | \$ 12,061         |
| <b>EARNINGS PER SHARE</b> (Notes 1h and 15)              | \$ 0.47          | \$ 0.44           |
| <b>RETAINED EARNINGS, BEGINNING OF YEAR, AS REPORTED</b> | \$ 41,665        | \$ 34,730         |
| Prior Period Adjustment (See Note 17)                    | -                | 872               |
| <b>RETAINED EARNINGS, BEGINNING OF YEAR, AS RESTATED</b> | 41,665           | 35,602            |
| Net Income   | 13,045           | 12,061            |
| Dividends  | (5,495)          | (5,498)           |
| Insurance Reserve (Note 18)                              | (500)            | (500)             |
| <b>RETAINED EARNINGS, END OF YEAR</b>                    | \$ 48,715        | \$ 41,665         |

\* Restated (See Note 17)  
See accompanying notes to financial statements.

## STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

|  | DECEMBER<br>2002 | DECEMBER<br>2001* |
|--|------------------|-------------------|
| <b>CASH FROM OPERATIONS:</b>                           |                  |                   |
| <b>NET INCOME</b>                                      | \$ 13,045        | \$ 12,061         |
| ITEMS NOT AFFECTING CASH:                              |                  |                   |
| DEPRECIATION AND AMORTIZATION (NET)                    | 10,876           | 10,323            |
| UNREALIZED EXCHANGE LOSS /(GAIN) ON LONG-TERM DEBT     | 638              | (442)             |
| CHANGE IN NON-CASH WORKING CAPITAL                     | (111)            | (5,621)           |
|  | 24,448           | 16,321            |
| <b>CASH USED IN INVESTING:</b>                         |                  |                   |
| ACQUISITION OF PLANT AND EQUIPMENT                     | (29,095)         | (39,029)          |
|  | (29,095)         | (39,029)          |
| <b>CASH FROM FINANCING:</b>                            |                  |                   |
| PROCEEDS FROM/ (PAYMENT OF) BANK OVERDRAFT             | 1,258            | (3,933)           |
| PROCEEDS FROM NEW LOANS                                | 21,255           | 44,602            |
| PAYMENT OF LONG-TERM DEBT                              | (18,616)         | (9,477)           |
| CAPITAL CONTRIBUTION                                   | 4,281            | (26,971)          |
| PROCEEDS FROM SALE OF DEBENTURES                       | 1,804            | 19,524            |
| DIVIDENDS PAID   | (5,495)          | (5,498)           |
| CONVERTIBLE DEBENTURES REDEEMED                        | (25)             | (10)              |
|  | 4,462            | 18,237            |
| <b>NET DECREASE IN CASH AND SHORT-TERM INVESTMENTS</b> | (185)            | (4,471)           |
| CASH AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR     | 1,236            | 5,707             |
| <b>CASH AND SHORT-TERM INVESTMENTS, END OF YEAR</b>    | \$ 1,051         | \$ 1,236          |

\* Restated (See Note 17)  
See accompanying notes to financial statements.



**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

**1 STATUS AND SIGNIFICANT ACCOUNTING POLICIES**

**Status** - Belize Electricity Limited (the "Company") is a public company incorporated in Belize on October 5, 1992 to carry on the business of generating and supplying electricity to the public. The Company's major shareholders are Fortis Inc. and the Belize Social Security Board.

**Significant Accounting Policies / Regulations** – Accounting policies conform to Canadian generally accepted accounting principles and to accounting requirements established from time to time by the Public Utilities Commission of Belize (PUC). In order to achieve proper matching of revenues and expenses, the Company follows accounting practices prescribed by the PUC. Accordingly, the timing of recognition of certain revenues and expenses may differ from that otherwise expected under Canadian generally accepted accounting principles applicable to non-regulated operations.

**a. Foreign Currency Translation and Exchange Gains and Losses**

Foreign currency transactions are converted at the rate prevailing on the transaction date. Foreign currency balances at year-end are converted at the rates of exchange at that date with realized and unrealized exchange gains and losses included in net income (See Notes 9 and 17).

**b. Property, Plant and Equipment and Depreciation**

Property, plant and equipment are carried at cost and, with the exception of land and assets under construction, are depreciated on the straight line basis over their estimated useful lives which, for the major classes of assets, are as follows:

|                            |               |
|----------------------------|---------------|
| Buildings                  | 20 – 40 years |
| Plant and machinery        | 10 – 33 years |
| Lines and equipment        | 25 – 40 years |
| Transportation equipment   | 4 – 5 years   |
| Office equipment           | 10 years      |
| Other assets and equipment | 10 years      |

Maintenance and repairs are expensed as incurred. Expenditures, which significantly increase value or extend useful asset life, are capitalized. The Company adopted the composite depreciation policy consistent with North American industry practice whereby the cost of plant and equipment retired, less salvage value, is charged to accumulated depreciation. Implementation of the composite depreciation method with respect to all categories of fixed assets is ongoing.

On construction projects, interest at varying rates is capitalized and included as a cost in the appropriate property accounts (Note 9).

**c. Inventories**

Inventories are valued at the lower of average cost and net realizable value. Full provision is made against materials specifically identified as damaged or obsolete.

**d. Provision for Doubtful Debts**

Full provision is made in respect of disconnected consumer accounts after application of consumer security deposits, and a 3% general provision is made against active accounts net of deposits.

**e. Rate Stabilization Account**

The Company's tariff by-laws established by the PUC includes a rate stabilization clause, which permits the Company to recover from customers charges that are deferred to a Cost of Power Rate Stabilization Account (CPRSA) and a Hurricane Cost Rate Stabilization Account (HCRSA). The rate of recovery is recalculated on July 1 of each year based on the balance in the CPRSA and HCRSA as of the preceding year-end (See Note 18).

**f. Sale of Electricity**

Sale of electricity is recognized on a twelve-month basis of meter readings taken during the financial year. Revenue in respect of unread consumption of electricity at December 31 is included in income of the subsequent financial year on a consistent basis.

**g. Goodwill**

Goodwill represents excess of cost over net assets acquired when the Company was privatized in 1993. Permanent impairments in the value of the goodwill are written off against earnings.

**h. Earnings per Share**

Earnings per share is calculated by dividing net income applicable to ordinary shares by the weighted average number of ordinary shares outstanding during the year.

**i. Installation Fees**

Installation fees are consistently credited to income in respect of installations carried out by the Company.

**j. Retirement Benefits**

Retirement benefits are calculated based on amounts which are payable to employees on retirement as a result of an early retirement plan currently in place. Benefits are not funded.

**k. Corporate Tax / Business Tax**

The company records corporate tax as paid in the year. Deferred income tax does not arise from the recording of corporate tax (See Note 14).

**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

**STATUS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**l. Capital Contributions**

Contributed assets are recorded as capital contributions and amortized over the useful life of the related asset (See Note 16).

**m. Transmission Rights**

Transmission rights represent the cost of transmission lines and substation extensions constructed across the Mexican border and used by the Company in purchasing energy from Mexico. The transmission rights are amortized over the 15-year life of the power purchase contract, which commenced in 1998.

**n. Use of Accounting Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 reporting period.

**2 ACCOUNTS RECEIVABLE**

|                                       | DECEMBER<br>2002 | DECEMBER<br>2001 |
|---------------------------------------|------------------|------------------|
| Consumers                             | \$ 9,335         | \$ 8,845         |
| Government of Belize (GOB)            | 2,734            | 2,551            |
| Other                                 | 3,481            | 2,221            |
|                                       | <u>15,550</u>    | <u>13,617</u>    |
| Less: provision for doubtful accounts | (1,484)          | (1,448)          |
|                                       | <u>\$ 14,066</u> | <u>\$ 12,169</u> |

**3 PREPAYMENTS**

|                                | DECEMBER<br>2002 | DECEMBER<br>2001 |
|--------------------------------|------------------|------------------|
| Insurance                      | \$ 229           | \$ 173           |
| PUC and other deferred charges | 111              | 160              |
|                                | <u>\$ 340</u>    | <u>\$ 333</u>    |

**4 INVENTORIES**

|   | DECEMBER<br>2002 | DECEMBER<br>2001 |
|---|------------------|------------------|
| Bulkstores                                      | \$ 8,295         | \$ 13,427        |
| Fuel and oil                                    | 559              | 620              |
|   | <u>8,854</u>     | <u>14,047</u>    |
| Less: provision for damaged and obsolete spares | (22)             | (2,633)          |
|   | <u>\$ 8,832</u>  | <u>\$ 11,414</u> |



## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

## 5 PROPERTY, PLANT AND EQUIPMENT

|                                 | Land     | Buildings | Plant and Machinery | Lines and Equipment | Transportation Equipment | Other Assets & Equipment | Assets Under Construction | Total      |
|---------------------------------|----------|-----------|---------------------|---------------------|--------------------------|--------------------------|---------------------------|------------|
| <b>Cost</b>                     |          |           |                     |                     |                          |                          |                           |            |
| January 1, 2002                 | \$ 1,364 | \$ 10,856 | \$ 54,517           | \$ 196,884          | \$ 6,012                 | \$ 18,647                | \$ 35,832                 | \$ 324,112 |
| Additions                       | 6        | 4,452     | 284                 | 6,035               | 1,906                    | 677                      | 24,832                    | 38,192     |
| Disposals/Transfer              | -        | -         | (959)               | (771)               | (771)                    | (223)                    | (12,591)                  | (14,544)   |
| December 31, 2002               | 1,370    | 15,308    | 54,801              | 201,960             | 7,147                    | 19,101                   | 48,073                    | 347,760    |
| <b>Accumulated Depreciation</b> |          |           |                     |                     |                          |                          |                           |            |
| January 1, 2002                 | -        | 3,784     | 31,865              | 38,117              | 4,403                    | 7,873                    | -                         | 86,042     |
| Additions                       | -        | 373       | 3,162               | 5,213               | 566                      | 1,517                    | -                         | 10,831     |
| Disposals                       | -        | -         | (1,041)             | (725)               | (725)                    | (5)                      | -                         | (1,771)    |
| December 31, 2002               | -        | 4,157     | 35,027              | 42,289              | 4,244                    | 9,385                    | -                         | 95,102     |
| <b>Net Book Value</b>           |          |           |                     |                     |                          |                          |                           |            |
| December 31, 2002               | \$ 1,370 | \$ 11,151 | \$ 19,774           | \$ 159,671          | \$ 2,903                 | \$ 9,716                 | \$ 48,073                 | \$ 252,658 |
| December 31, 2001               | \$ 1,364 | \$ 7,072  | \$ 22,652           | \$ 158,767          | \$ 1,609                 | \$ 10,774                | \$ 35,832                 | \$ 238,070 |

Depreciation expense shown in the statement of income for the period is reduced by \$227,044 which represents amortization of capital contributions.

## BELIZE ELECTRICITY LIMITED

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

## 6 BANK OVERDRAFT / OTHER SHORT-TERM DEBT

The Company has a \$4,000,000 and a \$3,000,000 overdraft facility with the Belize Bank Limited and the Bank of Nova Scotia, respectively. The overdrafts bear annual interest of 14% and 13.5%, are unsecured, and are payable on demand.

On November 23, 2001, the Company borrowed US\$971,235 from its parent company. Effective interest rate was 10% per annum and the loan was repaid on April 25, 2002.

On May 7, 2002, the Company borrowed \$2,000,000 from the Belize Bank Limited with an interest rate of 13% per annum payable monthly. The principal is to be repaid on April 30, 2003.

## 7 ACCOUNTS PAYABLE AND ACCRUALS

|                      | DECEMBER 2002    | DECEMBER 2001    |
|----------------------|------------------|------------------|
| Trade payables       | \$ 19,406        | \$ 19,860        |
| Government of Belize | 1,370            | 1,028            |
| Dividends declared   | 1,859            | -                |
| Accrued interest     | 2,547            | 1,608            |
| Other                | 778              | 1,020            |
|                      | <u>\$ 25,960</u> | <u>\$ 23,516</u> |

## 8 DUE TO RELATED PARTIES (NET)

|                                 | DECEMBER 2002    | DECEMBER 2001    |
|---------------------------------|------------------|------------------|
| Due from Related Parties:       |                  |                  |
| Belize Electric Company Limited | \$ 1,440         | \$ 675           |
| Fortis Inc.                     | 715              | 591              |
|                                 | <u>2,155</u>     | <u>1,266</u>     |
| Due to Related Parties:         |                  |                  |
| Belize Electric Company Limited |                  |                  |
| Transmission Facility Loan      | 27,632           | 29,647           |
| Power Purchases                 | 10,131           | 10,669           |
| Other                           | -                | 493              |
| Fortis Inc.                     | 3,629            | 2,803            |
|                                 | <u>41,392</u>    | <u>43,612</u>    |
| Due to Related Parties (Net)    | <u>\$ 39,237</u> | <u>\$ 42,346</u> |



## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

## 9 LONG - TERM DEBT

## (1) Government of Belize:

## a. Loan No. 2749S BEL:

Loan of US\$7,500,000 from the International Bank for Reconstruction and Development (IBRD) for onlending to the Company, approved as part of a power project, of which the full amount has been drawn down. Repayment is by 25 equal semi-annual installments of US\$290,000, which commenced January 15, 1991 and a final installment of US\$250,000 on July 15, 2003. Interest is 0.5% per annum above the Bank's "Cost of Qualified Borrowings" as defined in the loan agreement. The effective rate of interest as of December 31, 2002 is 7.96% (December 31, 2001 – 8.59%) per annum.

## b. Loan No. 37/SFR – BZ:

Loan of US\$3,079,000 from the Caribbean Development Bank for onlending to the Company, approved as part of a power project, of which US\$3,067,234 has been drawn. Repayment is by 60 equal quarterly installments, which commenced March 31, 1993. The loan bears interest at 8.5%.

## c. Loan No. 1/SFR – BZ:

Loan of US\$3,546,243 from the Caribbean Development Bank for onlending to the Company for electricity expansion. The first tranche of the loan (US\$2,520,480) and the second tranche (US\$1,025,763) are repayable by 40 equal semi-annual installments with final installment due in 2004. Both tranches bear interest at 4% per annum.

## d. Loan No 3776A/S BEL:

Loan of US\$11,400,000 from the International Bank for Reconstruction and Development (IBRD) for onlending to the Company, approved as part of the Power II Project, of which the full amount has been drawn down. Repayment is by 23 equal semi-annual installments of US\$480,000, which commenced February 15, 2000, and a final installment of US\$460,000 on August 15, 2011. Interest is 0.5% per annum above the Bank's "Cost of Qualified Borrowings" as defined in the loan agreement. The effective rate of interest as of December 31, 2002 is 7.96% (December 31, 2001 – 8.59%) per annum.

## e. Loan No. 7.0971/2:

Loan of EURO 3,700,000 from European Investment Bank for onlending to the Company, approved as part of the Power II Project of which the full amount has been drawn down. Repayment is by 15 annual installments, which commenced May 31, 2000. The loan bears interest at 5% per annum.

## f. Loan No 14/OR-BZ:

Loan of US\$13,310,000 from the Caribbean Development Bank for onlending to the Company approved as part of the Power II Project, of which US\$12,706,210 has been drawn down. Repayment is by 60 quarterly installments of US\$193,935 and CDN\$39,318, which commenced February 5, 2000. The loan bears interest at 5.75% per annum.

|  | DECEMBER<br>2002 | DECEMBER<br>2001 |
|--|------------------|------------------|
|  | \$ 1,076         | \$ 2,236         |
|  | 2,154            | 2,564            |
|  | 148              | 281              |
|  | 17,260           | 19,002           |
|  | 6,007            | 5,775            |
|  | 21,463           | 23,142           |

## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

## 9 LONG - TERM DEBT (CONTINUED)

## (2) Caribbean Development Bank (44/SFR –BZE):

Unsecured loan of US\$42,000 approved as part of the Power II Project of which the full amount has been drawn down. Repayment is by 31 consecutive quarterly installments of US\$1,313, which commenced September 30, 1996, and ends on June 30, 2004. The loan bears interest at 2% per annum.

## (3) Banco Nacional de Comercio Exterior, S.N.C. (Bancomext):

Unsecured loan of US\$1,310,900 approved as part of the Power II Project of which the full amount has been drawn down. Repayment is by 10 equal semi-annual installments of US\$131,090, which commenced July 29, 1998. The loan bears interest at 8% per annum.

## (4) Bank of Nova Scotia:

Standby unsecured non-revolving loan of US\$2,500,000 for payment of uninsured hurricane related expenses. Principal is repayable by quarterly payments beginning December 31, 2001 and ending September 30, 2006. Interest was payable at LIBOR as determined from time to time plus 3% per annum. Effective December 22, 2002 the interest rate has been fixed at 6.75% per annum.

## (5) Caterpillar Financial Services Corporation:

Loans of US\$832,883 and US\$416,454 granted through promissory notes for the purchase of three Caterpillar generators. Principal is repayable in sixteen quarterly installments of US\$52,055 and US\$26,028 commencing on November 2000 and April 2001 and ending on August 2004 and January 2005. Interest is payable at 3 month LIBOR plus 2.75%. The related assets secure the notes.

## (6) All-First Bank (USA):

Loan of US\$4,892,512 guaranteed by the Export-Import Bank of the United States granted through promissory notes for the purchase of electricity distribution, substation and transmission equipment. Principal is repayable in 10 semi-annual installments beginning April 15, 2002 and ending October 15, 2006. Interest was payable at three months LIBOR plus 0.85% per annum. Effective December 13, 2002 the interest rate has been fixed at 4.95% per annum.

## (7) Belize Electric Company Limited (BECOL):

Loan of US\$14,896,212 granted April 1, 2001 for the purchase of the unamortized cost of the Mollejon Transmission Facilities. The loan is repayable in monthly installments inclusive of interest over 10 years commencing November 1, 2001 and bears interest at 10% per annum.

## (8) Belize Bank Limited:

Unsecured demand loan of BZ\$5,000,000 granted on September 25, 2002. The loan is due in full on March 25, 2004 and bears interest at 13% per annum.

|  | DECEMBER<br>2002 | DECEMBER<br>2001 |
|--|------------------|------------------|
|  | \$ 18            | \$ 29            |
|  | 242              | 742              |
|  | 3,762            | 3,862            |
|  | 1,229            | 1,861            |
|  | 7,806            | 9,780            |
|  | 27,632           | 29,646           |
|  | 5,000            | -                |



**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

**9 LONG - TERM DEBT (CONTINUED)**

**(9) RBTT Merchant Bank Limited:**

Loan facility granted on October 1, 2002 for US\$14,031,358 to finance the Gas Turbine Generator Project. The loan is comprised of two tranches – Tranche A for US\$9,003,087 repayable in 14 semi-annually installments commencing October 2003 at 5.75% interest per annum and Tranche B for US\$5,028,271 repayable in 18 semi-annually installments commencing October 2003 at 8.15% per annum. The loan is secured by a debenture over the assets comprising the project.

**(10) Toronto-Dominion Bank:**

Loan of US\$5,435,671 guaranteed by the Export-Import Bank of the United States for the purchase of electricity distribution, substation and transmission equipment. The loan is repayable in 10 semiannual installments commencing October 20, 2004. Interest is payable at 5.75% per annum.

Less: Current installments

The loans are repayable as follows:

|              |
|--------------|
| 2003         |
| 2004         |
| 2005         |
| 2006         |
| 2007         |
| Subsequently |

|                                 | DECEMBER<br>2002 | DECEMBER<br>2001 |
|---------------------------------|------------------|------------------|
| (9) RBTT Merchant Bank Limited: | \$ 3,242         | \$ -             |
| (10) Toronto-Dominion Bank:     | 5,101            | -                |
|                                 | \$ 102,140       | \$ 98,920        |
|                                 | (13,746)         | (10,514)         |
|                                 | \$ 88,394        | \$ 88,406        |

|                  |
|------------------|
| 13,746           |
| 20,358           |
| 16,192           |
| 16,370           |
| 16,478           |
| 18,996           |
| <u>\$102,140</u> |

Loan No. 7.0971/2 is denominated in EURO Dollars. For the year 2002, \$637,965 in foreign exchange losses has been booked based on periodic revaluations of the loan.

Interest and related charges on loans capitalized during the year ended December 31, 2002 relating to capital expansion projects amounted to BZ\$ 2,952,280 (\$1,768,745 for year ended December 31, 2001).

**Finance Charges**

|                             | DECEMBER<br>2002 | DECEMBER<br>2001 |
|-----------------------------|------------------|------------------|
| Interest                    | \$ 13,132        | \$ 10,120        |
| Interest on CPRSA and HCRSA | (1,806)          | (1,258)          |
| Interest capitalized        | (2,952)          | (1,769)          |
| TOTAL                       | \$ 8,374         | \$ 7,093         |

**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

**10 DEBENTURES**

**Series I:**

13,169 unsecured debentures of \$76 each and 160,666 unsecured debentures of \$100 each (13,837 of \$76 and 160,341 of \$100 at December 31, 2001) to mature December 31, 2012 with interest payable quarterly at 12% per annum.

**Series II:**

195,240 unsecured debentures of \$100 each (195,292 at December 31, 2001) to mature March 31, 2021 with interest payable quarterly at 9.5% per annum.

**Series III:**

18,028 unsecured debentures of \$100 each to mature July 31, 2022 with interest payable quarterly at 9% per annum.

|             | DECEMBER<br>2002 | DECEMBER<br>2001 |
|-------------|------------------|------------------|
| Series I:   | \$ 17,067        | \$ 17,086        |
| Series II:  | 19,524           | 19,529           |
| Series III: | 1,803            | -                |
|             | \$ 38,394        | \$ 36,615        |

The Series I debentures can be called by the Company at any time after June 30, 2003 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and are repayable at the option of the holders at any time on or after June 30, 2002 by giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time is also allowed.

The Series II debentures can be called by the Company at any time after April 30, 2008 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and are repayable at the option of the holders at any time on or after April 30, 2008 after giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time is also allowed.

The Series III debentures can be called by the Company at any time after August 31, 2009 until maturity by giving holders not more than 60 days or not less than 30 days written notice, and are repayable at the option of the holders at any time on or after August 31, 2009 after giving 12 months written notice to the Company. Redemption by agreement between the Company and the Debenture holder at any time is also allowed.

The Indentures to the Debentures contain covenants, which must be complied with by the Company. In the event of a default as defined in the Indentures, the Company through the Fiscal Agent or via a Trustee appointed by the Debenture holders may be required to purchase the Debentures at their face value.

**11 PREFERENCE SHARES**

Convertible redeemable preference shares:

Authorized 12,000,000 shares of \$2.00 each

Issued and fully paid – nil

|   | DECEMBER<br>2002 | DECEMBER<br>2001 |
|---|------------------|------------------|
| Authorized 12,000,000 shares of \$2.00 each | \$ 24,000,000    | \$ 24,000,000    |
| Issued and fully paid – nil                 | \$ -             | \$ -             |

On June 8, 2001, all outstanding preference shares were converted to ordinary shares under the provisions of Article 4(A) of the Companies Memorandum and Articles of Association. Article 4(A) was amended by special resolution passed and confirmed at shareholders' meetings held in April and May 2001 respectively.



**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

**12 ORDINARY SHARES**

|  | DECEMBER<br>2002 | DECEMBER<br>2001 |
|--|------------------|------------------|
| Ordinary shares:                                       |                  |                  |
| Authorized 38,000,000 shares of \$2.00 each            | \$ 76,000        | \$ 76,000        |
| Issued and fully paid 27,475,106 shares of \$2.00 each | \$ 54,950        | \$ 54,950        |

**13 SPECIAL SHARE**

Special rights redeemable preference share:  
Authorized, issued and fully paid 1 share of \$1.00.

Rights attached to the Special Share:

Income – the Special Share is not entitled to participate in any income distributed by the Company.

Voting – the holder of the Special Share is entitled to receive notice of, and to attend and speak at, any general meeting or any meeting of any class of shareholders of the Company, but the Special Share does not carry a right to vote nor any other rights at any such meeting.

Redemption - The holder of the Special Share may require the Company to redeem the Special Share at par at any time by serving written notice upon the Company and delivering the relevant share certificate to the Company. Any redemption is subject to the provisions of the statutes and the Articles of the Company.

Capital – The Special Share confers on the holder thereof the right, on a winding-up or other return of capital but not on a redemption, to repayment in priority to any payment to the holders of Ordinary Shares and at least in parity with the holders of the Preference Shares and the holders of any other preference shares of the Company from time to time, of the amount paid up on the Special Share.

Purchase and transfer – The Company shall not purchase, but may redeem the Special Share. The Special Share may be transferred only to a Minister of the Government of Belize or any person acting on the written authority of the Government of Belize.

Right to appoint Chairman – Article 4(B) of The Articles of Association of the Company states that “when determining the rights attaching to any shares, the shares held by the Government of Belize shall be deemed to include shares held by the Social Security Board or any other Public Statutory Corporation.” The holder of the special share is entitled to appoint two directors to the Board of Directors of the Company, one of whom is to serve as the chairman at any time during which the holder of the special share is the holder of Ordinary shares amounting to 25% or more of the issued share capital of the Company.

**14 CORPORATE TAXES**

The Company pays tax under the Income and Business Tax Act of Belize. Income tax is charged at the rate of 25% but is capped at 1.25% of gross revenues.

**NOTES TO FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

**15 EARNINGS PER SHARE**

|                                       | DECEMBER<br>2002 | DECEMBER<br>2001 |
|---------------------------------------|------------------|------------------|
| Net income applicable to shareholders | \$ 13,045        | \$ 12,061        |
| Shares outstanding                    | 27,475,106       | 27,475,106       |
| Earnings per share                    | \$ 0.47          | \$ 0.44          |

**16 CAPITAL CONTRIBUTIONS**

Capital contributions included the cost of the transmission facility connecting the Mollejon hydroelectric plant to the Company's distribution system which, on April 1, 2001, the Company agreed to repay to BECOL as a long-term debt in consideration for amendments to the power purchase agreement and franchise agreement with BECOL. (See Notes 8 and 9(7)). The amount remaining in capital contributions account includes Government of Belize contributions towards rural electrification programs and other similar contributions.

|                                       | DECEMBER<br>2002 | DECEMBER<br>2001 |
|---------------------------------------|------------------|------------------|
| Capital contributions brought forward | \$ 12,761        | \$ 39,356        |
| Additions                             | 4,508            | 52               |
| Repaid                                | -                | (26,647)         |
| Capital contributions carried forward | 17,269           | 12,761           |
| Amortization brought forward          | 3,679            | 3,303            |
| Additions                             | 227              | 376              |
| Amortization carried forward          | 3,906            | 3,679            |
| Capital contributions – net           | \$ 13,363        | \$ 9,082         |

**17 PRIOR PERIOD ADJUSTMENT**

On January 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for foreign exchange gains and losses, which require the recognition of foreign exchange gains and losses directly into income. This policy was applied retroactively and comparative financial statements have been restated to reflect this change. The cumulative effect of the change as of January 1, 2001 was a \$872,776 reversal of deferred gains and a corresponding increase in retained earnings. The 2001 comparative financial statements have also been restated to record \$296,422 of foreign exchange gains for the year with a corresponding reversal of deferred gain.



## NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Belize thousands of dollars)

### 18 COMMITMENTS AND CONTINGENCIES

**Compliance with Covenants** - The Indenture to the Debentures and other loan agreements contain numerous covenants that must be complied with by the Company. During the year ended December 31, 2002, the Company was in compliance with these covenants except for: (1) deposits to the electricity special fund account covenant for Caribbean Development Bank Loan No. 37/SFR-BZ and European Investment Bank Loan No 7.0971/2; (2) IBRD, Caribbean Development Bank and Bank of Nova Scotia debt service ratio loan covenant; and (3) Bank of Nova Scotia tangible net worth covenant. Discussions with the above lenders is ongoing with a view to cure and or amend the covenants. The Company's management does not believe these expose the Company to any undue increase in credit risk.

The insurance coverage of the Company's transmission and distribution assets was discontinued in fiscal 1994 due to a limitation in the availability and a significant increase in the cost of this insurance. In fiscal 1995, the Company approved a self-insurance plan for transmission and distribution assets for a total of \$5,000,000 and earmarked \$500,000 per annum to be set aside for this plan. Retained earnings of the Company have been appropriated for this plan and funds are to be set aside in a fixed deposit account to cover the appropriated retained earnings. As at December 31, 2002, BZ\$4,375,000 of retained earnings has been appropriated. The last draw down from a stand-by unsecured non-revolving line of credit of US\$2,500,000 forming part of this self-insurance plan was made on January 2002 for Hurricane Iris rehabilitation purposes. Commencement of quarterly repayments began on December 31, 2001 and a total of US\$625,000 has been repaid. The Company is currently renegotiating with the Bank to reestablish the line of credit.

**Rate Stabilization Account** - As a result of by-laws set out by the PUC governing the determination of electricity tariffs, charges and quality of service standards, the Company is allowed to defer excess costs of fuel, power purchases, and diesel operating and maintenance expenses, plus interest on the account balances, to be recovered from or rebated to customers over four years. An account known as the CPRSA was established to regulate the manner in which these excess costs of power and changes in the CPRSA are passed on to customers. The Cost of Power component in \$/KWh is 0.175 to June 30, 2005. Excess Cost of Power and interest for the period January 1, 2002 to December 31, 2002 amounted to \$6,279,340 (\$6,818,737 in 2001), of which \$1,559,830 was recovered during the period July 1, 2002 to December 31, 2002 as allowed by the PUC.

Effective July 1, 2002, the PUC also approved a Hurricane Cost Rate Stabilization Account (HCRSA) to regulate the manner in which hurricane costs are passed on to the customers. During 2002, \$3,820,500 of hurricane rehabilitation related costs inclusive of interest was deferred to this account. During the period July 1, 2002 to December 31, 2002, a total of \$1,429,844 was recovered as allowed by the PUC.

Recovery of the balance in the CPRSA and the HCRSA which is regulated by the PUC continues during the period January 1, 2003 to June 30, 2003 and will be re-addressed in the Company's next annual tariff review submission for the period July 1, 2003 to June 30, 2004, and is dependent on future operational circumstances that cannot be determined at this time.

### 19 SUBSEQUENT EVENT

Discussions are in progress with Comision Federal de Electricidad (CFE) to finalize an estimated US\$2.9 million recalculation of energy purchases for 2002 arising out of a proposed amendment to the power purchase contract with CFE. When finalized this amount is expected to reduce the balance in the CPRSA.

### 20 FINANCIAL INSTRUMENTS

The carrying amounts of cash, receivables, trade and other payables at the balance sheet date represent best estimates of fair values because of the relative short-term maturities of these assets and liabilities. Long-term obligations have been contracted at market terms and accordingly approximate fair value.

## FINANCIAL AND OPERATING STATISTICS

Calendar Year Ended December 31

|  | 2002                 | 2001*          | 2000             | 1999           |
|--|----------------------|----------------|------------------|----------------|
| <b>FINANCIAL STATISTICS</b>                          |                      |                |                  |                |
| (Financial Figures in Belize thousands of dollars)   |                      |                |                  |                |
| Energy Revenues                                      | 96,017               | 90,799         | 81,451           | 78,073         |
| Net Profit   | 13,045               | 12,061         | 10,728           | 10,012         |
| Net Fixed Assets                                     | 252,658              | 238,070        | 208,822          | 191,194        |
| Total Assets Employed                                | 297,518              | 276,954        | 244,428          | 222,630        |
| Long Term Debt                                       | 88,394               | 88,406         | 56,463           | 60,578         |
| Shareholders' Equity (excluding Contributed Capital) | 108,040              | 100,490        | 93,055           | 87,509         |
| Convertible Debentures                               | 38,394               | 36,615         | 17,100           | 17,218         |
| <b>Performance Indicators</b>                        |                      |                |                  |                |
| Rate of Return on Net Fixed Assets in Operation      | 11.14%               | 11.28%         | 10.48%           | 14.67%         |
| Rate of Return on Shareholders' Equity               | 12.51%               | 12.46%         | 11.88%           | 11.44%         |
| Earnings per share (\$)                              | 0.47                 | 0.44           | 0.39             | 0.49           |
| <b>OPERATING STATISTICS</b>                          |                      |                |                  |                |
| <b>Sales (MWH)</b>                                   |                      |                |                  |                |
| Industrial & Commercial                              | 98,509               | 117,828        | 110,193          | 101,098        |
| Residential  | 159,229 <sup>1</sup> | 119,144        | 102,832          | 83,403         |
| Street Lighting                                      | 21,208               | 19,743         | 16,327           | 14,298         |
| <b>Total</b>   | <b>278,946</b>       | <b>256,715</b> | <b>229,352</b>   | <b>198,799</b> |
| <b>Customers (numbers)</b>                           |                      |                |                  |                |
| Industrial & Commercial                              | 452                  | 483            | 518 <sup>1</sup> | 6,089          |
| Residential  | 59,362               | 56,599         | 52,632           | 44,745         |
| Street Lighting                                      | 1                    | 1              | 1                | 1              |
| <b>Total</b>   | <b>59,815</b>        | <b>57,083</b>  | <b>53,151</b>    | <b>50,835</b>  |
| Net Diesel Generation (MWh)                          | 46,491               | 43,367         | 41,171           | 53,955         |
| Purchased Power - Mollejon (MWh)                     | 88,243               | 91,374         | 93,615           | 75,529         |
| Purchase Power - CFE (MWh)                           | 180,510              | 158,634        | 126,807          | 100,347        |
| Losses   | 11.51%               | 12.50%         | 12.32%           | 13.50%         |
| Peak Demand(MW)                                      | 53.7                 | 49.3           | 44.5             | 42.8           |
| Installed Capacity (Diesel Plant)(MW)                | 27                   | 27             | 26.3             | 30.8           |
| Employees (number)                                   | 237                  | 244            | 296              | 374            |

\* Restated

<sup>1</sup> Adjusted to reflect reclassification of certain Commercial Customers to Residential. Certain comparative figures have been reclassified to conform with the current year's presentation.



**DIRECTORS**

Robert Usher (Chairman)  
H. Stanley Marshall (Vice Chairman)  
Fernando Coye  
Philip Hughes  
James Lea  
Karl Menzies  
Yasin Shoman  
Karl Smith  
Lynn Young

**OFFICERS**

Lynn Young, President and CEO  
Rene Blanco, Vice President, Finance and CFO  
Derek Davis, Vice President, Energy Supply, Planning and Engineering  
Felix Murrin, Vice President, Operations  
Joseph Sukhnandan, Vice President, Special Projects and Generation  
Juliet Estell, Company Secretary

**CORPORATE ADDRESS**

Belize Electricity Limited  
2 1/2 Miles Northern Highway  
P.O. Box 327  
Belize City, Belize  
Central America

**FISCAL AGENT**

Platinum Trust Corporation Limited  
28 Regent Street  
Belize City, Belize  
Central America

**SHAREHOLDER SERVICES**

For general information, shareholder publications, and other requests, please contact:  
Company Secretary  
Belize Electricity Limited  
2 1/2 Miles Northern Highway  
P.O. Box 327  
Belize City, Belize  
Central America  
Tel: 501-227-0954 (Ext. 118)  
E-mail: Corporate@bel.com.bz

**DIRECT DEPOSIT**

Shareholders may obtain automatic electronic deposit of dividends to their designated Belizean financial institution by contacting the Securities Officer at the Corporate Headquarters.

**BOARD OF DIRECTORS**

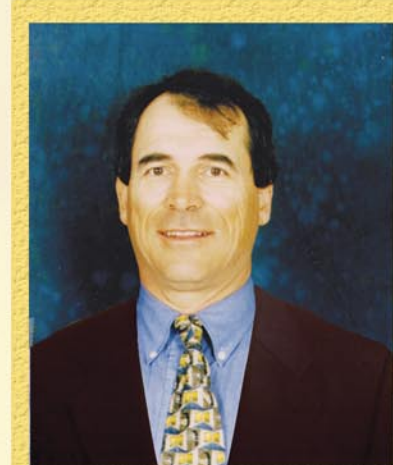
As of December 2002



**Robert Usher**  
Chairman



**H. Stanley Marshall**  
Vice Chairman



**James Lea**  
Director



**Fernando Coye**  
Director



**Philip G. Hughes**  
Director



**Karl H. Menzies**  
Director



**Lynn R. Young**  
Director



**Karl Smith**  
Director



**Yasin Shoman**  
Director



**EXECUTIVE MANAGEMENT**  
As of December 2002



**Lynn R. Young**  
President and CEO



**Rene Blanco**  
Vice President  
Finance and CFO



**Derek Davis**  
Vice President, Energy Supply,  
Planning and Engineering



**Joseph Sukhnandan**  
Vice President  
Special Projects and  
Generation



**Felix Murrin**  
Vice President  
Operations



**Juliet Estell**  
Company Secretary



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