DOMLEC

DOMINICA ELECTRICITY SERVICES LIMITED

RESEARCH REPORT

JULY 2003

DISCLAIMER/DISCLOSURE

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EXECUTIVE SUMMARY

The Dominica Electricity Services Ltd. (DOMLEC) was originally established under the name of Colonial Development Corporation (CDC) in 1949 with the introduction of the first hydro-electric scheme in the Roseau Valley in the Commonwealth of Dominica. In 1976 DOMLEC was established as a limited liability company under the Electricity Supply Act with the newly named Commonwealth Development Corporation (CDC) owning 51% of equity and 49% being held by the Government of Dominica. In 1987 the Government of Dominica acquired CDC's shareholdings in Domlec and later sold 60% of the company's shares to the Dominican public.

In 1997 the Government again sold its remaining shares to the Commonwealth Development Corporation and in addition to the purchase of 4.5million shares issued by the company, CDC then owned the majority shareholdings 72% in Domlec.

Under the revised Electricity Supply Act of 1996, Domlec under ownership of CDC, was granted an exclusive license for the purpose of generating, distributing, supplying and selling electricity to residents of Dominica until midnight on December 31, 2025. The Act further gives the company the option to renew the license for a further period of 25 years.

DOMLEC currently services in excess of 26,500 customers, approximately 96% of the population of Dominica. The Company is unique among Caribbean Power Utilities in that some of the electricity generation is produced through a hydroelectric system. This facility located at Trafalgar is used to meet demand during normal periods and the diesel generation units at Fond Cole and the Sugar Loaf plant provide the balance at peak periods.

The ownership structure of Domlec is composed of the Commonwealth Development Corporation CDC holding 72% of the shares while the balance is owned by the Dominica Social Security (DSS) and other private shareholders. A Board of Directors consisting of CDC appointees and two local representatives are responsible for the general direction of the company. These individuals are well experienced and qualified in their areas of expertise. The total shares outstanding are 10.416 million of which CDC owns 71.89%, Dominica Social

Security 7.48%, J.E Nasseif 3.08% and the balance owned by other shareholders from Dominica, Canada and U.S.A.

Like most other Caribbean countries Dominica's economy has shown a decline in GDP growth of 4.7% for 2002. The island continues to implement stabilization measures in order to bridge the existing current account deficit currently stands at EC$38.0 million. There has been modest growth rates reported in manufacturing, banking and insurance and other services, however activities in the tourism and agricultural sectors were insufficient to achieve economic recovery.

Financials Highlights & Operating Statistics

	1997	1998	1999	2000	2001	2002
FINANCIAL HIGHLIGHTS						
Revenues	33,878	36,442	36,473	37,438	46,334	46,901
TOTAL ASSETS	92.756	98,428	98,039	104,735	93,488	100,407
TOTAL LIABILITIES	57,747	65,494	60,537	63,846	70,580	71,192
RESULTS						
EBIT	9,516	9,673	11,142	7,919	4,627	8,483
Net Income(after Tax)	6,269	2,758	6,782	4,167	(11,004)	4,879
Earnings Per Share	$0.77	$0.26	$0.65	$0.40	($1.06)	$0.06
Dividend Results						
Dividends	1,427	1,427	1,427	0	(1,427)	625
Dividends Per Share	$0.137	$0.137	$0.137	-	-	$0.06
Book Value Per Share	$3.36	$2.48	$2.99	$3.39	$2.20	$2.80
Coverage						
Debt To Equity	57/43	56/44	64/36	70/30	62/38	75/25
Solvency						
Current ratio	0.62	0.77	0.84	0.65	0.53	1.48
OPERATING HIGHLIGHTS						
Generating Plant						
Installed Capacity	17,636	18,690	18,690	20,440	21,680	20,440
Firm Capacity	7,580	10,280	10,280	13,200	14,440	13,200
Peak Demand	11,390	12,348	13,010	12,913	13,866	13,043
Total Sales	65,783	70,300	74,636	77,515	80,965	80,132

Since CDC purchased the majority shareholdings in 1997, the company has embarked on a 'Performance Improvement Program' which has focussed on reducing operating costs, replacement of faulty meters and restructuring of the balance sheet.

The Company has shown mixed results in its financial position as suggested by the above table. During the period 1997 to 2002 growth in revenues reached 39% however earnings fluctuated and reached a peak in 1999. The discontinuation of works on the Tarou Cliff Project totaling $16.5million had a significant impact on 2001 earnings resulting in a decline of $15.2 million from the previous year.

Earnings per share fluctuated between -$1.06 and $0.77 over the six-year period. Dividends per share remained at $0.137 until 2000 when dividends were declared and not paid. The company has paid a $0.06 dividend per share in the last financial year and the dividend payout ratio was 13%. Trade payables have shown an increase over the period from $4million to $8.9million. This increase was recorded in 2001a significant portion of which was due to payments owed to overseas vendors. Fixed assets increased by 4% over the period and accounts for 75% of total assets.

The company's steps towards improving operational efficiency should enhance its future financial performance.

Below are the projections for the period 2003 to 2007 based on information supplied by the company.

RATIOS	2002	2003	2004	2005	2006	2007
Earnings Per Share	0.47	0.23	0.47	0.52	0.58	0.63
Dividends Per Share	0.06	0.09	0.09	0.10	0.17	0.19
Dividend Payout	0.13	0.39	0.19	0.19	0.29	0.30

Domlec provided the projected figures and the ratios have been based on this information.

Indications are that the majority owner of the company CDC is contemplating divesting its interest in Domlec and is considering several proposals. While Domlec is a public company its decision to list on the Eastern Caribbean Securities Exchange (ECSE) should provide a platform for trading its shares, generating liquidity for its Shareholders and ensuring transparency in its operations.

Certain methodologies are used to assess the value of the Company and determine its performance over the next five years. These models were based on information supplied both by audited financial statements and by projections furnished by the company about its future performance. The last buy/sell transaction occurred in January 2003 and was recorded at US$1 in the company files. The models used in determining some indication of the share price are the Dividend Discount Model, the Constant Dividend Growth Model and Share Book Value.

Based on the results of the above models as share valuation of $1.47, $2.32 and $2.80 respectively were determined for the company.

HISTORY & OVERVIEW OF THE COMPANY

Domlec was established in 1949 by the Colonial Development Corporation (CDC) with the development of a hydroelectric scheme in the southwestern part of the island. In 1950 the first two hydro turbines were commissioned at the Trafalgar Power Station. Prior to this the Government operated diesel generators just outside of the city limits which supplied electricity to the capital city of Roseau.

Once completed Roseau was then supplied from Station in Trafalgar and by the late 1960's the national electricity network was gradually extended southwards. An additional turbo generator was acquired and a power station was commissioned on the outskirts of the capital city.

By the early 1970's the need for increased stability and capacity of the electrical system was emphasized with the introduction of the Dominica Timbers Limited. This forced an expansion of Domlec's gridlines to the North and eventually to the northeastern coast and to some of the southern villages.

The Government of Dominica acquired Domlec after the tragedy of Hurricane David in 1979. The Commonwealth Development Corporation CDC sold its shareholdings to the government following which in the early 1980's the government then sold 60% of its shares to the general public.

After the Government assumed ownership, plans commenced in the early 1980's to electrify villages to the east and southeast coast of Dominica. The 'Rural Electrification Project' was initiated in order to meet the increasing demand and avert shortages in the system. To facilitate this expansion a grant was obtained from the USAID. In 1997 CDC purchased Governments shares in Domlec in addition to $4.5 million shares issued at that time by the company, to become the majority shareholder with 72% ownership.

Since the purchase by CDC, Domlec has embarked on a Performance Improvement Program which aims to increase efficiency, improve reliability, restructure local management, implement a new billing system and revise methods of meter reporting. Domlec's management has expressed their commitment to focusing on improved customer service while reducing cost to obtain operational efficiency.

CORPORATE GOVERNANCE / BY-LAWS

The conduct of affairs of Domlec is stated in accordance with the Companies Act 1994 of the Commonwealth of Dominica, its Regulations and By-laws. The Board of Directors governs the affairs of the Company and protects the shareholders interest while ensuring some reasonable return on investment. The Board consists of a maximum of five directors and a minimum of three and is elected by the shareholders by a show of hands. Three Directors form a quorum for the transaction of business and this quorum may exercise all powers of the Directors. A Director shall hold office when elected until the following year or not more than three terms unless he/she has been elected to continue.

The management team of Domlec is headed by the General Manager who along with senior managers directs the day to day operations of the Company and reports to the Board of Directors. CDC has an agreement with Domlec to provide management services to assist in Business Planning and develop new operational and financial strategies. Currently the General manager is an expatriate employee who works for CDC. Five senior managers report to the General Manager. These are the Financial Controller, Commercial Manager, Human Resources and Administration, Engineering and Network Services and Power Production.

The operations of each department are outlined in procedural manuals and the Company has enlisted both the St. Lucia Electricity Services (LUCELEC) and the Barbados Light & Power Company to perform technical and commercial systems audit (respectively) and to recommend necessary improvements.

CDC has indicated its intention to divest from Domlec in the short-term and the degree of involvement and ownership is uncertain at this time.

GOVERNANCE / DIRECTORATE

DIRECTORATE

The Board of Directors consists of the following members:

Mr. Wes Griffin, Chairman of the Board

Mr. Griffin is the acting Investment Business Unit Head at CDC Globeleq and Chief Financial Officer of Interben North America Inc..

MBA Amos Tuck School of Business

B.E. Thayer School of Engineering and

B.A. Dartsmouth College.

Mr. Murray Rogers, General Manager / Director – from May 2, 2002

Mr. Rogers became the General Manager in March 2003 once again after holding the position from 2000 to Aug. 2002. He has also served as Investment Manager Utilities at CDC Globeleq.

BSc. Electrical Engineering from the University of Alberta.

Mr. Grayson Stedman, Director – from 29 Aug, 2002

Mr. Stedman is the Executive Officer of the Dominica Banana Trust.

Certified Management Accountant (CMA)

Diploma in Accounting and Finance.

Mr. J. E. Nassief, Director – from 29 Aug, 2002

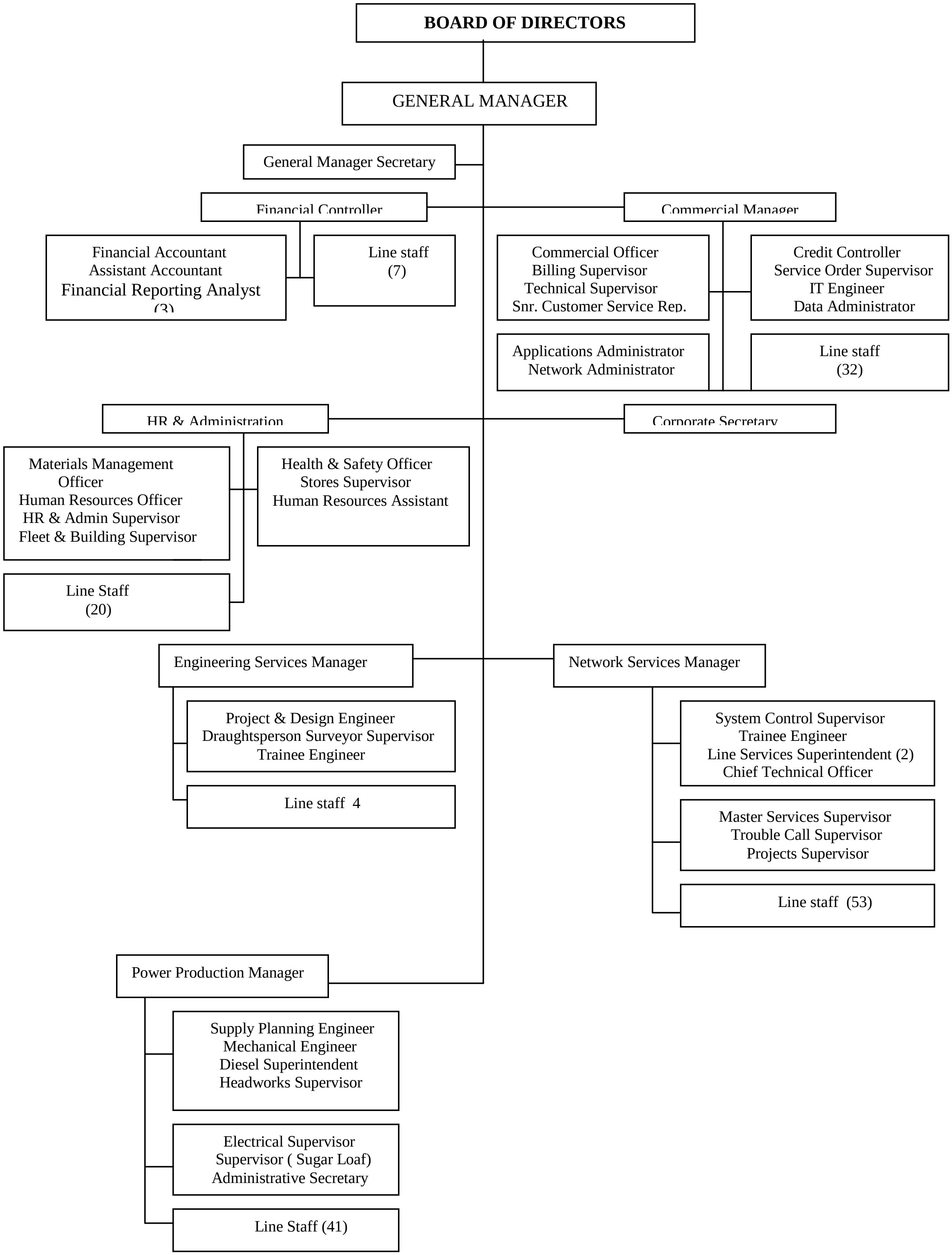
Mr. Nasseif is the Director of Belfast Estates Ltd., Forest & Sawmills (Dominica) Ltd. and Managing Director of J.E. Nasseif & Co.

Mr. Brian Rasmussen, Director

Mr. Rasmussen holds the position of the Regional Manager of Central America – CDC Globeleq.

BSc. in Inernational Finance from Brigham Young University

DOMLEC'S ORGANIZATIONAL CHART



MANAGEMENT TEAM

Senior Management Team

Mr. Mark Riddle – Engineer Service Manager
Bsc. Electrical Engineering

Ms. Marvelin Etienne – Financial Controller
C.G.A., C.G.A. Canada

Ms. Ellise Darwton – Corporate Secretary/Legal Officer
L.E.C., LLB(Hons)

Mrs. Bertilia LeBlanc McKenzie – Human Resource Manager
B.A Economics, MBA Management & Human Resource Management.

Mr. Nathaniel George – Commercial Manager
Diploma in Management

Mr. Rawlins Bruney – Manager Power Production
B.Sc. Elec. Engineering

Mr. Wenham Dorsett – Network Service Manager
Higher National Diploma

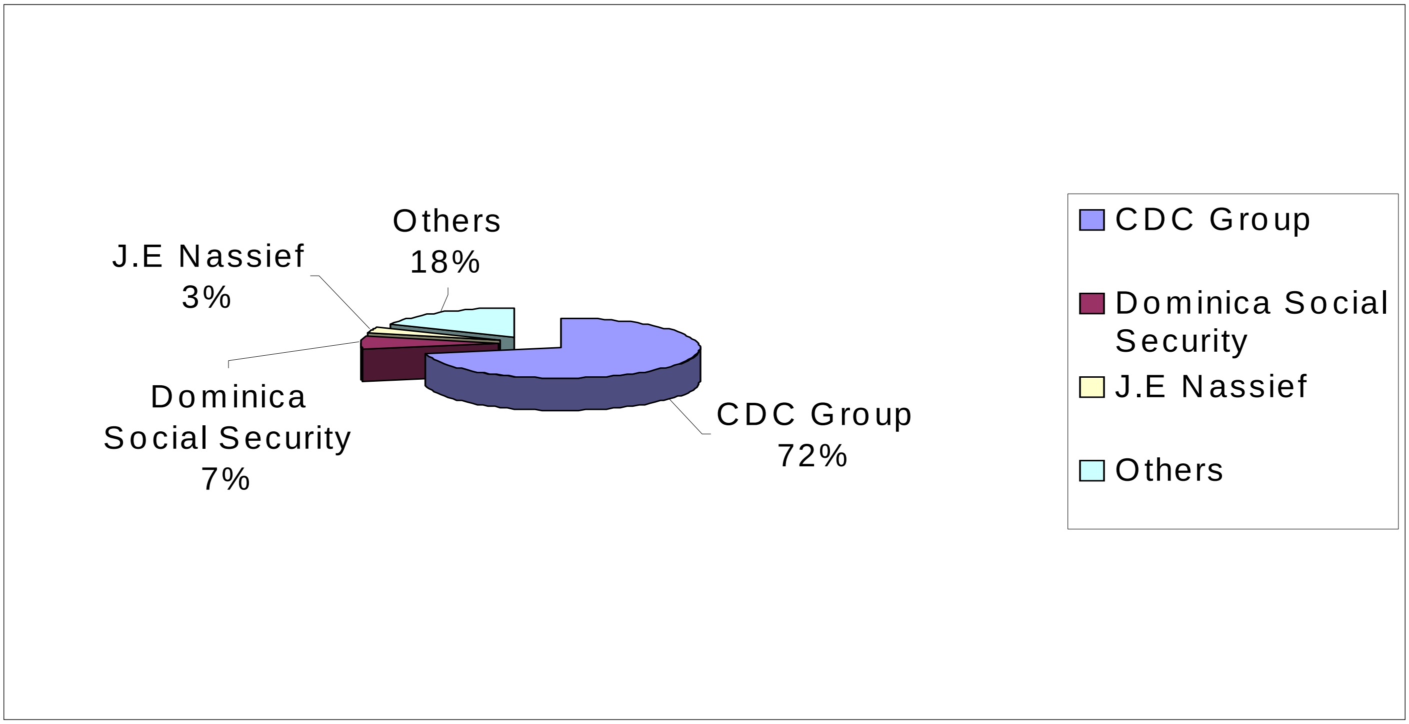
MANAGEMENT AND EMPLOYEES

CDC has a management agreement with Domlec to provide management services. The General Manager is currently an expatriate employee of CDC and the management team consists of qualified local professionals. The Company decided to reorganize its management structure in 2001in order to strengthen the team and develop the expertise of junior managers. The latter will ensure that an effective management pool exists in the long run. The Company employs 244 persons and has instituted a bonus system to foster greater performance from employees and improve the Company's future. The company recently concluded successful negotiations with the representative union which led to the implementation of a new collective agreement.

The Company has a Health and Safety Officer who is responsible for monitoring and recommending standards and improvements in systems and conditions affecting the health of the employees. As part of the System Improvement Program the company conducted a Safety Audit and has taken remedial measures.

OWNERSHIP

Share Structure of the company at June 2003



Domlec Ownership of Shares Structure

Owners	No. of Shares	%
CDC	7,489,159	71.89
Dominica Social Security	779,324	7.48
J.E Nasseif	321,000	3.08
Other Shareholders	1,826,917	17.55

The total number of shares outstanding in Domlec is 10,416,400

STRUCTURE OF BUSINESS /CORPORATE INFORMATION

Registered Office
18 Castle Street
Roseau
Commonwealth of Dominica

Auditors
PriceWaterhouse Coopers
Pointe Seraphine
Castries
St. Lucia

Solicitors/Attorneys-At-Law
Cilma Dupigny
Van Cilclif House
20 Hanover Street
Roseau

Lennox Lawrence
10 Old Street
Roseau

Bankers
National Commercial Bank of Dominica
64 Hillsborough Street
Roseau

First Caribbean International Bank
Old Street, Roseau

MISSION STATEMENT

To provide quality electricity services at a reasonable price, cost and profitability. To encourage customer awareness and the development of a dedicated and competent staff to carry out a standard, efficient and safe service on demand. To offer commitment to total customer satisfaction and to foster economic and social development of the Commonwealth of Dominica with due regard for the environment.

BUSINESS STRATEGY

Domlec has outlined its strategy through four objectives that focus on improved reliability of supply to customers, improved customer and stakeholder satisfaction, a reduction in cost and maintain low tariffs and improved profitability. Over the last two years these measures have been implemented in order to strengthen and improve the viability of the company.

OPERATIONS

Domlec is the sole utility company involved in the generation distribution and supply of electricity on the island of Dominica and serves approximately 26,500 consumers. Domestic consumption accounts for 88% commercial 11%, industry 0.2% and public lighting 0.9%. To serve this customer base, Domlec has a 247 km distribution Network with three energy generating sources the largest located in Fond Cole close to the capital city. The others are at Sugar Loaf which provides support for the northern portion of the island and a hydroelectric system at Trafalgar providing capacity during normal periods.

The company maintains a short term PPA with a local industrial company to generate their own energy along with various load management agreements that supplement the established generation locations to provide adequate capacity.

Operating Statistics

Generating Plant (kW)	1997	1998	1999	2000	2001	2002
Installed Capacity						
Hydro	7,600	7,600	7,600	7,600	7,600	7,600
Diesel	10,036	11,090	11,090	12,840	14,080	12,840
TOTAL	**17,636**	**18,690**	**18,690**	**20,440**	**21,680**	**20,440**
Firm Capacity						
Hydro	2,130	2,130	2,130	3,200	3,200	3,200
Diesel	5,450	8,150	8,150	10,000	11,240	10,000
TOTAL	**7,580**	**10,280**	**10,280**	**13,200**	**14,440**	**13,200**
Peak Demand	11,390	12,348	13,010	12,966	13,866	13,043
Growth-Peak Demand %	12.4	8.4	5.4	-0.3	6.9	-0.6

During the period under review growth in peak demand declined significantly in the last three years except for 2001 where an anomaly created such unusually high demand. The declining economic climate in Dominica and the region as a whole may account for this trend. The economy should experience a gradual recovery in the future and accordingly it is expected that growth in demand will improve in the medium to long term.

DOMLEC CUSTOMER BASE 2002

Customer	Number	%	Sales EC$000	% of Sales
Residential	23,210	87.6	20,631	48.4
Commercial/ Hotel	3,010	11.4	18,214	42.7
Industrial	33	0.1	2,975	7.0
Street Lighting	242	0.9	807	1.9
Total	**26,495**	**100.0**	**42,625**	**100.0**

Generation

At the end of 2002, Domlec had a total installed nameplate capacity of 20.44 MW of power and generated for sale 64 million MWh of electricity. Domlec's unique generating capacity allows electricity generation to be produced by the lower cost hydroelectric source of energy.

Fuel costs for the year 2002 was approximately 39% of operating costs and 21% of total costs. Demand is satisfied by the hydro system from a small lake located at Laudat and two larger hydro facilities at New Trafalgar and Old Trafalgar. However hydrological conditions only allow an average capacity of 3.0 to 3.5 MW to be realized by its hydroelectric system. The diesel generation units at Fond Cole provide the bulk of the generation capacity while the northern section of the island is supplied by the smaller Sugar Loaf medium speed operating plant.

The performance of the units is of critical importance to the company. After shortfalls in capacity in 2002 due to equipment breakdown, a review was conducted to determine the adequacy of maintenance and capacity of units of the generating plant. As part of the Performance Improvement Program, Domlec acquired three high-speed generators for its main Plant at Fond Cole to ensure future reliability.

Transmission & Distribution

To serve the Dominican consumers Domlec has a distribution network that goes around the island with certain radials extending into the interior from Roseau across to Rosalie and Castle Bruce in the East and extending from Fond Cole to the Interior forest Reserve. The distribution system is 11kv, 50 hertz and the network measures 247 km with three generation locations at Fond Cole (the largest generation facility), Sugar Loaf and the Hydro system at Trafalgar. The functions of the Network Services Manager include the control and maintenance of these systems while Engineering Services pay critical attention to areas of planning, design and network analysis.

ADMINISTRATION

In 2001 the company established a Customer Service Department responsible for bill tracking, recording customer problems/complaints, prioritizing responses and tracking unsettled matters. Bill payments are made at the registered offices and for convenience, at all financial institutions and credit unions in Dominica.

A new Customer Information System was commissioned in May 2002. Along with providing customers with a new billing format this system seeks to give customers critical information regarding their consumption patterns. It also provides lower level staff with the decision making tools required for improving customer service.

DIVIDEND POLICY

Domlec approved dividends for its last financial year of $0.06 per share. The company plans to maintain its policy of paying dividends in the future as it makes modest improvements and growth.

Below is a historical view of Domlec's ordinary shares

HISTORICAL ANALYSIS OF DOMLEC SHARES

	1997	**1998**	**1999**	**2000**	**2001**	**2002**
Dividends per share	0.137	0.137	0.137	0	0	0.06
Dividend Payout	0.23	0.52	0.21	0	0	0.13
Dividends	1,427,047	1,427,047	1,427,047	-	-1,427,047	625,000
Earnings per share	0.60	0.26	0.65	0.40	-1.06	0.47

OPERATING ENVIRONMENT

REGULATORY ENVIRONMENT

Domlec is a regulated utility Company subject to the provisions of the Electricity Supply Act of the Commonwealth of Dominica. The license under which it operates, grants the company the sole and exclusive right to generate, transmit, distribute and sell electricity in Dominica until midnight of December 31, 2024 with the option to review the license for a further period of twenty five years. The Act also outlines a legal framework for the companies guaranteed minimum 15% Rate of Return on Equity in the form of a Tariff. The Review Board appointed in accordance with the Act, meets every five years to perform a review of the basic energy rates that have been calculated for that period. Their functions extend to analysis of matters determining the fairness and suitability of rates applied. Additional provisions have been made under the Act that ensures the company ongoing commitment to Rural Electrification and Development. To date the Review Board has not met although according to the Act, this meeting is now due.

GEOGRAPHY

Dominica is located in the lesser Antilles (Windward Island group) in the Caribbean sea, south of Guadeloupe and North of Martinique. The island has a total land area of 951 square km and measures 47 km long (north to south) and 22km wide (east to west). Dominica is characterized by rugged terrain with the highest point, the Morne Diabliotin Cone measuring 1730m in the northern section of the island. The capital city of Roseau is located on the southwestern coast with the second largest town in the northern part of the island. Approximately 71,727 persons live in Dominica and Domlec serves 96% of the population with electricity services. Dominica is known as the Nature Island of the Caribbean because of its mountainous terrain and mostly unspoiled landscape and given the difficulty of traversing the terrain a greater portion of the population lives on the coast where the road network is located.

POLITICS AND LAW

Dominica follows the English based Westminster-Style parliamentary Government structure. The President acts as the Head of State and the Prime Minister is the politically elected leader of government along with a chosen cabinet. The House of Assembly is composed of 21 regional representatives and nine Senators. The legal system is based on the English common law, though independence was gained in 1978 from Great Britain. The judiciary comprises the High Court and three district magistrate courts. Appeals are made to the Eastern Caribbean Court of Appeal and ultimately to the Privy Council in London.

ECONOMY

The budget figures for the period ended May 2003 indicate that economic activity declined over the last fiscal year. As of June 2003 when the budget was presented by the Hon. Prime Minister indications were that expectations of economic growth were not realized despite marginal growth in contribution to GDP by the manufacturing, Banking and Insurance sectors. The events of September 11, 2001, resulted in a decline in the Hospitality sector inspite of efforts at marketing the island as the Nature Island of the Caribbean.

Gross Domestic Product (GDP) recorded a decline of 4.7% compared to 4.6% in the previous year. The Consumer price Index rose by 0.2% compared to last year 0.5% which was attributable mainly to increases in food, transportation and communications indices.

AGRICULTURE

Output in general in this sector declined by 0.60 % in 2002 and it remains the largest contributor to the gross domestic product in Dominica. This was somewhat lower than the previous year as some improvements were seen in production of citrus, bay oil and pepper products. However the leading contributor in this sector, bananas once again recorded a decline of 15% approximately $3.4 million and a reduction in export of 404 tonnes.

Efforts continue in this sub-sector to restore the industry by increasing efficiency and product differentiation through niche marketing. However the prospects for this industry remains in doubt in light of market liberalization targeted for 2008. The challenge is in achieving the goals outlined in order to survive the competition in the marketplace.

In terms of other significant contributors to the sector, output in other crops livestock, forestry and fishing remained constant and accounted for 18% of GDP.

MANUFACTURING

Performance in the manufacturing sector weakened as a result of competition in the export market. Activity in this sector contributes 8% to GDP. The major activity is soap production which decreased by 13.8% to 9,171 tonnes while dental cream declined by 16.5% to 1,324 tonnes. Production of beverages increased slightly by 3.5% during the year but did not provide sufficient growth to counteract the effects of the major producers in this sector.

This year's budget should allow businesses in this sector some assistance by a reduction of 5% in the consumption tax and the institution of a comprehensive plan for enterprise development for future growth.

TOURISM

This sector accounts for 21% of GDP. Total visitor arrivals fell by 25.7% and is reflective of a 19.3% drop in cruise ship arrivals as a result of the discontinuation of certain major cruise calls. There was however an increase of 1.1% in stay-over visitors to 67,108, though Hotel and restaurant indicators record a slight drop by 6% in its contribution to GDP.

There is some optimism for growth in the tourism sector as indicated by the 2003 cruise ship schedule of a likely increase in arrivals and expectations of constant growth in stay-over arrivals to Dominica. The impact of this should be noted with regard to Domlec's revenues as the industry directly effected by receipts from this sector.

CONSTRUCTION AND HOUSING DEVELOPMENT

The construction Sector expanded significantly during 2002 with starts rising by 45.1% from $22.9M to $31.8M. The driving force behind this increase was the activity in the private sector foreign direct investment in housing development. This sector accounts for 7.09% of GDP output.

As part of the growth objectives for Dominica, the 2003/2004 budget speaks to further embracing the Dominican Diaspora as a means to facilitate growth and this sector will be one of the main beneficiaries of this project.

SWOT Analysis for Domlec.

Further to the discussion of the risks associated with this company below is a table outlining the Strengths, Weaknesses, Opportunities and Threats which have been identified after analyzing the internal and external environment within which Domlec operates.

Strengths	Weaknesses
1. Monopoly/ Sole supplier, generator and distributor of electricity	1. Performance fluctuates with economic activity
2. Large K Intensive business with infrastructure already established	2. High level of receivables
	3. Non-recurring Items
3. Good Corporate citizen/consumer advocate	4. Method of financing capital projects are high cost ie. overdraft
4. Existence of Electricity Supply Act	
5. Management Company operating is experienced	5. Revocation of duty free or any concessions
6. Tariff Mechanism ensures 15% Return on equity	6. Borrowings from majority shareholder re:m anagement fees, interest expenses consultancy and travel expenses
7. Experienced management and staff	
8. Use of Low-cost Hydroelectric system	

Opportunities	Threats
1. Profitable operations give value to shareholders	1. Entry of low cost efficient energy producers to market
2. Seek alternative low cost sources of electricity	2. Deregulation and release of concessions
	3. Internal conflicts
3. Resale of electricity to other countries	4. Litigation
	5. Natural Disasters
	6. Highly leveraged
	7. Damage claims due to inconsistent voltage supply

FINANCIAL ANALYSIS

As outlined in Domlec's Corporate Strategy, the commitment to improved stakeholders satisfaction remains paramount. However the company's performance shows mixed results over the review period. Total assets showed a moderate increase of 8.2% while return on assets declined from 6.7% to 4.8% reflecting reduced efficiency in asset management. The company's payables doubled from $4million to $8.9million a significant portion of which was due to overseas vendors and an advance of $2.4M from a customer in the last financial year.

Long-term loans fluctuated during the period 1997 to 2002 from $39.5 million to $54.8 million. This was a result of $16.5million overdraft converted to a loan facility. The company's current ratio which stands at 1.41. A significant portion of current assets is represented by receivables and a review of these receivables noted remote possibility of collection and some level provision may have to be considered.

Domlec reported sales of $46.3million at December 2002 with growth over the last six years of 39%. Total Operating Expenses increased significantly with both General Operating Expenses tripling and administrative expenses increasing by 99%. This speaks to the need for the company to improve it operational efficiency by introducing cost cutting measures.

The company seems to have considerable foreign exchange exposure. In 2001 gains of $300,000 were recorded and a loss of $1.1million reported in the following year. The source of exposure is a loan provided by the European Investment Bank denominated in EURO dollars and subject to exchange rate fluctuations. The company has indicated that future borrowings will be done in currencies which are not subject to exchange risks.

Earnings per share (EPS) fluctuated from 0.77 in 1997 to 0.26 in 1998 and later 0.47 in 2002. The Share Book Value (SBV) has varied slightly and reported at 2.8 as at December 2002. The Dividends Per Share (DPS) value has remained at 0.137 over the period. Return on Equity (ROE) at 2002 was 16.7% while Return on Assets 5%. The dividend payout ratio has fluctuated somewhat and averaged 16.5%.

BALANCE SHEET FOR THE PERIOD 1997-2002

Amounts in EC$000's	1997	1998	1999	2000	2001	2002
CASH AND BALANCES	4,500	4,800	6,808	-	-	5,330,895
BILLS RECEIVABLE	-					
TRADE RECEIVABLES	6,171,834	6,495,460	7,061,151	8,992,051	10,094,274	11,201,354
LESS PROVISION FOR BAD DEBT	-	-	-	-	-	-
NET RECEIVABLES	6,171,834	6,495,460	7,061,151	8,992,051	10,094,274	11,201,354
INVENTORY-Stocks, Produce	5,070,267	5,230,285	6,295,517	6,547,455	6,647,256	6,503,608
and Raw Materials						
WORK IN PROGRESS		-	-	-	-	-
INVESTMENTS (SHORT TERM)	-	-	-	-	-	-
OTHER CURRENT ACCOUNTS		-	-			
TOTAL CURRENT ASSETS	**11,246,601**	**11,730,545**	**13,363,476**	**15,539,506**	**16,741,530**	**23,035,857**
NET FIXED ASSETS	78,678,288	81,357,491	80,908,759	77,061,027	73,038,549	75,567,887
CAPITAL WORK IN PROGRESS	1,820,927	4,632,699	3,242,945	11,793,792	3,429,762	1,682,965
OTHER FIXED ASSETS	-	-	-	-	-	-
PREPAID & DEFERRED	1,009,961	707,573	524,313	341,053	157,793	-
INTANGIBLES	-	-	-	-	120,388	120,388
TOTAL OTHER FIXED ASSETS	2,830,888	5,340,272	3,767,258	12,134,845	3,707,943	1,803,353
TOTAL ASSETS	**92,755,777**	**98,428,308**	**98,039,493**	**104,735,378**	**93,488,022**	**100,407,097**
LIABILITI ES						
OVERDRAFTS	5,798,206	973,396	3,807,338	13,557,851	16,496,648	-
ACCRUED EXPENSES	-		-	-	-	-
ACCOUNTS PAYABLE & ACCRUED LIAB	4,040,899	4,871,392	3,827,544	3,115,938	7,686,682	8,966,925
CURRENT PORTION OF L/TERM DEBT	5,376,079	6,152,126	5,718,510	4,859,745	4,252,708	4,922,504
CONSUMERS' DEPOSITS	1,586,067	1,754,896	1,949,062	-	-	
INCOME TAX PAYABLE	-	-	491,146	297,578	-	
OTHER CURRENT LIABILITIES	1,427,047	1,517,576	105,382	49,305	1,277,084	2,423,725
TOTAL CURRENT LIABILITIES	18,228,298	15,269,386	15,898,982	21,880,417	29,713,122	16,313,154
LONG TERM LOANS	30,684,897	34,510,602	27,959,588	22,468,826	18,174,729	32,458,574
DEFERRED TAX	10,522,404	14,022,937	14,790,855	15,417,133	11,730,805	13,622,227
OTHER LIABILITIES	1,473,537	1,690,658	1,887,720	4,079,302	5,948,373	4,385,461
CAPITAL GRANT	7,360,338	7,117,475	6,329,949	5,550,450	5,012,553	4,412,858
TOTAL LONG TERM DEBT	**39,518,772**	**50,224,197**	**44,638,163**	**41,965,261**	**40,866,460**	**54,879,120**
TOTAL LIABILITIES	**68,269,474**	**72,611,058**	**66,871,699**	**69,396,128**	**70,579,582**	**71,192,274**
RETAINED EARNINGS	24,592,307	15,400,850	20,755,999	24,922,850	12,492,040	18,798,423
PAID UP CAPITAL	**10,416,000**	**10,416,400**	**10,416,400**	**10,416,400**	**10,416,400**	**10,416,400**
NETWORTH	35,008,707	32,934,725	37,502,348	40,889,700	22,908,440	29,214,823
TOTAL CAPITAL & RESERVES	35,008,307	25,817,250	31,172,399	35,339,250	22,908,440	29,214,823
TOTAL LIABILITIES & NET WORTH	92,755,777	98,428,308	98,039,493	104,735,378	93,488,022	100,407,097
TOTAL LIABILITIES & CAPITAL	**92,755,377**	**91,310,833**	**91,709,544**	**99,184,928**	**93,488,022**	**100,407,097**

INCOME STATEMENT FOR 1997-2002

in EC $000	'1997	1998	1999	2000	2001	2002
SALES OR GROSS REVENUE	**33,877,662**	**36,441,883**	**36,473,318**	**37,437,798**	**39,914,630**	**42,689,430**
LESS: COST OF GOODS SOLD OR	12,511,914	13,455,255	3,516,707	3,861,326	7,833,604	5,337,609
DIRECT OPERATING EXPENSES						
GROSS PROFIT	**21,365,748**	**22,986,628**	**32,956,611**	**33,576,472**	**32,081,026**	**37,351,821**
LESS: GENERAL OPERAT. EXPENSES	3,370,968	3,851,673	10,560,304	13,374,384	12,782,996	12,558,445
ADMINISTRATIVE EXP.	4,704,400	5,422,696	7,134,443	7,361,462	9,709,567	9,346,353
DEPRECIATION	4,836,167	5,106,009	5,629,525	6,497,316	5,780,445	6,366,600
TOTAL OPERATING EXPENSES	**12,911,535**	**14,380,378**	**23,324,272**	**27,233,162**	**28,273,008**	**28,271,398**
OPER. PROFIT (LOSS) BEFORE TAX	8,454,213	8,606,250	9,632,339	6,343,310	3,808,018	9,080,423
* OTHER INCOME	1,364,535	1,403,808	1,510,091	1,575,197	1,002,157	680,297
* OTHER EXPENSES	302,852	337,075	-	-	183,260	1,277,654
NET OTHER INCOME/(EXPENSES)	1,061,683	1,066,733	1,510,091	1,575,197	818,897	(597,357)
EARNINGS BEFORE TAX & INTEREST	**9,515,896**	**9,672,983**	**11,142,430**	**7,918,507**	**4,626,915**	**8,483,066**
INTEREST EXPENSE	3,352,651	3,185,651	3,100,878	2,476,230	2,861,072	3,493,002
INCOME TAXES	2,542,937	3,500,533	1,259,064	1,275,426	(3,741,704)	1,891,422
EXCEPTIONAL ITEMS	2,648,907	(228,805)	-	-	(16,511,310)	1,780,694
NET PROFIT (LOSS)	**6,269,215**	**2,757,994**	**6,782,488**	**4,166,851**	**(11,003,763)**	**4,879,336**

Key Financial Ratios 1997-2002

	1997	1998	1999	2000	2001	2002
LIQUIDITY						
CURRENT RATIO	0.62	0.77	0.84	0.65	0.53	1.48
QUICK RATIO	0.34	0.43	0.44	0.41	0.34	1.01
RETURN ON INVESTED CAPITAL						
RETURN ON AVERAGE FIXED ASSETS	0.11	0.116	0.118	0.08	0.05	0.123
RETURN ON EQUITY	0.179	0.11	0.22	0.12	(0.48)	0.167
CAPITAL STRUCTURE & SOLVENCY						
LONG TERM DEBT TO EQUITY	1.13	1.95	1.43	1.19	1.78	1.88
TOTAL DEBT TO EQUITY	57/43	56/44	64/36	70/30	63/37	75/25
TOTAL LIABILITIES/TOTAL ASSETS	0.62	0.67	0.62	0.61	0.75	0.71
PROFITABILITY						
EARNINGS PER SHARE	0.77	0.26	0.65	0.40	-1.06	0.47
DIVIDENDS PER SHARE	0.137	0.137	0.137	-	-	0.06
TOTAL EQUITY/NO. OF SHARES - SBV	3.36	2.48	2.99	3.39	2.20	2.80

PROJECTED FINANCIAL POSITION

Projected Income Statement from 2003-2007

Domlec has presented its projections for activity for the next five year and they are as follows:

EC $'000	2002	2003	2004	2005	2006	2007
SALES OR GROSS REVENUE	46900	49508	49975	51494	52741	54155
LESS: COST OF GOODS SOLD OR	22591	24393	24031	23852	24178	24513
GROSS PROFIT	**24309**	**25115**	**25944**	**27642**	**28563**	**29642**
LESS:						
GENERAL AND ADMIN. EXP.	8862	9577.0	9817	10062	10314	10572
DEPRECIATION	6365	6989.0	5678	6066	6435	6826
BAB DEBTS	-1781	0	0	0	0	0
	0	0	0	0	0	0
TOTAL OPERATING EXPENSES	***13446***	***16566***	***15495***	***16128***	***16749***	***17398***
OPER. PROFIT (LOSS) BEFORE TAX /INTEREST	10863	8549	10449	11514	11814	12244
* OTHER INCOME	471	622	622	622	622	622
* OTHER EXPENSES	-4603	-4527	-3909	-3547	-2950	-2759
NET OTHER INCOME/(EXPENES)	-4132	-3905	-3287	-2925	-2328	-2137
EARNINGS BEFORE TAX	**6731**	**4644**	**7162**	**8589**	**9486**	**10107**
CURRENT TAX PAYABLE	0	0	-1540	-2503	-2811	-2896
INCOME TAXES	-1877	-1483	-609	-74	-34	-136
NET PROFIT (LOSS)	**4854**	**3161**	**5013**	**6012**	**6641**	**7075**
No OF SHARES	10,416	10,416	10,416	10,416	10,416	10,416
EPS	0.47	0.30	0.48	0.58	0.64	0.68
DIVIDENDS DECLARED	625	971	1,088	1,818	1,961	1,961
DPS	0.06	0.24	0.09	0.10	0.17	0.20
DIVIDEND PAYOUT RATIO	0.30	0.09	0.33	0.21	0.30	0.29

The projections submitted by Domlec indicates that growth in sales will continue at a moderate average of 2.5% a year or 15% over the next five years as compared to the average of 7% per annum or 40% for the period 1997 to 2002. However this is somewhat optimistic as the company services approximately 96% of the population and growth would result from increased usage per household. It is worth noting that the increasingly difficult economic climate coupled with Governments revocation of duty-free concessions granted to the company is expected to have some negative effect on demand and sales and a lower level of growth can be expected.

The conversion of the overdraft to a long-term loan is in keeping with the companys cost cutting approach. The cost of servicing this debt should result in lower finance charges and assist the company in achieving its financial goals.

Return on Equity is expected to fluctuate from 7.67% in 2003 to 13.4 in 2007 due to projected increases in direct cost while increase from 4.8% to 6.2% on Return on Assets is forecasted. The movements in ROE are cause for concern as this is likely to affect the tariff algorithm and may cause consumers to pay increased rates on their bills.

Historically the dividends per share has remained at 0.137. In 2003 shareholders were paid $0.06 per share and over the next five years is expected to increase up to $0.19 by 2007. The payout ratio indicates there will be some fluctuation over the projected period.

Latest discussions with the company indicate that revised budget projections being done at the time of the release of this Research Report suggests that growth will slow to zero for the projected period. This is reflective of the economic climate and the implementation of fiscal measures put in place by the government. In light of this an improvement to $0.19 in dividends per share and earnings per share to $0.68 also seem unlikely and should remain constant over this period.

RISK ISSUES AND ANALYSIS

Legislation - Deregulation

The threat of deregulation has not posed an immediate concern to the business of electricity generation in Dominica. Domlec however does take this issue seriously though it has the advantage over any challenger in this market due to the significant capital infrastructure that has been invested. Alternatively though, electricity generated from sources such as solar, thermal and wind may prove beneficial, less costly and environmentally friendlier for any competitor entering the market. The provisions in the Electricity Supply Act of the Commonwealth of Dominica allow the company certain financial cushions and any significant changes and exemptions stated in the Act will weaken Domlec's position and status as a monopoly.

Technological Change

Domlec's operations depend significantly on technology. It is crucial that the company position itself strategically in order to provide efficient services and employ cost-effective systems. Alternate sources of energy such as wind, solar and thermal present a risk and create an avenue for new entrants to compete with Domlec.

Economic

As Dominica faces the pressures of economic decline and the impact of stabilization measures on the population, financial constraints imposed on consumers will impact the Company's sales. The effects of September, 2001continue to retard economic progress of the country. This is reflected in the decline tourism receipts as a factor of GDP growth, from EC$125 in 2001 to EC$119 in 2002. The breakdown of favourable international trade regimes which guaranteed a market for local goods has further contributed to the decline of the main productive sectors in Dominica.

Natural Disasters

Dominica has experienced several natural disasters over the last 25 years particularly during the hurricane season. This poses a serious threat to the future operations of Domlec and similar businesses in the region. To mitigate this threat the company has modified it's standards distribution in order to implement its cables program to ensure greater resistance to storm damage. Similarly to facilitate fast recovery during natural disasters, conduits were recently installed with a view to implementing an underground electric line network to provide electricity to areas throughout Roseau.

Litigation

Based on discussions with management and disclosure statements filed there does not appear to be any litigation pending against the company.

Financial performance/Leverage

Particular attention should be placed in this risk area with the advent of recent scandals such as ENRON in the US. Earnings visibility and sustainability of growth are areas that must be continually addressed and monitored including the addition of non-recurring expenditures which may be an issue at any time in the future. Investors should note that Domlec's management has indicated that financing of any capital expenditure over the next five years will be financed from the companys earnings. It should be noted that the Debt-Equity value is 75/25 suggesting that improvements in this position will be as a result of increased earnings. However given current economic conditions this may pose some difficulty for the company when achieving future financing.

Tarrif

Domlec as a regulated utility company has historically implemented a tariff that guarantees the company a targeted after-tax return on equity. Though maintaining tariffs constant is desirable, it is sensitive to the effects of changes in fuel costs or any other input. In 2001 and 2002 there were significant increases in tariffs and consumers saw a dramatic increase in the price of electricity on their bills. Extensive public awareness campaigns were executed in order to educate consumers on the conservation of electricity to minimize the effects.

It is noteworthy that any significant increase in future tariffs' will be based on the Company's profitability and its achievement of this guaranteed 15% after tax equity return. The recent discontinuation of duty-free concessions on imported diesel may affect this tariff when the adjustment is made at the yearend. The major effect of this tax however is expected to be transferred to the consumer and will be reflected in monthly bills.

IMPORTANT CONSIDERATIONS

- As an addition to the Corporate Governance issue it should be noted that the Company by-laws have recently been amended to reflect a reduction in the number of directors from seven to five. This decision was taken at a special General meeting held in June 2003.

- The company installed a new General Manager in March of 2003 in the person of Murray Rogers. Mr. Rogers took over from Mr. Bob Watson who submitted his resignation in March 2003. Mr. Watson held the position for one year from 2002 to 2003.

- The government recently withdrew duty-free concession on the importation of diesel fuel to the company. According to Domlec this will result in an increased of 17.5% in electricity rates. The possibility exists for a public outcry over this issue in addition to a decrease in consumer demands.

- To date the Review Board to be appointed in accordance with the Act has not met for the purpose of the five year tariff rate review. The company has initiated talks to finalize a date to commence this process however the matter is still undecided.

- At the 2001 financial yearend the company reported a loss of $11million in earnings and subsequently dividends were not declared for this period. This loss was due to a large write-off of $16.5 million subsequent to the discontinuation of works on the Generation Plant at Tarou.

- Financial ratios obtained from two other electricity companies for 2000 to 2002 in the region suggest differences in operations. Domlec carries the highest level of debt to equity 70/30, 62/38 and 72/25. Grenlec appears to operate on equity for the most part with ratios of 33/67, 40/60 and 46/54 and Lucelec 48/52, 53/47 and 50/50. Lucelec pays its shareholders a larger return reflected in a DPS of $1.26, $1.15 and $0.95. However Grenlec has maintained a constant dividend per share over the period in comparison with the others. Similarly earnings per share has remained constant at Grenlec and declined in Lucelec from $1.80 to $1.39 and Domlec $0.40 to $0.47.

VALUATION AND INDICATION OF PRICE

Valuation of Shares

The valuation exercise was based on the historical information sourced from management of Domlec and the audited financial statements presented by PriceWaterHouseCoopers and the projected financial statements provided by Management. The last buy/sell transaction was reported at US$1 in January 2003 and historical information indicated that during the period transactions ranged from $3.50 to $1.00 per share in recent years.

Valuation is not a science and is subject to assumptions in the models. However the variety of models used should give an indication of the share value of the company.

Dividend Discount Model

This model of valuation is based on the value of future expected cash flows expected to be generated by the company discounted at an appropriate rate. In this model we use dividends which are equal to dividends declared by the company to measure the cash flow returned to the shareholders.
The calculation using this approach is fairly sensitive to the quality of data input. The weighted average cost of capital was determined and used to represent the cost of equity 9.70%. This value was also adjusted for inflation of 2%. The growth rate (g) of the company was determined using g=ROE * b, where b=average dividends payed out for the last 9 years, $0.14 per share and ROE is 16.6%.

The forecasted dividends per share for 2007 is expected to be $0.19 and this seems reasonable considering some growth in sales will occur due to a slight recovery expected in the economy. This value was discounted to the present at the stated rate and determined to be $0.12. Using the DDM model of valuation the price indicated was $2.32.

Based on this valuation method the total equity value was determined to be EC$24,166,048 and a value per share of $2.32.

Constant Dividend Growth Model:

This method of valuation is based on the valuation of the sum of future dividends discounted by an appropriate rate. The inputs for this model in determining the share price are the rate of growth of capital or dividends (k) and the growth rate of the company (g) where (g) is constant.

The average annual growth rate of dividends over a nine-year period was determined by calculating the average return that the company offered on its shares 8.65%.

The growth rate (g) was determined using the return on Equity of 16.6% and the average dividend payout ratio over the period of 14% and DPS(1), the next dividend is $0.932.

The result of this model is total equity valuation is EC$15,312,108 and share value of $1.47was determined.

Share Book Value

This method determines the share price based on shareholder's equity and the ordinary shares of the company outstanding.

The result indicated that the equity valuation is EC$29,165,920 and the share price is $2.80.

CONCLUSION

Being the only power company operating on the island, the viability and continuity of the company in the medium to long term seems likely. The steps being implemented to improve Customer Service and operational efficiency may result in the long-term sustainability and growth of the company. It is prudent to note that the company has instituted measures to improve its financial performance in the future. Though the status of the company in a regulated environment provides some prospect to facilitate growth, impending internal changes that may occur as CDC divests its shares will have some effects. Given the maturity of Domlec it is likely that provisions will be made to mitigate these changes.