

Dominica Electricity Services Limited

Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

March 9, 2006

Auditors' Report

To the Shareholders of Dominica Electricity Services Limited

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

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

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

Chartered Accountants

Dominica Electricity Services Limited

Balance Sheet

As at December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Assets		
Current assets		
Cash and cash equivalents (Note 5)	1,221,670	2,346,272
Trade and other receivables (Note 6)	11,975,880	11,378,397
Inventories (Note 7)	7,658,482	7,083,860
	<u>20,856,032</u>	20,808,529
Capital work in progress (Note 8)	95,009	710,199
Property, plant and equipment (Note 9)	82,652,051	75,251,613
	<u>103,603,092</u>	96,770,341
Liabilities		
Current liabilities		
Borrowings (Note 10)	4,655,794	6,168,978
Trade and other payables (Note 11)	7,576,006	3,366,726
Income tax payable	874,857	905,441
Due to related parties (Note 12)	–	1,903,050
	<u>13,106,657</u>	12,344,195
Borrowings (Note 10)	31,345,872	29,791,823
Deferred tax liability (Note 15)	14,685,710	14,623,501
Other liabilities (Note 13)	3,463,385	3,299,574
Capital grants (Note 16)	2,517,408	3,149,210
	<u>65,119,032</u>	63,208,303
Shareholders' equity		
Share capital (Note 17)	10,417,328	10,417,328
Retained earnings	28,066,732	23,144,710
	<u>38,484,060</u>	33,562,038
	<u>103,603,092</u>	96,770,341

Approved by the Board of Directors on March 9, 2006

Director

Director

Dominica Electricity Services Limited

Statement of Income

For the year ended December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Revenue		
Energy sales	46,457,948	44,837,450
Fuel surcharge	20,170,501	13,320,556
Other revenue	698,246	643,637
	<hr/> 67,326,695	<hr/> 58,801,643
Expenses		
Operating	11,668,719	11,157,963
Maintenance	4,465,026	3,324,465
Fuel cost (Note 23)	25,883,551	17,697,755
Depreciation	6,349,211	6,388,135
	<hr/> 48,366,507	<hr/> 38,568,318
Gross profit	<hr/> 18,960,188	<hr/> 20,233,325
Other operating expenses/(income)		
Administrative expenses	8,674,678	11,940,428
Other gains, net (Note 26)	(1,110,979)	(85,906)
	<hr/> 7,563,699	<hr/> 11,854,522
Operating profit	11,396,489	8,378,803
Finance costs (Note 20)	2,688,944	3,028,661
Profit before income tax	8,707,545	5,350,142
Income tax (Note 15)	(2,535,444)	(1,751,728)
Profit for the year	<hr/> 6,172,101	<hr/> 3,598,414
Earnings per share (Note 19)	<hr/> 0.59	<hr/> 0.35

Dominica Electricity Services Limited

Statement of Changes in Shareholders' Equity

For the year ended December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Share capital		
Ordinary shares, at beginning and end of year	<u>10,417,328</u>	10,417,328
Retained earnings		
At beginning of year	23,144,710	20,171,336
Profit for the year	6,172,101	3,598,414
Dividends paid (Note 14)	<u>(1,250,079)</u>	(625,040)
At end of year	<u>28,066,732</u>	23,144,710
Shareholders' equity, end of year	<u>38,484,060</u>	33,562,038

Dominica Electricity Services Limited

Statement of Cash Flows

For the year ended December 31, 2005

(expressed in Eastern Caribbean dollars)

	2005 \$	2004 \$
Cash flows from operating activities		
Profit before tax	8,707,545	5,350,142
Adjustments for:		
Depreciation (Note 9)	6,349,211	6,388,135
Gain on disposal of plant and equipment	(51,298)	(20,495)
Unrealised exchange (gains)/losses	(256,068)	398,375
Amortization of capital grants	(631,802)	(631,824)
Interest expense	2,688,943	3,028,661
	<u>16,806,531</u>	<u>14,512,994</u>
Operating profit before working capital changes		
(Increase)/decrease in trade and other receivables	(597,483)	684,631
Increase in inventories	(574,622)	(404,262)
Increase/(decrease) in trade and other payables	4,209,280	(2,616,012)
Decrease in due to related parties	(1,903,050)	(625,843)
	<u>17,940,656</u>	<u>11,551,508</u>
Cash generated from operations		
Income tax paid	(2,503,819)	(1,073,287)
Interest paid	(2,652,993)	(2,910,704)
	<u>12,783,844</u>	<u>7,567,517</u>
Net cash from operating activities		
Cash flows from investing activities		
Purchase of property, plant and equipment and capital works	(13,134,761)	(4,998,807)
Proceeds on disposal of plant and equipment	51,600	20,500
	<u>(13,083,161)</u>	<u>(4,978,307)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from borrowings	27,775,040	28,332,522
Repayment of borrowings	(26,619,151)	(26,713,429)
Dividends paid	(1,250,079)	(625,040)
Increase/(decrease) in other liabilities	163,811	(510,400)
	<u>69,621</u>	<u>483,653</u>
Net cash from financing activities		
Net (decrease)/increase in cash and cash equivalents	(229,696)	3,072,863
Cash and cash equivalents, beginning of year (Note5)	1,451,366	(1,621,497)
Cash and cash equivalents, end of year (Note 5)	1,221,670	1,451,366

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

1 General information

Dominica Electricity Services Limited (the Company) was incorporated as a public limited liability company in the Commonwealth of Dominica on April 30, 1975. The Company is regulated under the Electricity Supply Act, 1996 and is responsible for electricity generation, transmission and distribution in the Commonwealth of Dominica. The Company is listed on the Eastern Caribbean Securities Exchange and falls under the jurisdiction of the Eastern Caribbean Securities Regulatory Commission.

Dominica Private Power Ltd. (thereafter "DPP"), a company incorporated in the Turks and Caicos Islands owns 52% of the issued shares capital of the Company, the Dominica Social Security owns 21% and 27% is held by the general public.

The registered office and principal place of business of the Company is located at 18 Castle Street, Roseau, Commonwealth of Dominica.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

The financial statements of Dominica Electricity Services Limited have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdraft. The bank overdraft is shown within borrowings in current liabilities on the balance sheet.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at fair value, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. The amount of the provision is the difference between the asset's carrying amount and the future collectible amount. The amount of the provision is recognised in the income statement.

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Allowance is made for obsolete, slow-moving and damaged goods.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are put into use. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual lives over their estimated useful lives, as follows:

Buildings, headworks and pipelines	2.5 – 3 1/3%
Generator transmission and distribution	4 - 10%
Motor vehicles	14 – 20%
Furniture and fittings	12 1/2 - 33 1/3%

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Interest expense is recorded on an accrual basis over the period it becomes due. Borrowing cost are recognized as an expense in the period in which they are incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Deferred taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The principal temporary difference arises from depreciation on plant and equipment.

Capital work in progress

Capital work in progress is recorded at cost less impairment losses. The cost of completed work is transferred to property, plant and equipment upon completion.

Dominica Electricity Services Limited

Notes to Financial Statements

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(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Consumer contributions

In certain specified circumstances, consumers requiring line extensions are required to contribute the estimated capital cost of the extension. These contributions are offset against the actual cost incurred. Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed; shortfalls are recorded as increases in property, plant and equipment. The capital costs of consumer line extensions are excluded from property, plant and equipment.

Customer deposits

Given the long-term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date).

Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Capital grants

Capital grants represent the fair value of fixed assets donated to the Company. The amount is amortised over the estimated useful lives of the respective assets.

Share capital

Ordinary shares are classified as equity.

Dividends

Dividends on ordinary shares are recorded in the Company's financial statements in the same period that it is declared by the Board of Directors.

Revenue recognition

Revenues comprise the fair value for the sale of energy. Revenue is recognized as follows:

Sale of energy

Revenue from energy sales is based on meter readings which are carried out on a rotational basis throughout each month. A provision based on number of days unbilled accounts of the current month's billings, excluding the fuel surcharge is made to record unbilled energy sales at the end of each month. The provision for unbilled sales is included in accrued income.

In addition to the normal tariff rates charged for energy sales, a fuel surcharge is calculated which is based on the difference between the actual cost of fuel per unit used to generate energy sales in the current month and the statutory established base price of fuel per unit. The surcharge is recovered by applying the month's surcharge rate to units billed in the following month. The provision for unbilled fuel surcharge is included in accrued income.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

2 Summary of significant accounting policies...continued

Employee benefits

(a) Pension

The Company contributes to a defined contribution plan for all employees subscribing to the Plan. The assets of the Plan are held separately. The pension plan is funded by payments from participating employees and the Company. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee services in the current and prior periods. The Company contributes 3% of each of the individual employee's monthly salary while the employee contributes a minimum of 3% of his/her monthly salary.

The Company pays its contribution to a privately administered pension insurance plan on a contractual basis. The Company has no further payment obligation once the contribution has been paid. The contributions are recognised as employee benefit expenses when they are due.

(b) Termination benefits

Termination benefits are payable when employment is terminated prior to the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either; terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Foreign currency translation

Functional and presentation currency

Items in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Eastern Caribbean dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

3 Financial risk management

The Company's activities expose it to a variety of financial risk: foreign exchange risk, liquidity risk and interest rate risk and price risk.

Foreign exchange risk

The Company trades internationally. Such transactions are primarily in United States dollars. The exchange rate of the Eastern Caribbean dollar (EC\$) to the United States dollar (US\$) has been formally pegged at EC\$2.70 = US\$1.00 since July 1976.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Management does not believe significant liquidity risk exists at December 31, 2005.

Credit risk

Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of bank deposits, available-for-sale financial assets and trade receivables. The Company's bank deposits are placed with high credit quality financial institutions. Trade receivables are presented net of the provision for impairment of receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base and their dispersion across different economic sectors. Management performs periodic credit evaluations of its customers' financial condition and does not believe that significant credit risk exists at December 31, 2005.

Interest rate risk

Differences in contractual reprising or maturity dates and changes in interest rates may expose the Company to interest rate risk. The Company's exposure and interest rates on its financial assets and liabilities are disclosed in Notes 5, 10, 12 and 13.

Fair value estimation

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Management do not consider that there are estimates and assumptions that will have a significant risk, causing a material adjustment to the carrying amounts of assets and liability within the next financial year.

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

5 Cash and cash equivalents

	2005	2004
	\$	\$
Cash at bank and on hand	1,221,670	2,243,911
Short term deposits	–	102,361
	<u>1,221,670</u>	<u>2,346,272</u>

The short- term deposits earned interest at Nil (2004 – 2.0%) and had an average maturity period of 60 days.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following:

	2005	2004
	\$	\$
Cash at bank and on hand	1,221,670	2,346,272
Bank overdraft (Note 10)	–	(894,906)
	<u>1,221,670</u>	<u>1,451,366</u>

6 Trade and other receivables

	2005	2004
	\$	\$
Trade receivables	11,127,088	11,401,038
Provision for doubtful receivables	(3,763,442)	(3,430,027)
	<u>7,363,646</u>	<u>7,971,011</u>
Trade receivables, net	7,363,646	7,971,011
Accrued income	1,495,559	1,591,648
Other receivables	3,011,140	1,714,664
Prepayments	105,535	101,074
	<u>11,975,880</u>	<u>11,378,397</u>

Trade receivables include amounts due from related parties of Nil (2004- \$25,554).

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

7 Inventories

	2005	2004
	\$	\$
Generation spares	4,743,385	4,554,545
Network spares	2,696,818	2,223,241
Fuel	90,828	187,759
Stationery	130,084	118,820
Other	108,726	110,854
	<u>7,769,841</u>	<u>7,195,219</u>
Provision for obsolescence	(111,359)	(111,359)
	<u>7,658,482</u>	<u>7,083,860</u>

8 Capital work in progress

	2005	2004
	\$	\$
At beginning of year	710,199	467,684
Additions during the year	9,409,776	3,864,776
Transferred to property, plant and equipment	<u>(10,024,966)</u>	<u>(3,622,261)</u>
	<u>95,009</u>	<u>710,199</u>

Dominica Electricity Services Limited

Notes to Financial Statements

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(expressed in Eastern Caribbean dollars)

9 Property, plant and equipment

	Land and Buildings \$	Generation, Transmission and Distribution \$	Motor Vehicles \$	Furniture and Fittings \$	Total \$
As at January 1, 2004					
Cost or valuation	53,563,654	84,350,881	3,254,425	5,199,848	146,368,808
Accumulated depreciation	(18,976,139)	(44,428,129)	(2,296,554)	(3,784,525)	(69,485,347)
Net book amount	34,587,515	39,922,752	957,871	1,415,323	76,883,461
Year ended December 31, 2004					
Opening net book amount	34,587,515	39,922,752	957,871	1,415,323	76,883,461
Additions for the year	138,974	3,790,927	306,500	134,081	4,370,482
Transfer from capital work	–	385,810	–	–	385,810
Disposals	–	–	(5)	–	(5)
Depreciation charge for the year	(1,450,322)	(3,680,178)	(350,017)	(907,618)	(6,388,135)
Closing net book amount	33,276,167	44,789,793	914,349	641,786	75,251,613
As at January 1, 2005					
Cost or valuation	53,702,628	88,527,618	3,258,462	5,333,929	150,822,637
Accumulated depreciation	(20,426,461)	(48,108,307)	(2,344,113)	(4,692,143)	(75,571,024)
Net book amount	33,276,167	40,419,311	914,349	641,786	75,251,613
Year ended December 31, 2005					
Opening net book amount	33,276,167	40,419,311	914,349	641,786	75,251,613
Additions for the year	2,176,969	9,542,252	1,005,715	396,689	13,121,625
Transfer from capital work	–	628,326	–	–	628,326
Disposals	–	–	(302)	–	(302)
Depreciation charge for the year	(1,456,154)	(4,069,740)	(370,720)	(452,597)	(6,349,211)
Closing net book amount	33,996,982	46,520,149	1,549,042	585,878	82,652,051
As at December 31, 2005					
Cost or valuation	55,898,427	98,425,179	4,019,760	5,730,618	164,073,984
Accumulated depreciation	(21,901,445)	(51,905,030)	(2,470,718)	(5,144,740)	(81,421,933)
Net book amount	33,996,982	46,520,149	1,549,042	585,878	82,652,051

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9 Property, plant and equipment...continued

The Company carries insurance coverage on its main assets on a group basis with two neighbouring islands' electric utility companies. Transmission and distribution insurance cover is shared with one of the neighbouring islands electricity utility company. Combined liability is limited to \$150,000,000 for all property excluding transmission and distribution for each and every event and in aggregate for all three utilities. Liability on the external transmission and distribution system, which is included in property, plant and equipment at an historical cost of \$54,858,381 at December 31, 2005 (2004 - \$46,949,357), is limited to an annual aggregate of \$30,000,000 for the two utility companies. The Company also carries mechanical and electrical breakdown insurance coverage.

Depreciation expense have been charged to operating expenses \$5,898,027 (2004 - \$5,492,229), and administration expense \$288,355 (2004 - \$824,399).

10 Borrowings

	2005 \$	2004 \$
Current		
Bank overdraft (Note 5)	–	894,906
Bank borrowings	3,200,017	3,013,044
Other financial institution borrowings	1,342,856	2,261,028
Related party (Note 12)	112,921	–
	<u>4,655,794</u>	<u>6,168,978</u>
Non-current		
Bank borrowings	26,558,386	23,388,889
Other financial institution borrowings	2,206,431	3,821,879
Related party (Note 12)	2,581,055	2,581,055
	<u>31,345,872</u>	<u>29,791,823</u>
Total borrowings	<u>36,001,666</u>	<u>35,960,801</u>

Included in the current portion of bank borrowings is interest payable of \$337,607 (2004 - \$301,657).

Dominica Electricity Services Limited

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10 Borrowings...continued

The weighted average effective rates at the balance sheet date were as follows:

	2005 %	2004 %
Bank overdraft	6.25	8.00
Bank borrowings	6.38	8.91
Other financial institutions	6.56	6.02
Related parties	7.50	7.50

Maturity of non-current borrowings:

	2005 \$	2004 \$
Between 1 and 2 years	6,762,524	9,944,830
Between 2 and 5 years	6,007,631	11,055,707
Over 5 years	18,575,717	8,791,286
	<u>31,345,872</u>	<u>29,791,823</u>

The bank borrowings are secured by hypothecary obligations and mortgage debentures creating fixed charges over certain specific immovable properties of the Company, while the other financial institution borrowings are guaranteed by the Government of the Commonwealth of Dominica. The related party borrowings are unsecured.

During the year, the Company obtained bank financing totalling \$45,000,000 which was used to refinance certain existing obligations and for future capital works. At year end, \$17,224,960 of the facility granted was undrawn.

11 Trade and other payables

	2005 \$	2004 \$
Trade creditors	6,198,113	2,654,588
Accruals	1,075,185	648,948
Other	302,708	63,190
	<u>7,576,006</u>	<u>3,366,726</u>

Dominica Electricity Services Limited

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12 Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party by making financial or operational decisions.

	2005	2004
	\$	\$
Loan from related party		
Current portion	112,921	-
Long term portion	2,581,055	2,581,055
	<hr/>	<hr/>
	2,693,976	2,581,055
Due to related parties		
WRB	-	59,533
CDC Group Plc	-	1,843,517
	<hr/>	<hr/>
	-	1,903,050
	<hr/>	<hr/>

The loan from the related party is unsecured and convertible to common shares. The loan bears an effective interest rate of 7.50% (2004 – 7.5%) and has no specific repayment terms. All other balances with related parties are unsecured.

In 2003, the Company entered into a payment agreement with the CDC Group PLC to settle outstanding amounts owed to CDC Group PLC over a two year period, with the final payment made in November 2005. Interest was charged on the amount at an annual rate of 10% per annum.

Transactions with the related party during the year were as follows:

	2005	2004
	\$	\$
Management fees:		
WRB	271,690	158,496
Dominica Social Security	67,923	39,621
CDC Group PLC	-	148,696
Interest on borrowings	193,579	296,905
Consultancy, secondment, staff cost and travel expenses	13,949	211,645
Repayment of borrowings	-	190,309

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

13 Other liabilities

	2005 \$	2004 \$
Consumers' deposits	3,456,404	3,288,316
Retirement benefit plan	6,981	11,258
	<u>3,463,385</u>	<u>3,299,574</u>

Consumers' deposits

Consumers requesting energy connections are required to pay a deposit, which is refundable when service is no longer required. Interest accrues on these deposits at a rate of 3% per annum. Interest of \$68,066 (2004 - \$98,760) was charged against income.

14 Dividends paid

The Company paid a dividend of \$1,250,079 (2004- \$625,040) to ordinary shareholders in respect of the year ended December 31, 2004. These dividend payments are accounted for in shareholders' equity as an appropriation of retained earnings in the year ended December 31, 2005.

15 Taxation

	2005 \$	2004 \$
Taxation		
Current	2,473,235	1,957,409
Deferred charge	62,209	(205,681)
	<u>2,535,444</u>	<u>1,751,728</u>

Tax on the Company's net income before tax differs from the theoretical amount that would arise using the statutory tax rate of 30% as follows:

	2005 \$	2004 \$
Profit before income tax	8,707,545	5,350,141
Tax calculated at the rate of 30% (2004 – 30%)	2,612,265	1,605,042
Income not subject to taxation	(189,541)	(189,547)
Expenses not deductible for tax purposes	112,720	336,233
Tax charge	<u>2,535,444</u>	<u>1,751,728</u>

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

15 Taxationcontinued

	2005 \$	2004 \$
Deferred tax liability		
At beginning of year	14,623,501	14,829,182
Income statement charge/(recovered)	<u>62,209</u>	<u>(205,681)</u>
At end of year	<u>14,685,710</u>	<u>14,623,501</u>

16 Capital grants

	2005 \$	2004 \$
At beginning of year	3,149,210	3,781,034
Amortization	<u>(631,802)</u>	<u>(631,824)</u>
At end of year	<u>2,517,408</u>	<u>3,149,210</u>

17 Share capital

	2005 \$	2004 \$
Authorised:		
Ordinary shares at no par value	<u>15,000,000</u>	<u>15,000,000</u>
Issued and fully paid:		
10,417,328 (2004 – 10,417,328)	<u>10,417,328</u>	<u>10,417,328</u>

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

18 Expenses by nature

	2005	2004
	\$	\$
Employee benefit expenses (Note 25)	11,870,636	12,036,229
Travel expenses	586,720	562,885
Communication	844,070	736,580
Office expenses	1,010,805	711,519
Public relations	625,878	535,750
Legal and professional	910,550	1,168,495
Equipment/line repair/maintenance	4,309,224	4,086,117
Insurance	2,821,832	2,930,922
Bank and credit card charges	265,239	222,121
Security	296,942	262,480
Bad expense	322,534	2,562,222
Other expenses	943,913	607,534
	<hr/>	<hr/>
Total maintenance, operating and administrative expenses	24,808,423	26,422,854

19 Earnings per share

	2005	2004
	\$	\$
Net income for the year	<hr/> 6,172,101	3,598,414
Weighted average number of ordinary shares issued	<hr/> 10,417,328	<hr/> 10,417,328
Basic and fully diluted earnings per share	<hr/> 0.59	<hr/> 0.35

Earnings per share have been computed by dividing net income by the average number of issued ordinary shares.

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

20 Finance costs

Finance charges comprise of the following:

	2005	2004
	\$	\$
Loan Interest charges	2,594,653	2,775,314
Other interest charges	69,339	140,928
Overdraft charges	24,952	112,419
	<u>2,688,944</u>	<u>3,028,661</u>

21 Dividends per share

	2005	2004
	\$	\$
Dividend declared and paid	<u>1,250,079</u>	624,040
Weighted average number of ordinary shares issued	<u>10,417,328</u>	10,417,328
Dividends per share	<u>0.12</u>	0.06

Dividends per share is computed by dividing the dividend declared and paid by the total number of outstanding shares.

22 Foreign exchange gain

	2005	2004
	\$	\$
Realized exchange (gains) and losses	(171,811)	23,338
Unrealized exchange (gains) and losses	(256,068)	543,077
	<u>(427,879)</u>	<u>566,413</u>

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

23 Fuel cost

	2005	2004
	\$	\$
Fuel cost at base price	5,685,055	4,473,252
Fuel surcharge	20,198,496	13,224,503
	<hr/>	<hr/>
Total fuel cost	25,883,551	17,697,755
Fuel surcharge recovery	(20,170,501)	(13,320,556)
	<hr/>	<hr/>
Net fuel cost	5,713,050	4,377,199

24 Commitments

The Company has committed to purchase products and services in the amount of \$2,316,860 (2004 - \$2,672,036) from a number of companies during 2006.

25 Employee benefit expense

	2005	2004
	\$	\$
Salaries and wages	9,381,132	9,350,871
Other staff cost	2,489,504	2,685,358
	<hr/>	<hr/>
	11,870,636	12,036,229

26 Other gains, net

	2005	2004
	\$	\$
Amortization of capital grants (Note 16)	(631,802)	(631,824)
Gains on disposal of plant and equipment	(51,298)	(20,495)
Foreign exchange (gains)/losses (Note 22)	(427,879)	566,413
	<hr/>	<hr/>
	(1,110,979)	(85,906)

Dominica Electricity Services Limited

Notes to Financial Statements

December 31, 2005

(expressed in Eastern Caribbean dollars)

27 Contingencies

The Company has contingent liabilities arising from bank guarantees and other matters arising during the ordinary course of business. It is not anticipated that any material liabilities will arise from these contingent liabilities.

Guarantees

The company has provided a guarantee to the bank in respect of car loans to employees. At December 31, 2005 the outstanding balance of these loans was \$46,786 (2004 - \$109,219).

Legal

At year end there were three claims outstanding against the Company. The quantum of the damages is not expected to exceed \$300,000 which the Company expects to recover from its insurers. In the period in which the claims are settled, any shortfall will be recorded as an expense by the Company.

