

DOMINICA ELECTRICITY SERVICES LIMITED



FORM ECSRC-Q

QUARTERLY REPORT

For the Period Ended June 30th, 2014

FORM ECSRC - Q

QUARTERLY REPORT
For the period ended June 30th 2014

Issuer Registration Number: DOMLEC30041975DM

DOMINICA ELECTRICITY SERVICES LIMITED

(Exact name of reporting issuer as specified in its charter)

DOMINICA

(Territory or jurisdiction of incorporation)

P.O. BOX 1593, 18 CASTLE STREET, ROSEAU, DOMINICA

(Address of principal executive Offices)

(Reporting issuer's:

Telephone number (including area code): (767) 255 6000

Fax number: (767) 448 5397

Email address: domlec@domlec.dm

1. Financial Statements

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED BALANCE SHEET
AS AT JUNE 30, 2014
(expressed in Eastern Caribbean Dollars)

	June 2014 \$	June 2013 \$	December 2013 \$
Assets			
Current assets			
Cash and cash equivalents	9,388,302	3,222,495	6,579,947
Receivables and prepayments	18,371,661	15,360,459	16,583,503
Inventories	10,126,726	14,236,415	10,813,881
	<u>37,886,689</u>	<u>32,819,368</u>	<u>33,977,331</u>
Capital work in progress	3,564,463	4,458,208	448,645
Property, plant and equipment	123,050,487	115,827,247	126,542,073
	<u>164,501,640</u>	<u>153,104,824</u>	<u>160,968,049</u>
Liabilities			
Current liabilities			
Borrowings	4,671,389	4,397,373	4,539,667
Accounts payable and accruals	14,471,628	8,517,018	12,170,968
Due to related party	0	0	0
Income tax Payable	(11038)	536,751	940,604
	<u>19,131,980</u>	<u>13,451,143</u>	<u>17,651,239</u>
Borrowings	34,113,719	38,798,663	36,485,708
Deferred tax liability	20,024,311	17,748,998	19,214,446
Other liabilities	12,438,444	11,867,374	12,075,657
Capital grants	454,802	588,605	521,702
	<u>86,163,256</u>	<u>82,454,783</u>	<u>85,948,752</u>
Shareholders' Equity			
Share capital	10,417,328	10,417,328	10,417,328
Retained earnings	67,921,056	60,232,713	64,601,969
	<u>78,338,384</u>	<u>70,650,041</u>	<u>75,019,297</u>
	<u>164,501,640</u>	<u>153,104,824</u>	<u>160,968,049</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF INCOME
FOR THE QUARTER ENDED JUNE 30, 2014
(expressed in Eastern Caribbean Dollars)

	June 2014 \$	June 2013 \$	December 2013 \$
Revenue			
Energy sales	15,619,149	15,330,725	60,830,368
Fuel surcharge	10,086,568	9,623,292	37,473,942
Other revenue	691,878	129,089	619,966
	<u>26,397,596</u>	<u>25,083,105</u>	<u>98,924,276</u>
Direct expenses			
Operating	3,814,917	3,977,292	15,135,189
Maintenance	1,620,271	1,468,615	7,901,348
Depreciation	2,267,651	2,806,163	8,388,831
Fuel	11,786,552	10,867,678	43,436,628
	<u>19,489,391</u>	<u>19,119,746</u>	<u>74,861,996</u>
Gross profit	6,908,205	5,963,359	24,062,280
Administrative expenses	<u>1,779,684</u>	<u>2,077,976</u>	<u>9,150,725</u>
Net operating income	<u>5,128,521</u>	<u>3,885,383</u>	<u>14,911,555</u>
Other expenses/(income)			
Amortization of capital grants	(136,038)	(125,095)	(577,453)
Foreign exchange losses/(gains)	(790)	(3,752)	(29,548)
Loss/(Gain) on disposal of plant and equipment	0	(37,498)	213,884
	<u>(136,829)</u>	<u>(166,345)</u>	<u>(393,117)</u>
Net income before finance	5,265,350	4,051,728	15,304,672
Finance charges	<u>(601,290)</u>	<u>(644,321)</u>	<u>(2,601,741)</u>
Net income before tax	4,664,059	3,407,407	12,702,931
Income tax	<u>(1,396,133)</u>	<u>(899,172)</u>	<u>(3,860,564)</u>
Net income/(loss) for the period	<u>3,267,926</u>	<u>2,508,235</u>	<u>8,842,367</u>
Earnings/(loss) per share	<u>0.31</u>	<u>0.24</u>	<u>0.85</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE QUARTER ENDED JUNE 30, 2014
(expressed in Eastern Caribbean Dollars)

	June 2014 \$	June 2013 \$	December 2013 \$
Share capital			
Ordinary shares, beginning and end of period	<u>10,417,328</u>	<u>10,417,328</u>	<u>10,417,328</u>
Retained earnings			
At beginning of period	65,694,865	58,225,474	57,843,068
Net income/(loss) for the year	3,267,926	2,508,235	8,842,367
Ordinary dividends (declared)	<u>(1,041,733)</u>	<u>(500,993)</u>	<u>(2,083,466)</u>
At end of period	<u>67,921,057</u>	<u>60,232,713</u>	<u>64,601,968</u>
Shareholders' equity, end of period	<u>78,338,384</u>	<u>70,650,041</u>	<u>75,019,296</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CASH FLOW
FOR THE QUARTER ENDED JUNE 30, 2014
(expressed in Eastern Caribbean Dollars)

	June 2014 \$	June 2013 \$	December 2013 \$
Cash flows from operating activities			
Net income/(loss) before tax	4,664,059	3,407,407	12,702,931
Adjustments for:			
Depreciation	2,267,651	2,806,163	8,388,831
Loss/(Gain) on disposal of property, plant and equipment	0	(37,498)	213,884
Foreign exchange (gains)/Loss	0	0	0
Provision for inventory obsolescence			(239,384)
Amortization of deferred revenue	(102,585)		(443,648)
Amortization of capital grants	(33,450)	(33,451)	(133,805)
Interest expense	601,290	644,321	2,601,741
Operating profit before working capital changes	7,396,966	6,786,941	23,090,550
Decrease (Increase) in receivables and prepayments	(1,541,383)	3,945,853	2,643,690
Decrease/(increase) in inventories	129,672	(86,125)	1,507,014
Increase/(decrease) in accounts payable and accruals	2,559,694	(3,210,067)	(1,397,081)
Increase/(decrease) in due to related party	0	0	(90,120)
Cash generated from operations	8,544,949	7,436,603	25,754,053
Interest paid	(601,290)	(644,321)	(2,601,741)
Income tax paid	(662,453)	(428,335)	(1,892,291)
Net cash from operating activities	7,281,206	6,363,947	21,260,020
Cash flows from investing activities			
Purchase of property, plant and equipment	(2,410,965)	(1,832,551)	(10,295,923)
Proceeds on disposal of property, plant and equipment	0	37,500	40,500
Net cash used in investing activities	(2,410,965)	(1,795,051)	(10,255,423)
Cash flows from financing activities			
Proceeds from borrowings	0	0	0
Repayment of borrowings	(1,122,025)	(1,421,169)	(5,372,465)
Dividends paid	(1,041,733)	(500,993)	(2,083,466)
Increase in other liabilities	253,902	327,219	1,082,509
Net cash generated from/(used in) financing activities	(1,909,856)	(1,594,943)	(6,373,422)
Net increase/(decrease) in cash and cash equivalents	2,960,384	2,973,953	4,631,175
Cash and cash equivalents, beginning of period	6,427,917	248,541	1,948,772
Net cash and cash equivalents, end of period	9,388,303	3,222,495	6,579,947

2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

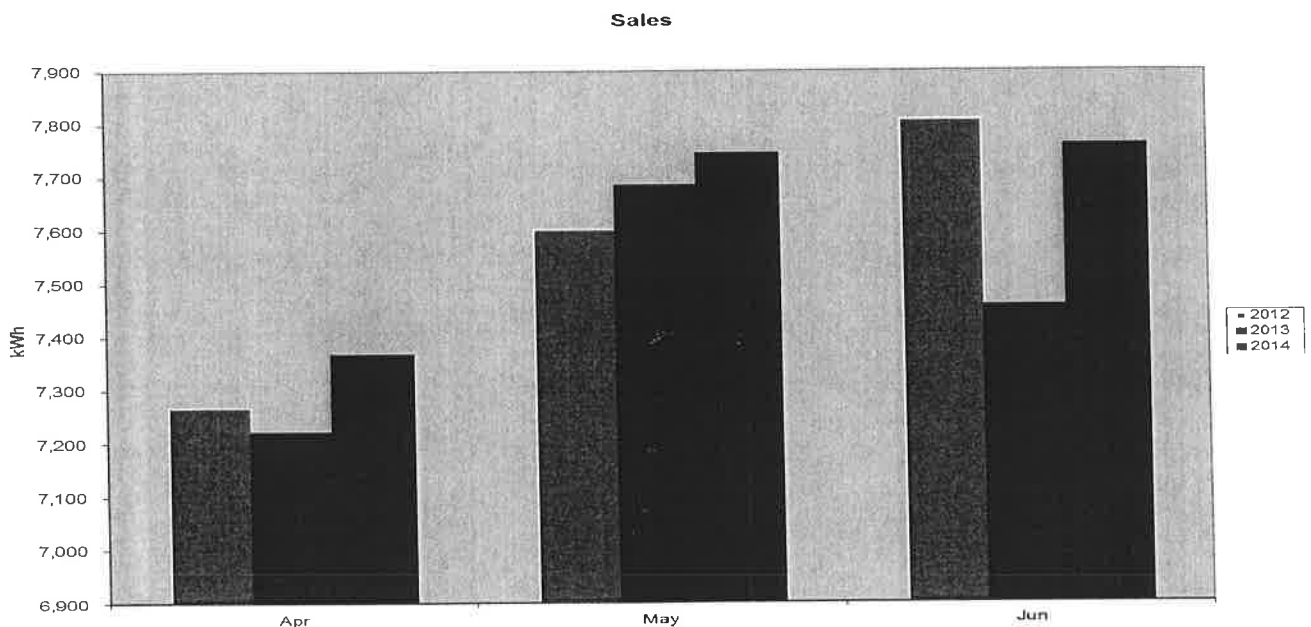
Net profit before taxes for the second quarter ending June 30th, 2014 was EC\$4.66 million, an increase of EC\$1.26 million or 36.9%, over the comparable period of 2013 where profit stood at EC\$3.41 million.

Total revenue for the quarter was EC\$26.40 million. This was EC\$1.31 million or 5.2% higher than the similar period in 2013. Revenue from electricity sales was higher by EC\$0.29 million or 1.9% and totalled EC\$15.62 million compared to EC\$15.33 million for the comparable period in 2013.

Revenue from fuel surcharge also increased by 4.8% moving from EC\$9.62 million the previous year to EC\$10.1 million. This quarter there was a steady increase in the fuel surcharge rate from 43.95 cents per kWh in April to 48.09 cents per kWh in June due to an increase in fuel prices and diesel consumption. . In the same period of 2013, the rate moved from a high of 42.02 cents to a low of 33.62 cents per kWh.

In addition, miscellaneous revenue recorded an increase of EC\$0.56 million due to the receipt of 50% of the proceeds from the insurance company as settlement of a claim filed following the breakdown of one of the major diesel generating units.

Unit sales of electricity totalled 22.9 GWh, exceeding last year's result by 2.3%. When compared to the second quarter of 2013, sales increased within all the sectors, with the exception of the Commercial sector. The smaller Industrial sector which accounted for only 9.9% of total sales reported double digit growth, the most significant of 13.9% followed by the Domestic sector accounting for 45.4% of total sales recorded sales growth of 2.1%. The Commercial sector on the other hand recorded a decrease in demand of only 0.28%.



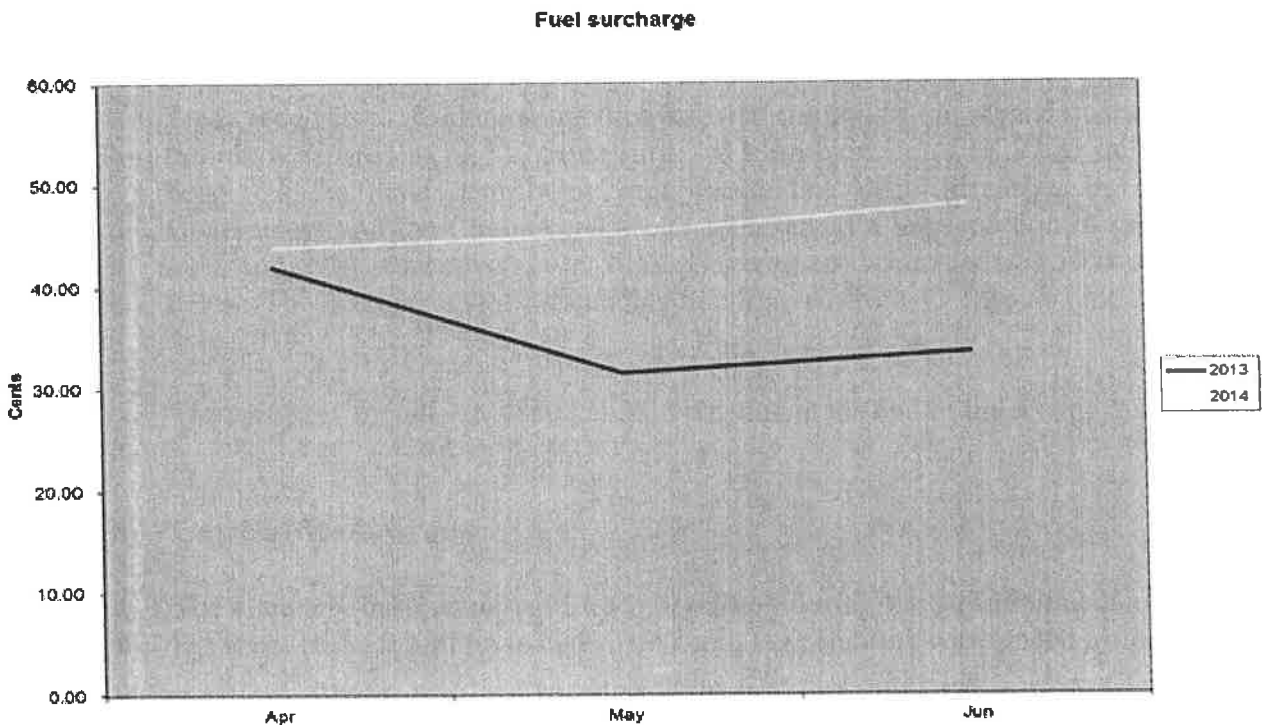
Fuel costs for the quarter totalled EC\$11.79 million, an increase of EC\$0.92 million (8.5%) from the comparable period of 2013. The average price paid per imperial gallon of diesel moved from EC\$11.50 in the second quarter of 2013 to EC\$11.64 this quarter. Similarly, fuel consumption increased by 221,050 imperial gallons. This increase in diesel used for the generation of electricity was mainly attributed to lower level of rainfall during this quarter.

Total energy generated for the second quarter was 25.78 GWh, an increase of 0.57 GWh or 2.3% from the comparable period last year.

Diesel generation continues to be the primary means of electricity generation, thus accounting for 73.0% of total energy generated compared to 57.3% in 2013. Due to lower rainfall this quarter relative to 2013, there has been an increase in diesel generation. As a result, diesel consumption increased by 26.5% to 1.05 million imperial gallons.

Total hydro production declined by 35.17% to 6.97 GWh this quarter compared to 10.75 GWh in 2013. Hydro generation represented 27.0% of total energy generated, moving 42.7% of total production a year ago.

System losses (Moving Annual Total) stood at 8.5% compared to 7.9% in 2013.



Direct expenses for this quarter totalled EC\$19.49 million; an increase of EC\$0.37 million or 1.9%. This increase was primarily due to an increase in fuel cost and maintenance expenses of EC\$0.91 million (8%) and EC\$0.15 million (10%) respectively. The rise in fuel cost was mainly attributed to an increase in diesel production together with a further increase of 2.8% in the average price of fuel. On the other hand,

there was a decrease of 19% (EC\$0.54 million) in depreciation expense and 4% (EC\$0.162 million) in operating expenses. The new depreciation rates recommended from the depreciation rate study were applied resulting in lower depreciation expense when compared to 2013. Direct expenses net of fuel cost declined by 7% to EC\$7.70 million from EC\$8.25 million.

Earning per share for the quarter stood at 31 EC cents, compared to 24 EC cents a year ago.

DOMLEC IN THE SECOND QUARTER OF 2014

Operating Highlights	2014	2013
Hydro generation (1,000 kWh)	6,968	10,750
Diesel generation (1,000 kWh)	18,807	14,454
Units sold (1,000 kWh)	22,871	22,365
Fuel efficiency(kWh per IG)	17.81	17.34
System losses (MAT)	8.5%	7.9%

(a) **Liquidity**

Trade receivables (excluding unbilled sales) at the end of the second quarter were EC\$12.83 million compared to EC\$10.58 at June 2013; an increase of EC\$2.25 million. Government debt was the main contributor with outstanding debt increasing by EC\$2.73 million. Government and the Commercial sector represented a large portion of gross receivables at 40% and 29% respectively. In 2013, Government accounted for 10% of the outstanding debts. The average age of outstanding debt moved from 43 days at June 2013 to 53 days at June 2014.

The company remains in a stable liquid position at the end of the second quarter of 2014.

(b) **Capital Resources**

The company has committed EC\$5.30 million during the period to acquire fixed assets and has spent EC\$4.3 million to date. This capital expenditure was funded from internal funds.

(c) **Financial Outlook**

The company has revised its outlook for 2014 and now expects average sales growth of 0.44% for the rest of the year given the economic conditions at this time. Further, the company continues to closely monitor fuel prices, as rising prices could further stifle demand for electricity.

The company is also monitoring and have revised its discretionary spending areas which will help manage the effect of the flat sales growth. Consequently, with prudent management of resources we expect continued profitability throughout each of the next two quarters. Even so, the company anticipates an EPS of .at least EC 73 cents for this financial year.

3. DISCLOSURE OF RISK FACTORS

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 June 30th 2014.

The most significant risks to which the company is exposed are firstly the possibility of losing a significant share of its generation production to power produced by geothermal energy within approximately five years, secondly the lack of insurance for the transmission and distribution assets, and thirdly the continuing uncertainty of the outcome of the tariff review

Competition from Geothermal Production

Exploratory drilling for geothermal energy was successfully completed in the Wotten Waven area of Dominica. It is envisaged that a geothermal power plant will be built to supply electricity to Dominica and possibly to Martinique and Guadeloupe via submarine cables. DOMLEC could potentially lose a major portion of its generation production to this project. To mitigate this DOMLEC is pursuing options to become involved in the production of electricity from geothermal energy. The company remains open also to exploring partnerships with other stakeholders in the geothermal market in an effort to ensure that DOMLEC and its customers benefit from the project.

Operating Environment

The T&D assets remain uninsured. The company continues to explore options for self insurance of its T & D assets against hurricane and other damage caused by natural disasters. The company has proposed a self insurance scheme to the government which enables it to set up a fund from which capital would be readily available for financing restoration after a catastrophic event. The details of the self insurance scheme have been finalised with the government. However parliament has not yet enacted into law the regulation that will enable the company to set up the self insurance as a tax free entity. Meanwhile a standby facility was arranged with a financial institution to cover any catastrophic events on the Transmission and Distribution assets.

Regulatory Environment and Impending Tariff Filing

The significant risk still remains that for the tariff filing due in mid 2015 the rate of return the company will be allowed when filing is unknown and will be at the discretion of the Independent Regulatory Commission.

4. LEGAL PROCEEDINGS.

None

5. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None

6. DEFAULTS UPON SENIOR SECURITIES.

There have been no defaults on the payment of securities during the period under review.

7. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

MAY 15TH 2014

40TH ANNUAL GENERAL MEETING OF SHAREHOLDERS

- Mr. Roger Blackman was elected as director, unopposed, to fill the vacancy created by the resignation of Mr. Robert Blanchard Jnr. and serves the remainder of his term of two years.

Messieurs Grayson Stedman and Adler Hamlet were elected on a poll to serves as directors for a term of three years.

- Ernst and Young were re-appointed as auditors for the year ending December 31st 2014 on a majority vote by a show of hands.
- Directors' fees were revised in accordance with the following table:

Director Fee	Chairman Fee	Committee Fee
EC\$ per Annum	EC\$ per Annum	EC\$ per Meeting
\$11,000	\$18,500	\$400

CLASS	NUMBER
Common	10,417,328

SIGNATURES

Name of General Manager (Ag):

Name of Director:

Bertilia Mckenzie

Grayson Stedman

Bertilia Mckenzie

Signature

Grayson Stedman

Signature

July 29, 2014

Date

Date

July 29th 2014