the power to serve you better

domlec . annual report 2005

Dominica Electricity Services Ltd

DOMLEC

Auditors

PriceWaterhouseCoopers

Solicitors

Defreitas Defreitas and Baron

Bankers

National Bank of Dominica

Registered office

18 Castle Street, Roseau

Mailing address

P.O. Box 1593, Roseau
Commonwealth of Dominica
West Indies

T. 767.255.6000 or 767.448.2681
F. 767.448.5397

Email: domlec@domleconline.com

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Contents

"We are pleased to report a substantial improvement in the financial results returned by the company."

Chairman's Report
to the Shareholders

Robert Blanchard Jr.
Chairman

At the close of the first full year under WRB/DSS management we are pleased to report a substantial improvement in the financial results returned by the company. Profit after tax grew by 72%, to $6.2 million, helped by a modest 2% increase in the sales of electricity and secured by significant reductions in non-fuel operating costs. We have declared a dividend of 7.5 cents per share payable by May 11th 2006 to shareholders on record as at April 11th 2006 and we are committed to making further prudent dividend payments as profitability continues to improve.

That result was obtained without increasing the basic rates charged for electricity. Your Board took the decision to forgo the 2.4 cents/kWh rate increase which the company was entitled to apply from February 2005. This has meant a revenue loss of about $1.7 million over the year. Nevertheless it was the Board's desire to mitigate the impact on consumers of the electricity price increas

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increases being a last resort.

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on top of the 31% rise recorded in 2004. Fuel accounted for fully 53% of our total cost of production in 2005, and the high average price of $8.10 /IG is expected to persist through 2006. We do have some control over the efficiency with which we convert fuel into electricity. That efficiency is measured by the number of kilowatt-hours generated from a gallon of fuel and is constantly monitored during the course of our operations. The efficiency during 2005 was 17.39 kWh per gallon which is fractionally below the legislated target of 17.5 kWh but is consistent with the performance of new plant of the type used by DOMLEC.

Another obvious consideration is whether cheaper forms of fuel are available for use in DOMLEC's diesel engines. Most of our existing equipment at Fond Colé and Sugar Loaf cannot be economically converted to use heavy fuel oil. Moreover, consultants advised in 2001 that heavy fuel would not deliver a net cost advantage at the proposed Tarou Cliffs power plant, since DOMLEC's small size of production would not allow the economies of scale necessary to make that type of fuel work in our favour. However heavy fuel and other options, including natural gas if that should become available in Dominica will be examined afresh as we explore every possibility for cheaper production of electricity going forward.

Given that fuel based generation, whether light or heavy oil, will remain dominant in the production mix for the foreseeable future we have offered to partner with Government towards extracting any cost benefit that may be inherent in the PetroCaribe initiative of the government of Venezuela, the objectives being to:

- Ensure reliable and secure fuel supplies.
- Realize cost savings which will be passed through to our customers. The existence or quantum of any such savings will be determined by the arrangements made between the governments of Venezuela and Dominica, and by the terms on which the latter will sell the fuel to DOMLEC.
- Establish sufficient storage dedicated to electricity production, to allow flexible purchasing of fuel from the most economical sources.

DOMLEC did produce 33% of its 2005 output by hydro, which does not require expensive fuel. Our own experience, and that of neighbouring St.Vincent, does caution that the capital costs of hydro development must be supplemented by diesel investment to ensure reliable electricity during dry season, and that the overall impact of large scale hydro development on a small sales base such as DOMLEC's could produce the unwanted result of higher rates. We will therefore approach the idea of additional hydro carefully, by investing in a streamguaging network to measure river flows and other hydrological data useful for making an informed decision on this option. In the interim we will actively pursue the possibilities for improving the efficiency and output of the existing plants at Padu and Trafalgar.

The question of duplicate capacity investment assumes even greater importance in relation to wind generation. Every wind turbine must be fully backed up by an equal amount of diesel capacity to cover those periods when there is simply not enough wind to drive the turbine. Nevertheless, current and future levels of fuel price may make selected wind developments economically feasible when compared with the avoided cost of diesel operations. We have therefore adopted a goal to have 3MW of wind capacity generating for the grid by 2008. Government has been asked to assist with the necessary access and eventual allocation of the best sites.

The reliability of our distribution plant was notably better this year, an obvious benefit of the recently increased investments in maintaining and upgrading the lines themselves and virtual renewal of the vehicle fleet used for operating them. Generating plant performance was however marked by a number of breakdowns and by extended repair times, highlighting the obsolescence of some of our equipment and the urgency of our need to replace them in the interests of reducing operational costs and improving the reliability of our service. Three megawatts of high speed diesel generating capacity was installed in 2005 and another 3 MW will be brought into service during 2006 to keep our generating reserve margins above the legislated minimum and within prudent limits.

The key to reliability beyond 2006 lies in our ability to quickly build a new medium speed diesel generating station which should be ready to inject power into the grid by early 2008. Our search for a site in the North, suitable to DOMLEC's needs but compatible with the "Nature Island" image of Dominica, has been narrowed down to two possibilities. Government has again been asked to assist with the final selection and acquisition of the site.

Further evidence of the insufficiency of investments made over past years came in the form of a consultant's report which identified that most of the losses of electricity produced occur in our aging transmission and distribution systems. At year end the losses stood at 17.1%, well above the optimum level for a utility of our size. The report implies that wholesale rebuilding of distribution lines at a cost up to $24.6 million over time may be required to correct losses. We must commit to making this investment in measured steps, as an essential part of our undertaking to bring the electricity sector up to a level of efficiency that will enhance economic growth in Dominica.

These emerging details of sector development needs bring into clearer focus the shape of a balanced regulatory framework that will encourage their early achievement. Discussion of government's proposal to revise the Electricity Supply Act 1996 (ESA) were suspended before the May 2005 general elections but are expected to resume early in 2006. The objectives of our representation will continue to be, on the one hand, clear definition of DOMLEC's obligations for reliability and service quality and, on the other, clear mechanisms for realizing reasonable shareholder returns once consumer needs have been efficiently satisfied. In the context of the large investments needed in the near future it is important that any ESA changes should support DOMLEC's attractiveness as a borrower in the financial marketplace at interest rates that will not put further upward pressure on tariffs.

It is important to make the point that high fuel rates do not benefit DOMLEC. We have seen the effects of high fuel surcharge reflected in depressed sales to the hotel and industrial consumer categories during 2005 despite growth in the tourism sector. Moreover trade debtor management was a continuing challenge, with government debts at $4.3 million remaining a point of special concern. The expected imposition of VAT on electricity consumption may further exacerbate these trends. The company's interest, and the constant preoccupation of management, must be to save costs and control rates as an incentive to consumption growth which will in turn lead to better economies of scale.

The company has continued a high level of investment in sharpening its employees' skills and motivations for these challenges. At year end discussions with the National Workers Union on a new collective agreement for bargaining unit staff were well under way and proceeding cordially. We will continue our policies of offering competitive salaries to the best qualified people, and to link an increasing proportion of employee remuneration to the achievement of high personal and corporate performance targets. There is every indication that our employees will continue to earn our appreciation of their efforts.

Given the critical nature and volume of engineering work on the company's agenda, we have re-organised our engineering staff under the leadership of Chief Engineer, Mr. Rawlins Bruney and have moved to centralize their location under one roof to improve coordination of their efforts. Where necessary, additional expertise will be brought in to assault the crucial issues of loss reduction and plant expansion.

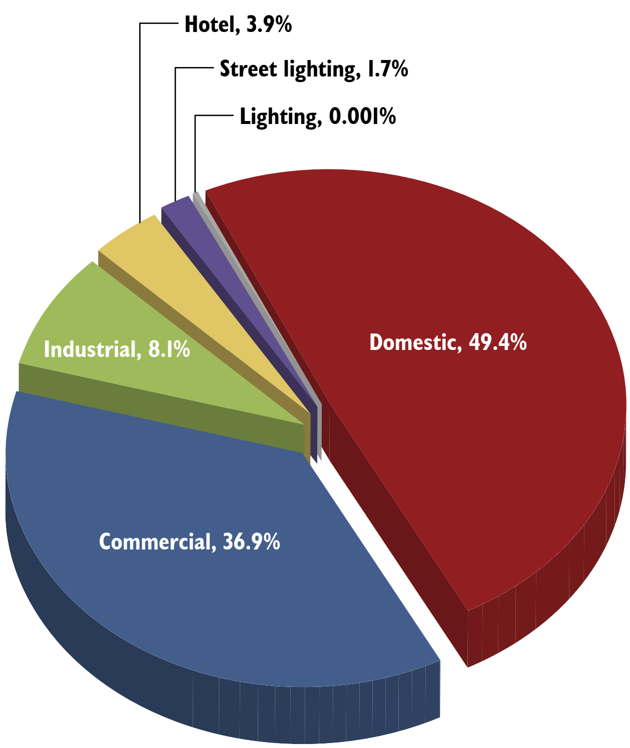
Economic growth of about 3% is expected from the Dominican economy in 2006, following upon similar growth achieved in 2005. Much of this is public sector led but private sector activity is also evident. Both groups will expect DOMLEC to respond to their increasing needs in a timely manner, requiring that all the major issues mentioned above are expeditiously managed to good results. The WRB/DSS collaboration in guiding DOMLEC continued to work in the company's favour through 2005. Indeed all of the directors have contributed in full measure to the achievements of the year and I thank them for their continuing support.

Robert Blanchard Jr.
Chairman

Directors' Report

Financial results

For the year under review, net income after tax increased to $6.2 million from $3.6 million in 2004. Electricity sales for the year were 67.8 GWh, an increase of 2% from 2004. This generated total revenue of $67.3 million. Total expenses amounted to $59.7 million and other gains were $1.1 million. As a result income before taxes was $8.7 million.



Energy sold in 2005

In 2005, the company re-negotiated its local commercial loan portfolio to consolidate its debt and increase funding at an interest rate significantly lower than previous years.

Dividends

The Board of Directors has approved a dividend of 7.5 cents per share to be paid to shareholders.

Directors

The Annual General Meeting of the company was held on the 10th day of May 2005. Mr. Joseph Nassief, Director, tendered his resignation from the company on April 29th 2005 effective at the close of the annual general meeting. Mr. Nassief had been a dedicated member of the Board for three years. Mr. Grayson Stedman's triennial term on the Board had also expired as at the date of the meeting. As a consequence of the foregoing there were two vacant positions on the Board to be filled.

At the meeting, Mr. Norman Rolle and Mr. Grayson Stedman were duly elected unopposed to serve as directors on the Board for a period of three years.

By Order of the Board

Ellise Darwton

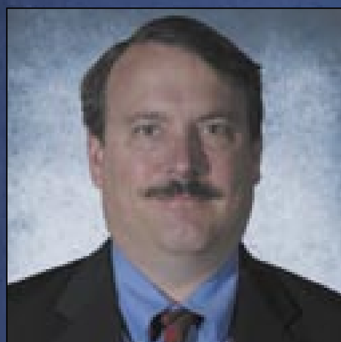
Ellise Darwton
Company Secretary

Board of Directors
2005

Robert Blanchard Jr.
Chairman

Joel Huggins
Managing Director

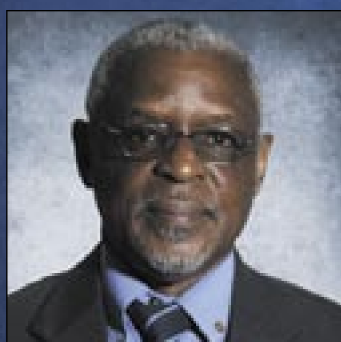
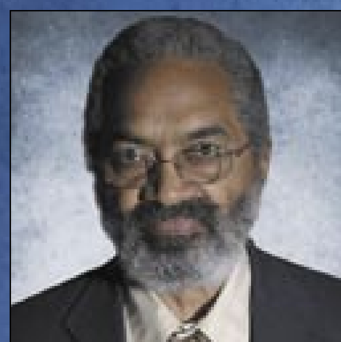
Nigel Wardle
Director



Grayson Stedman
Director

Norman Rolle
Director

Steven Mayers
Director


Malcolm Harris
Director

Lambert Lewis
Director

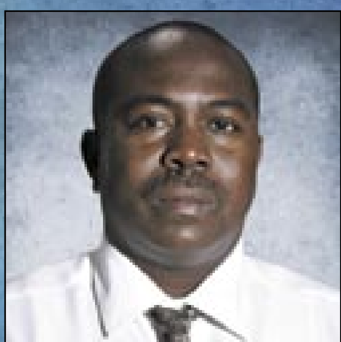

Management Team
2005

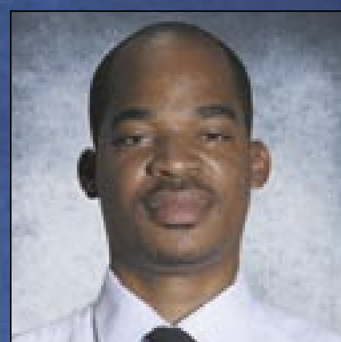


Joel Huggins
Managing Director

Marvelin Etienne
Financial Controller

Rawlins Bruney
Chief Engineer

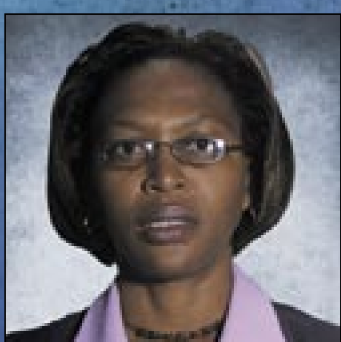




Mark Riddle
Engineering Manager

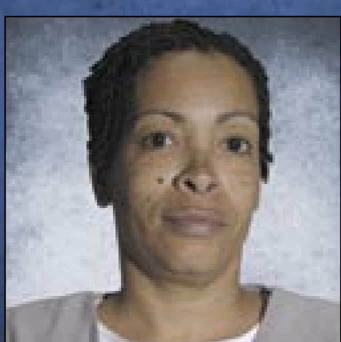
Nigel Vidal
Generation Manager

Lemuel Lavinier
Transmission and
Distribution Manager




Ellise Darwton
Corporate Secretary/Legal Officer

Nathaniel George
Commercial Manager




Bertilia McKenzie
Human Resources &
Administration Manager

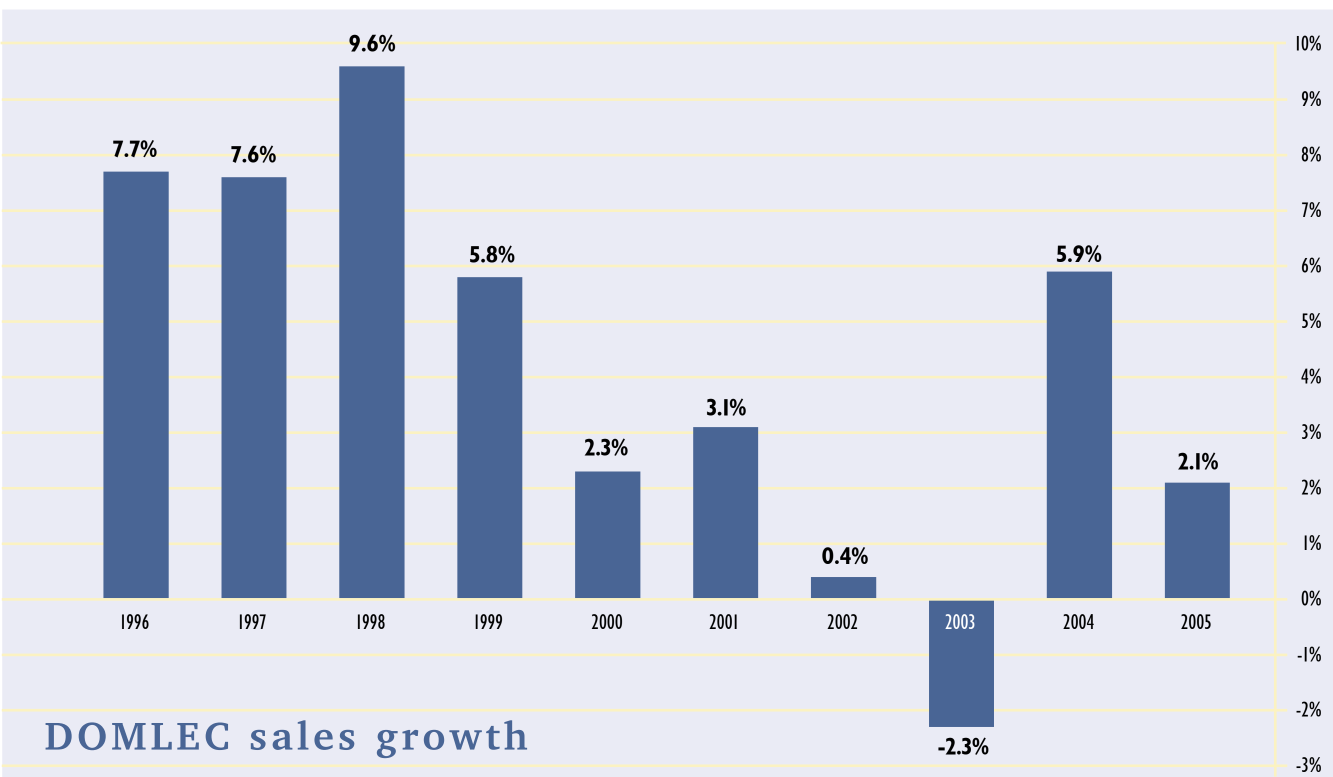
Carl Maynard
IT Manager

Operations Review

FINANCIAL RESULTS

In 2005, the company experienced growth in electricity sales of 2% over the previous year. The Domestic and Commercial sectors recorded a 1% and 3% increase respectively, while the Industrial and Hotel sectors recorded a decline of 1% and 3% respectively. Total electricity sales for the year were 67.8 GWh.

To
financial year. Revenue from electricity sales was up by $1.6 million or 4% over the 2004 figures, while fuel surcharge climbed by
$6.9
per g



DOMLEC sales growth

Under the Electricity Supply Act, the difference between the actual price of fuel per gallon used to generate electricity in the current month and the established statutory base price of fuel is passed on to customers through the fuel surcharge mechanism. Therefore the increase in fuel surcharge has no effect on the overall profit of the company.

Direct expenses

Direct expenses increased over that of 2004 by $9.8 million or 25% as a result of the following:

Fuel Costs

Fuel costs were up by $8.2 million or 46% over that of 2004. The main contributing factor was the rise in the price of fuel on the world market during the year. The company also utilized 22% more diesel than the previous year as greater reliance was placed on diesel generation due to a 17% decline in the level of hydro generation.

Maintenance expenses

Maintenance cost increased over that of the 2004 financial year by $1.1 million or 34%. Significant work was done on the diesel plant generating units due to frequent breakdown during the course of the year. Substantial scheduled maintenance work was done on the hydro units during the course of the year some of which was deferred from 2004. In a continuing effort to improve network reliability considerable work was also done in vegetation management.

Administrative expenses

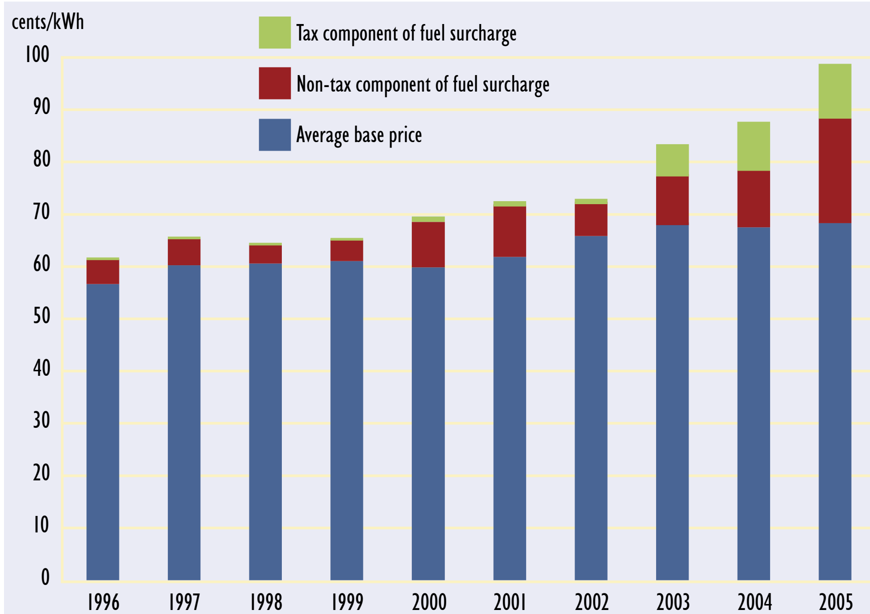
Administrative expenses declined by $3.7 million or 29% over that of 2004. Due to the increase in the provisions for doubtful accounts in 2004, bad debt expense declined in 2005 by $2.2 million. Staff cost fell by $0.4 million over that of 2004 primarily as a result of the reallocation of the salaries for the managers of the operating departments to their respective department's cost centre.

Other gains

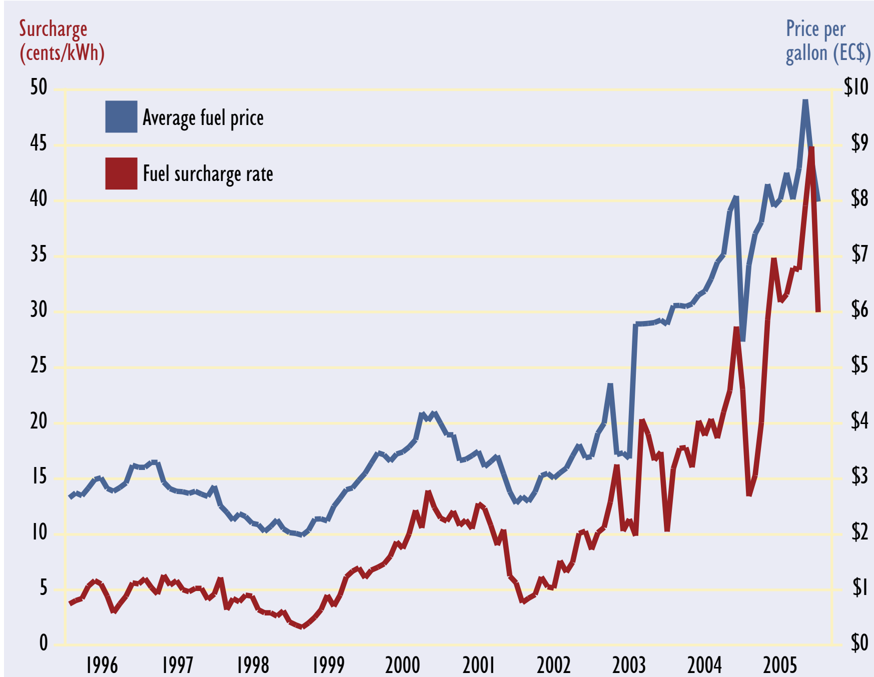
Other gains increased by $1.0 million. Unrealized foreign exchange gains in 2005 as compared to unrealized foreign exchange losses in 2004 were the main contributing factor.

Finance charges

Finance charges declined by $0.3 million or 11% over that of 2004. In the latter part of 2005 the company refinanced its local loan portfolio. This resulted in a reduction of interest charged by 1.75 percent.



Electricity price build-up



Fuel: 10-year history

Profit

Profit before tax for the 2005 financial year was $8.7 million; $3.4 million or 62% above that of 2004. Taxes for the financial year amounted to $2.5 million or $0.8 million over 2004. Net income for the year was $6.2 million, an increase of $2.6 million over that of 2004.

CUSTOMER SERVICE

Customer education

In 2005, Customer Service undertook several initiatives aimed at informing and educating customers about the policies and operations of DOMLEC. The highlight of these were several five-minute radio programs with call-in about pertinent matters such as:

a) Damaged Equipment Claims,

b) Hurricane Preparedness,

c) Vegetation Management,

d) Fuel Surcharge and

e) Energy Conservation.

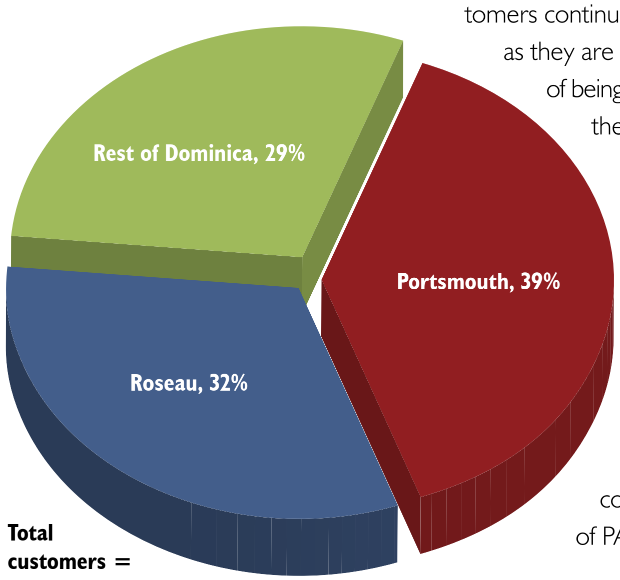
Feedback received from customers indicates that these were well received and contributed significantly to customer understanding of our operations.

Towards the end of the year, two community meetings were held in Wesley and Salisbury to climax our Customer Education programme for the year. At these meetings, customers were able to ask questions and get answers directly from company personnel. The introduction of a weekly Community Notice Board in the newspapers about planned outages achieved its objectives of providing advance notices to all customers.

Pay-As-You-Go (PAUG)

There continues to be a high demand for PAUG meters. During the year, 1,547 PAUG meters were installed. This brings the total installed from inception to 2,788. This accounts for $2,775,042 or 4.2% of sales. Currently there are 14 PAUG vending locations across the island to serve the areas with the highest concentration of customers.

With the introduction of Value Added Tax (VAT) on 1st March 2006, PAUG will be perfect for overcoming the negative cash flow implications associated with all types of credit transactions where the service provider is required to remit the VAT to the Inland Revenue before the debt is repaid. At the same time, the PAUG customers continue to laud its introduction as they are satisfied with the benefits of being able to effectively manage their energy consumption. DOMLEC plans to redouble its efforts in the PAUG initiative and have 2000 meters installed during 2006. We continue to lead the way for a number of other electric utilities in the region which are considering the introduction of PAUG meters.



Distribution of PAUG customers

Credit control

Customer Service continues to focus heavily on debt management. The rising cost of fuel has caused an increase in the average customer monthly bill thereby adding further pressure on the company to control the level of its receivables. Our Credit Control section has been very successful in keeping delinquency within reasonable limits with the assistance of the new disconnection policy approved by the Board.

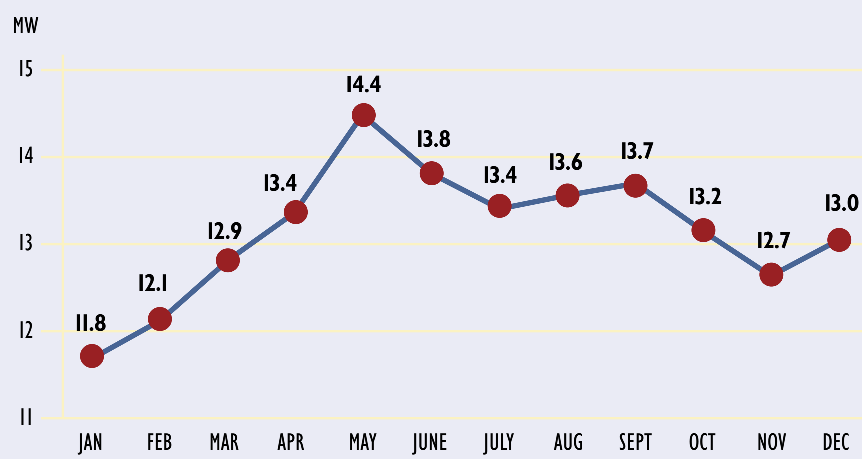
In the year under review, some progress was made with the matter of Government debt particularly as relates to outstanding street lights bills. As at year end total Government debt stood at $4.3 million compared to $5.3 million at the end of the previous year. Efforts continue between both sides to address debt and other billing issues.

GENERATION

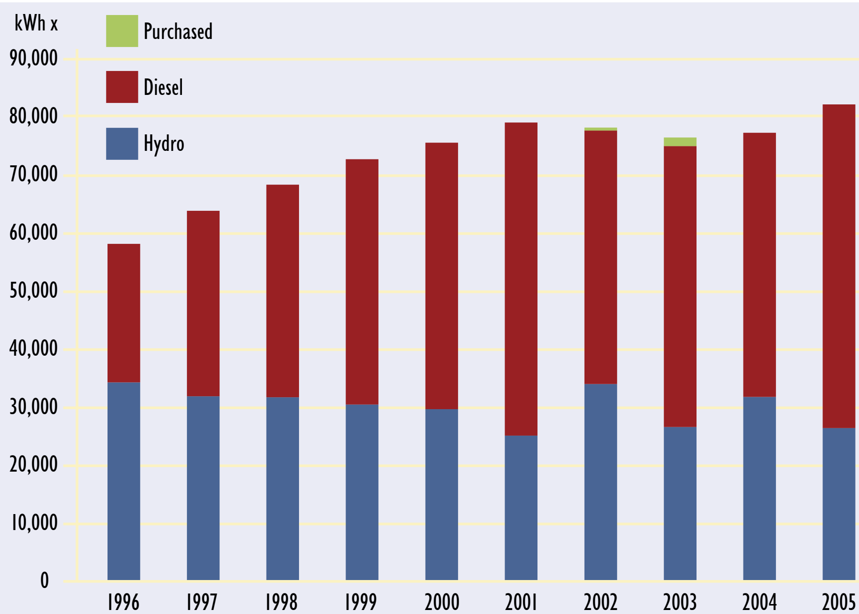
General

Worldwide, 2005 was the hottest year ever recorded. This was confirmed by data received from the Canefield Meteorological Office, which indicates that 2005 was indeed the hottest year in Dominica in the last twenty-two years. This had a noticeable impact on our diesel generation in that the diesel units had to be derated during the hot weather.

The peak demand of 14,368 kW recorded in May, was the highest ever. At least four times during that month the system peak exceeded 14 megawatts; a level that had never been attained before. This was due mainly to increased activity on island associated with the "Pirates of the Caribbean" movie project, and by itself should not be taken as a reflection of additional long-term growth. The following graph illustrates a return to a 'normal' system peak in the last two quarters of 2005.



2005 monthly peak demand



Energy produced

These factors mentioned above together with a below than average year in respect of rainfall combined to result in:

- An increase in generation of 6.3% over last year.
- A decrease of 17.4% in hydro generation from 2004.
- An increase in diesel generation of 22.6% over the previous year and
- A corresponding increase in fuel consumption of 22.4% over the previous year.

Overall, fuel efficiency at 17.39 kWh/IG showed nominal improvement from the previous year. Improving fuel efficiency remains an integral part of the company's focus on generation planning and expansion to meet growing demand for electricity. At the centre of these plans is the construction of a new power plant in the north of the island to add much needed medium speed base load generators to the system. The medium speed generators are much more fuel efficient and reliable than high speed units. We are anticipating that our negotiations with the relevant government agencies will yield results that will enable us to site the plant in the North to meet the increasing demand for electricity there and improve the overall reliability of supply on the island.

Hydro

Overall, hydro generation was well below last year's performance. There were two main causes for this performance. Firstly, the weather pattern was unusual with a very intense dry season followed by a lengthy dry-spell in the midst of what is traditionally the rainy season. The other factor was the prolonged unavailability of Padu #2 which suffered exciter failure in April. This unit remained offline at year-end because of difficulty in obtaining a cost-effective repair or replacement solution for a design that is over fifty years old.





Replacement of obsolete plant remains high on the company's development strategy. A new switchgear was commissioned at Padu in November in a new building adjacent to the old one. The new installation offers several advantages over the obsolete forerunner. These benefits are already manifesting themselves by way of improved reliability particularly for customers in the south of the island.

Diesel

Two 1.4 megawatt mobile generators were commissioned in August – one each at Fond Colé and Sugar Loaf.

Vehicle fleet

The department ordered and took delivery of two reconditioned bucket trucks in 2005 for use by the T&D Department and a training exercise in the use of those trucks was conducted by the suppliers. Additionally nine new pickup trucks were purchased by the department for fleet replacements within the company.

Due to the increasing presence of hydraulic systems in the fleet, the section and the Health & Safety Department executed the first of a three-part training course in a hydraulics system theory, maintenance, and troubleshooting in December. The next two sessions are scheduled to take place in 2006. During the year, our drivers were also given a refresher course in defensive driving as part of the company's continuing commitment to maintain a safe vehicle fleet via informed vehicle operators.

TRANSMISSION AND DISTRIBUTION (T&D)

Despite the challenges faced in 2005 there was a noticeable reduction in the frequency of outages – by 44.6 percent overall – even though the total duration of those outages increased. This can be attributed to several aspects of the reliability improvement programme, including the installation of 31,959 feet of ABC (aerial bundled conductor), the correction of more than 203 defective HV & LV pole installations, the Padu switchgear replacement, the East Coast Feeder upgrade and increased tree trimming. All of these activities necessarily resulted in an increase in planned outage hours. In 2005 the average number of hours that a customer was without power was 98.1 compared with 81.2 in 2004. However the entire benefit to be derived from the reliability improvement programme will be much more evident in future years. In this regard, further training and utilization of the hotline crew will have a positive impact.

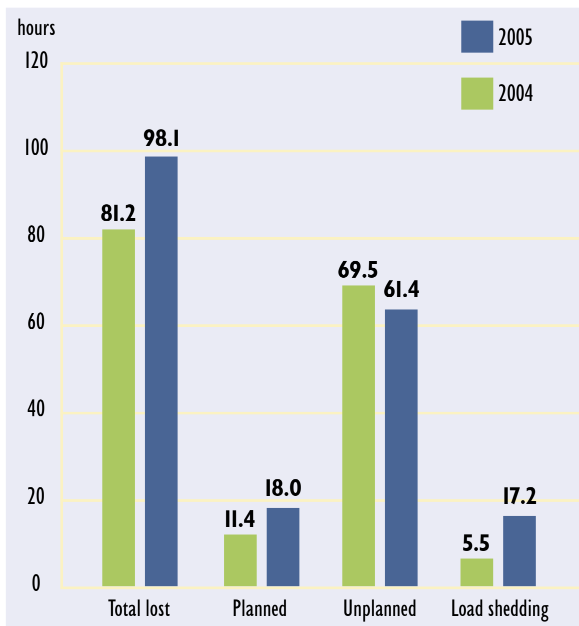
The Roseau ABC rebuild project is in its final stages of completion. The project which was started to improve safety in the city and also reduce the LV line losses has also dramatically cut the number of LV faults in the city, thereby raising the reliability of supply. Another fringe benefit is the improvement of the aesthetics in the city by significantly reducing the amount of clutter in the overhead lines.

The T&D department's cost reduction strategy resulted in a positive variance of 8.1%. Factors which contributed to cost savings are the introduction of a digger derrick truck which lessened the dependence on contractual work, cost saving methods implemented in route clearing, as well as progress on the reliability improvement programme.

ENGINEERING SYSTEMS PLANNING AND DEVELOPMENT (ESPD)

Restructuring

At the start of 2005 the Engineering Services Department was restructured and renamed the ESPD department. The Construction section was removed and Generation Planning and Loss Management sections were added.



Customer hours lost

Since then a number of significant projects were completed, while others were embarked upon.

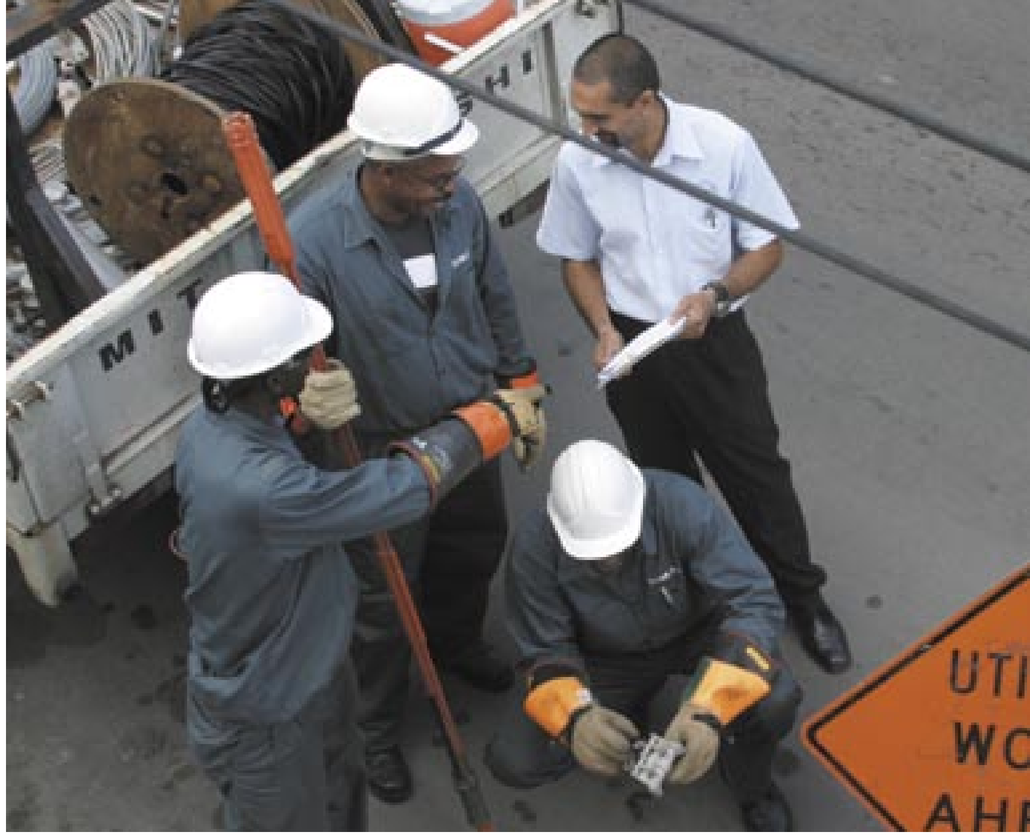
Major Projects

The following are the major highlights of the year:

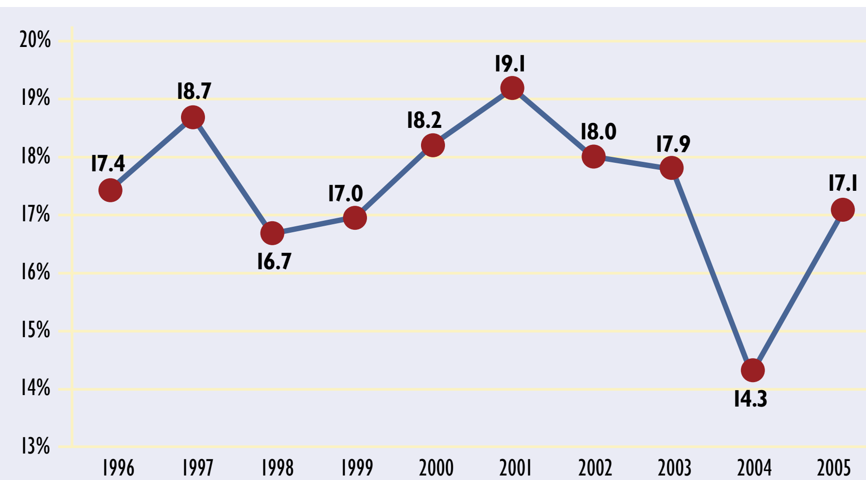
Picard by-pass line – Work on this project was completed and commissioned in August 2005. With the commissioning of the new line we were able to take the voltage regulators on the Portsmouth feeder out of service; hence impacting positively on technical losses.

Padu switchboard replacement and Sugar Loaf extension – The replacement of the 37-year-old obsolete Padu switchboard was completed in November. The new switchboard is expected to positively affect system reliability. The extension of the switchboard at Sugar Loaf power station was completed only to the point of enabling the commissioning of the Picard by-pass line. The second phase awaits the completion of the permanent building. It is expected that by the end of the first quarter of 2006, the entire board will be commissioned.

AM/FM/GIS Project – By the second quarter of 2005 GIS was functioning in the ESPD department and was being used to assist with the department's planning and estimating functions. In the latter part of the year a web-based format of the project was being tested within the department to be published during the first quarter of 2006. This section suffered major setbacks as a result of the loss of key staff, creating delays in implementation. Work however continues on street light and LV circuit mapping.



Loss Reduction – The ESPD department, during the reporting period, was also given responsibility to address some of the company's non-technical losses through the Meter Replacement Programme (MRP). This effort, in conjunction with the other technical interventions such as capacitor installation and secondary and primary lines upgrade, are making some improvement in the losses situation. The MRP effected some 4,885 meter replacements during the year and yielded an estimated 463,477 kWh more in sales due to the technical efficiency of the new meters. This represents a reduction of approximately 0.55% losses against generated output. It now appears that the MRP is beginning to show diminishing returns for the types of meter targeted and hence the strategic focus will have to be shifted in order to achieve the optimal benefit.



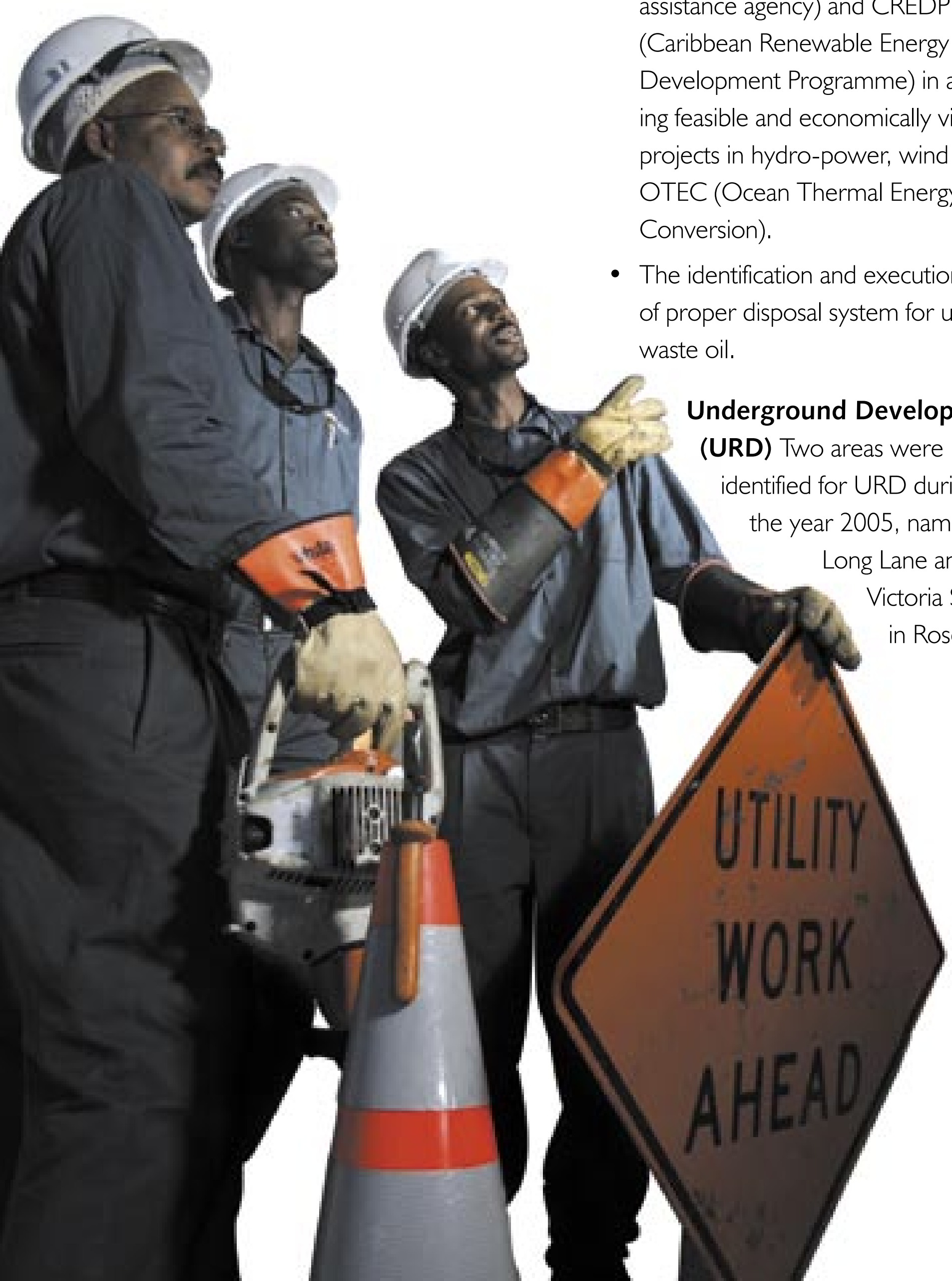
Losses (% of gross generation)

In 2005, there was a reversal of the trend of reduction in system losses and a loss study was commissioned in an attempt to identify the causes. The study was conducted by R W Beck (consultant) and sponsored jointly by DOMLEC and United Nations Industrial & Development Organisation (UNIDO).

This study concluded that significant loss is occurring on our low voltage network and recommended a menu of interventions to help bring down losses. These included mainly the re-conductoring of LV (Low Voltage) circuits, replacement of defective capacitors, and down-sizing of under utilised transformers. We are in the process of developing concrete strategies to respond to these recommendations. Included among these is the verification of the accuracy of all generation metering on an annual basis.

Generation planning – During the period January to December 2005, this section was involved in the following:

- Installation of two high-speed generators to increase firm capacity.
- Planning for the establishment of a power station complex in the north of island to increase base load capacity, improve system reliability and fuel storage capability. The land acquisition phase is ongoing. Unfortunately progress has been quite slow, bogged down by several factors such as the lack of zoning information for the areas of interest. We are working closely with the relevant government agencies to arrive at an agreement on a suitable site.
- Research for opportunities in renewable energy development to reduce current dependence on fossil fuel based generation. This includes partnering with GTZ (German technical assistance agency) and CREDP (Caribbean Renewable Energy Development Programme) in assessing feasible and economically viable projects in hydro-power, wind and OTEC (Ocean Thermal Energy Conversion).
- The identification and execution of proper disposal system for used waste oil.



Underground Development (URD) Two areas were identified for URD during the year 2005, namely Long Lane and Victoria Street in Roseau.

Approximately 90% of activities planned with respect to these projects have been completed. Work was suspended in November to accommodate the flow of tourists during the tourist season. This phase of activities is expected to be completed during the first quarter of 2006.

Other activities

The department was also involved in a number of other reliability improvement and planning functions as indicated below, some of which are still in progress:

- Installation of two new remotely operated switches;
- Upgrade of primary distribution lines in Portsmouth and Picard;
- Construction of an 11kV distribution line from Pointe Michel to Soufriere;
- Installation of new circuit breaker at Fond Colé;
- Adjustment of protection regime at Laudat;
- Construction of switchgear building at Sugar Loaf.

INFORMATION TECHNOLOGY (IT)

A new high speed computer network technology called sHDSL has been introduced to replace the frame-relay links which handled the network traffic to all remote sites and which proved to be quite unreliable. Fibre optic cables were used to replace the deteriorating Ethernet cables between the switchgear room and the control room at Sugar Loaf. Wireless technology has been introduced in some of our offices. Progress has been made with improvements to voice quality over the frame relay connection to Fond Colé by reserving 100k of available bandwidth for voice packets. All these have improved the voice quality on the telephone system and enabled faster and improved data access on our computer systems.

The DOMLEC corporate website is in its final stages of development. The main highlight being the E-account whereby a customer can view his bill online. There will also be a wealth of information for customers and the general public on display. It is expected that this site will be launched in the second quarter of 2006.

HUMAN RESOURCES & ADMINISTRATION (HR&A)

Productivity

Employee productivity improved from 2004 to 2005 as demonstrated below by the figures for Human Capital Value Added and the Human Capital Return on Investment. The Human Capital Value Added result indicates the average contribution to revenue per employee. The Human Capital Return on Investment is a ratio indicating the level of revenue earned for every $1.00 spent on employees.

The following are the comparative figures for 2004 and 2005:

	2005	2004
Human Capital Value Added	$92,255	$78,632
Human Capital Return on Investment	$1.75	$1.45

Health and safety

The organization introduced two new components to its Lifestyle Wellness Programme; a baseline hearing assessment of new employees at the power stations and training in nutrition for all employees. The existing components of the programme, namely blood sugar, blood pressure and cholesterol checks, were also made available to all employees.

An Occupational Health and Safety Audit was conducted for DOMLEC by personnel from Grenada Electricity Services (Grenlec) during the week of December 5th 2005. This was part of an exchange programme between the two companies and during the same period, Grenlec benefited from a similar audit conducted by DOMLEC personnel.

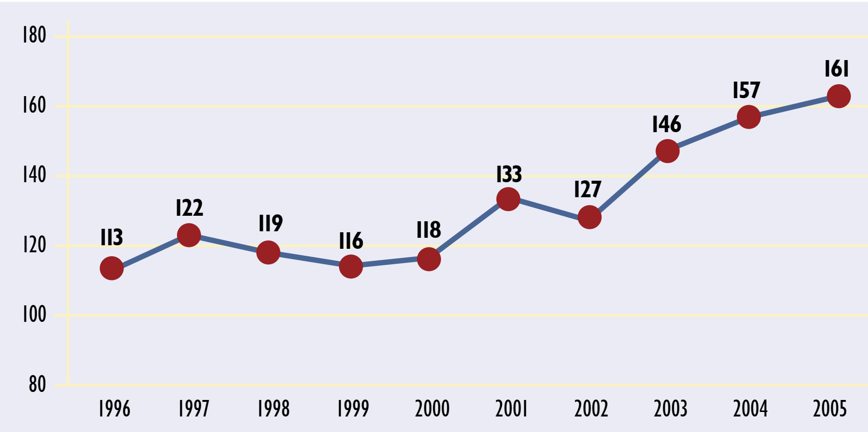
Human Resource Development

The organisation's philosophy that human resource development is critical to the achievement of organisational goals was demonstrated through the implementation of the 2005 training plan.

183 employees learnt new skills and received training to enhance existing competencies. 65 training interventions were held including workshops, seminars and long term programmes. The number of employees trained represents 89.7% of the total fixed establishment. Several of the workshops were conducted in-house by DOMLEC employees. In order to cultivate the versatility of employees through multi-skilling, cross training was carried out between the Transmission & Distribution and Generation Departments.

Accommodation

At the end 2005, the company purchased property at Fond Colé (formerly owned by Cable & Wireless) to house its Transmission & Distribution, Engineering Systems Planning & Development and IT operations. This initiative affords the company an opportunity to centralize all its engineering functions and provide a more comfortable working environment for staff. The company will also benefit from reduced expenses on short term leasing.



Customers per employee

We are a community based company. Over the years we have re-invested millions of dollars into the community which we serve. From Education and Social Welfare to Sports and Culture, DOMLEC'S Power Partnerships Programme, has ensured that the company plays a meaningful role in national development.

our community

every walk of life

In 2005 we continued our close partnership with the community by our involvement in the following areas:

Sport

DOMLEC sponsored sporting programmes throughout the country and also contributed towards the enhancement of sporting facilities:

- Dominica Primary Schools Softball Development Programme
- Roseau Valley Football League
- DFA Women's Football League
- Southeast Basketball League
- Dublanc Playing Field Lighting
- OECS Table Tennis
- Convent Preparatory School Netball Team

Convent Preparatory Netball Team
DOMLEC supports education and sports with donations for uniforms, sporting gear and trophies.

DOMLEC's Foster Children
DOMLEC has created its own Foster Children programme. The annual Christmas Party is just one facet of this successful endeavour.

Dominica Infirmary
DOMLEC's Commercial Manager makes a financial donation to Ms. Catherine Beautreau, Stewardess of the Infirmary.

Culture

The company's presence was also felt in the cultural arena. We were involved in the Carnival Queens' Promotional Video, the Independence Steel Pan Festival and the Convent Preparatory School Carnival Band.

Environment

Keeping the 'Nature Isle' clean and beautiful was the focus of our activities in this endeavour. DOMLEC was a sponsor of the Dominica Youth Environment Organisation beach cleanup and the Forestry Division National Parks Signs project.

Social welfare

Our company remembers and cares about the less fortunate of our society. This was manifested by our support for the Infirmary, the Grotto Home for the Homeless and our own Foster Children's Christmas Party and Centenarians Credit for Life programme.

We are involved in our community…in every walk of life!

DOMLEC's Centenarians Credit for Life Programme
DOMLEC's Commercial Manager greets one of the 19 centenarians of the programme.

Carnival
For Mas 2005, DOMLEC sponsored the winner of the "Best School Band 2005" – Convent Preparatory's "Celebrating Life" school band.

Sports
Her team is just one of many that benefits from DOMLEC's sponsorship of the DFA's Women's Football League.

PriceWaterhouseCoopers
Pointe Seraphine
P.O. Box 195
Castries
St. Lucia, W.I.
Telephone (758) 456-2600
(758) 452-2511
Facsimile (758) 452-1061

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.

PricewaterhouseCoopers

Chartered Accountants

Dominica Electricity Services Limited

Balance Sheet

as at December 31st, 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
	20,856,032	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
	103,603,092	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
	13,106,657	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
	65,119,032	63,208,303
Shareholders' equity		
Share capital (Note 17)	**10,417,328**	10,417,328
Retained earnings	**28,066,732**	23,144,710
	38,484,060	33,562,038
	103,603,092	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 31st, 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
	67,326,695	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
	48,366,507	38,568,318
Gross profit	**18,960,188**	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)
	7,563,699	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	**6,172,101**	3,598,414
Earnings per share (Note 19)	**0.59**	0.35

Statement of Changes in Shareholders' Equity

for the year ended December 31st, 2005 (expressed in Eastern Caribbean Dollars)

	2005 $	2004 $
Share capital		
Ordinary shares, at beginning and end of year	**10,417,328**	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)	**(1,250,079)**	(625,040)
At end of year	**28,066,732**	23,144,710
Shareholders' equity, end of year	**38,484,060**	33,562,038

Dominica Electricity Services Limited

Statement of Cash Flows

for the year ended December 31st, 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
Operating profit before working capital changes	**16,806,531**	14,512,994
(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)
Cash generated from operations	**17,940,656**	11,551,508
Income tax paid	**(2,503,819)**	(1,073,287)
Interest paid	**(2,652,993)**	(2,910,704)
Net cash from operating activities	**12,783,844**	7,567,517
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
Net cash used in investing activities	**(13,083,161)**	(4,978,307)
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)
Net cash from financing activities	**69,621**	483,653
Net (decrease)/increase in cash and cash equivalents	**(229,696)**	3,072,863
Cash and cash equivalents, beginning of year (Note 5)	**1,451,366**	(1,621,497)
Cash and cash equivalents, end of year (Note 5)	**1,221,670**	1,451,366

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *...continued*

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 1/2 – 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *...continued*

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.

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.

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.

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.

3 FINANCIAL RISK MANAGEMENT...*continued*

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.

5 CASH AND CASH EQUIVALENTS

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

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)
	1,221,670	1,451,366

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)
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
	11,975,880	11,378,397

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

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
	7,769,841	7,195,219
Provision for obsolescence	**(111,359)**	(111,359)
Inventories, net	**7,658,482**	7,083,860

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	**(10,024,966)**	(3,622,261)
At end of year	**95,009**	710,199

9 PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings $	Generation, Transmission & 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**

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**	–
	4,655,794	6,168,978
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
	31,345,872	29,791,823
Total borrowings	**36,001,666**	35,960,801

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

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
	31,345,872	29,791,823

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
	7,576,006	3,366,726

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
	2,693,976	2,581,055
Due to related parties		
WRB	**–**	59,533
CDC Group Plc	**–**	1,843,517
	–	1,903,050

The loan from the related party is unsecured and convertible to common shares. The loan bears an effective interest rate of 7.5% (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

13 OTHER LIABILITIES

	2005 $	2004 $
Consumers' deposits	**3,456,404**	3,288,316
Retirement benefit plan	**6,981**	11,258
	3,463,385	3,299,574

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)
	2,535,444	1,751,728

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	**2,535,444**	1,751,728

15 TAXATION...*continued*

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

16 CAPITAL GRANTS

	2005 $	2004 $
At beginning of year	**3,149,210**	3,781,034
Amortization	**(631,802)**	(631,824)
At end of year	**2,517,408**	3,149,210

17 SHARE CAPITAL

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

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 debt	**322,534**	2,562,222
Other expenses	**943,913**	607,534
Total maintenance, operating and administrative expenses	24,808,423	26,422,854

19 EARNINGS PER SHARE

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

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

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
	2,688,944	3,028,661

21 DIVIDENDS PER SHARE

	2005 $	2004 $
Dividend declared and paid	**1,250,079**	624,040
Weighted average number of ordinary shares issued	**10,417,328**	10,417,328
Dividends per share	**0.12**	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 loses	**(256,068)**	543,077
	(427,879)	566,413

23 FUEL COST

	2005 $	2004 $
Fuel cost at base price	**5,685,055**	4,473,252
Fuel surcharge	**20,198,496**	13,224,503
Total fuel cost	**25,883,551**	17,697,755
Fuel surcharge recovery	**(20,170,501)**	(13,320,556)
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
	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
	(1,110,979)	(85,906)

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.

Operating Statistics

	2005	2004	2003	2002	2001
CAPACITY & DEMAND (kW)					
Generating Plant Installed Capacity					
- Hydro	**7,600**	7,600	7,600	7,600	7,600
- Diesel	**15,890**	14,440	13,590	12,840	14,080
Total	**23,490**	22,040	21,190	20,440	21,680
Firm* Capacity					
- Hydro (Dry Season)	**3,200**	3,200	3,200	3,200	3,200
- Diesel	**11,650**	11,600	10,750	10,000	11,240
Total	**14,850**	14,800	13,950	13,200	14,440
Peak Demand	**14,368**	13,190	12,923	13,043	13,866
Growth (%)	**8.9**	2.1	-0.9	-0.6	6.9
Load Factor = $\frac{\text{Average Demand}}{\text{Maximum Demand}}$	**0.66**	0.68	0.69	0.70	0.67
ENERGY PRODUCED (kWh x 1000)					
Gross Generation					
- Hydro	**27,876**	33,736	28,523	35,929	27,036
- Diesel	**55,779**	45,493	48,404	43,659	53,929
Energy Purchased	**–**	–	1,507	544	–
Total	**83,655**	79,229	78,434	80,132	80,965
Growth (%)	**5.6**	1.0	-2.1	-1.0	4.4
Diesel Fuel Used in Generation					
Quantity (Imp.Gal)	**3,207,976**	2,620,375	2,771,990	2,540,971	3,099,157
Fuel Efficiency (kWh per Imp.Gal)	**17.4**	17.4	17.5	17.2	17.4

* Capacity available during normal operation in a very dry month, assuming the largest thermal unit breaks down while another is out for maintenance.

Operating Statistics

	2005	**2004**	**2003**	**2002**	**2001**
ENERGY SOLD (kWh x 1000)					
- Domestic	**33,492**	33,062	32,942	32,856	31,779
- Commercial	**24,993**	24,017	21,669	22,758	17,021
- Industrial	**5,504**	5,508	4,354	4,607	4,009
- Hotel	**2,649**	2,704	2,473	2,839	2,796
- Lighting	**1**	1	2	9	7,181
- Street Lighting	**1,150**	1,127	1,295	1,125	1,128
Total	**67,789**	66,419	62,735	64,194	63,914
Growth (%)	**2.1**	5.9	-2.3	0.4	3.1
OWN USE & LOSSES (kWh x 1000)					
Power Station Use	**1,013**	968	1,145	1,053	1,195
Office Use	**523**	513	508	455	407
Losses	**14,330**	11,329	14,046	14,430	15,449
Losses (% of Gross Generation)	**17.1**	14.3	17.9	18.0	19.1
Losses (% of Net Generation)	**17.3**	14.5	18.2	18.2	19.4
NUMBER OF CUSTOMERS AT YEAR END					
- Domestic	**24,851**	25,181	24,333	23,210	23,069
- Commercial	**3,536**	3,328	2,828	2,992	2,440
- Industrial	**39**	39	35	33	42
- Hotel	**274**	142	60	18	21
- Lighting	**5**	8	4	3	864
- Street Lighting	**320**	282	253	239	229
Total	**29,025**	28,980	27,513	26,495	26,665
Growth (%)	**0.2**	5.3	3.8	-0.6	1.0
Number of Permanent Employees	**180**	185	189	208	200
Number of Customers per Employee	**161**	157	146	127	133

Financial Statistics

	2005	2004	2003	2002	2001
UNITS SOLD (kWh x 1000)	**67,789**	66,419	62,735	64,194	63,914
REVENUE/UNIT SOLD (EC cents)	**98.29**	87.56	82.27	72.38	71.91
SUMMARIZED BALANCE SHEET (EC$ 000)					
SHARE CAPITAL	**10,417**	10,417	10,417	10,416	10,416
RETAINED EARNINGS	**28,067**	23,145	20,171	18,798	12,492
DEFERED CREDITS	**17,204**	17,773	18,610	18,035	16,743
LONG TERM LIABILITIES	**34,809**	33,091	31,578	36,889	21,753
	90,497	84,426	80,777	84,139	61,404
FIXED ASSETS (NET)	**82,652**	75,252	76,883	75,568	73,039
CAPITAL WIP	**95**	710	468	1,683	3,430
DEFERED EXPENSES	**0**	0	0	0	158
CURRENT ASSETS	**20,856**	20,809	20,446	23,156	16,861
CURRENT LIABILITIES	**(13,107)**	(12,344)	(17,020)	(16,269)	(32,084)
	90,497	84,426	80,777	84,139	61,404
OPERATING EXPENSES	**11,669**	11,158	11,991	12,519	12,742
FUEL	**25,884**	17,698	13,471	7,875	10,678
MAINTAINANCE	**4,465**	3,324	3,096	1,706	3,413
ADMINISTRATION	**8,675**	11,940	10,012	9,353	9,913
DEPRECIATION	**6,349**	6,368	6,216	6,317	5,761
	57,041	50,488	44,786	37,770	42,506
OPERATING REVENUE					
ELECTRICITY SALES	**46,458**	44,837	42,918	42,255	39,539
FUEL SURCHARGE	**20,171**	13,321	8,691	4,211	6,420
OTHER	**698**	644	682	434	375
	67,327	58,802	52,291	46,901	46,334
OPERATING INCOME	**10,286**	8,313	7,505	9,131	3,828
INTEREST CHARGES	**(2,689)**	(3,029)	(3,571)	(3,493)	(2,861)
OTHER CHARGES & CREDITS	**51**				
AMORTIZATION OF CAPITAL GRANTS	**632**	632	632	630	689
AMORTIZATION OF DEFERED EXPENSES	**0**	0	0	(158)	(183)
REALISED EXCHANGE GAIN (LOSS)	**172**	(23)	(111)	(124)	27
UNREALISED EXCHANGE GAIN (LOSS)	**256**	(543)	(1,108)	(996)	266
DISCONTINUATION OF CAPITAL WORKS	**0**	0	0	1,781	(16,511)
TAXATION	**(2,535)**	(1,752)	(1,349)	(1,891)	3,742
NET INCOME	**6,172**	3,598	1,998	4,880	(11,003)
DIVIDEND	**1,250**	625	625	(1,427)	1,427
REINVESTED EARNINGS	**4,922**	2,973	1,373	6,307	(12,430)
RATE BASED (AVERAGE FIXED ASSETS)	**78,952**	76,068	76,226	74,304	36,520
RETURN ON AVERAGE FIXED ASSETS	**13.03%**	10.93%	9.85%	12.29%	10.48%
DEBT/EQUITY RATIO	**1.63**	1.79	2.07	2.29	2.86
CURRENT RATIO	**1.59**	1.69	1.20	1.42	0.53
COLLECTION PERIOD (DAYS)	**64**	74	82	84	76

Dominica Electricity Services Ltd. P.O. Box 1593, Roseau, Commonwealth of Dominica, West Indies T. 767.255.6000 F. 767.448.5397