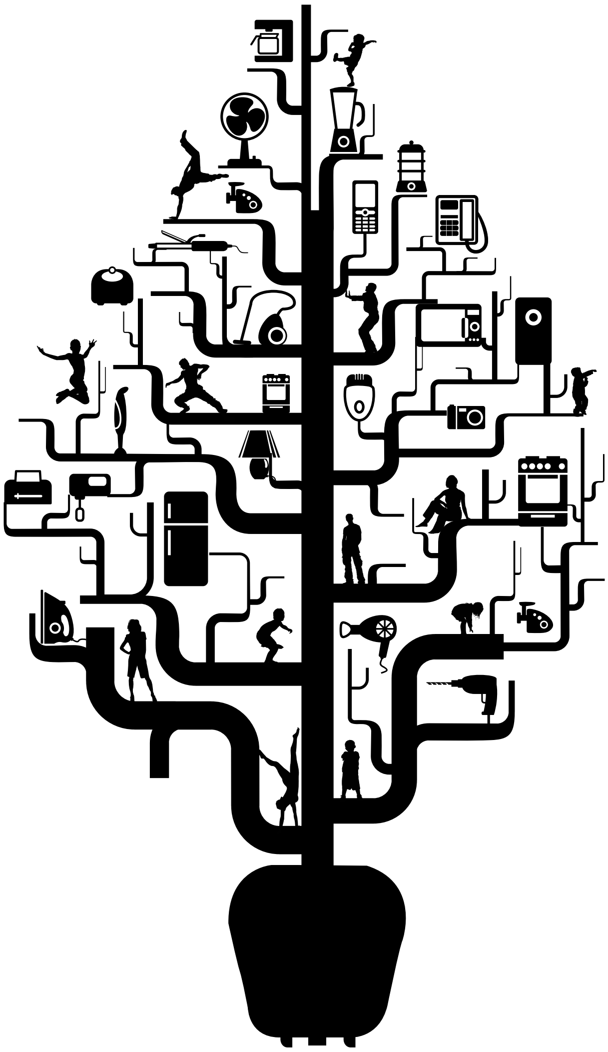
# GENERATING POWER, EMPOWERING GENERATIONS.

DOMINICA ELECTRICITY SERVICES LIMITED
ANNUAL REPORT AND ACCOUNTS 2009



# GENERATING POWER, EMPOWERING GENERATIONS.

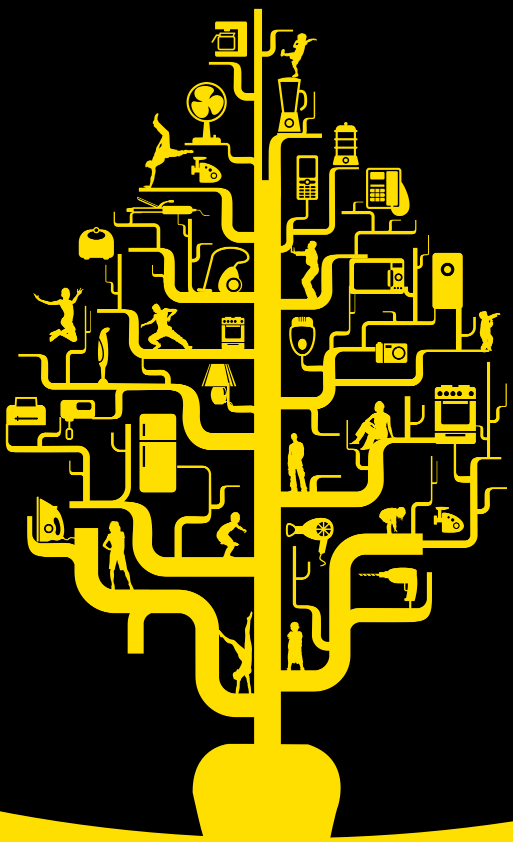
As the nation's sole provider of electricity, we recognise our role as a vital component in the sustainable development of our country and its diverse needs and people.

Over the decades we have faced numerous challenges and overcome many obstacles as we grew and evolved in our quest to satisfy the nation's need for consistent and reliable power.

As our nation continues to grow concurrent with an ever evolving power and energy industry, we are confident that this vision of progress which we share will serve to empower generations to come.

Our investments of yesterday have been a catalyst for national development. Today the country is at a seminal point in its existence. Therefore our activities of today are consistent with the philosophy that we build with the future in mind and are guided by the sobering thought that our country needs us on this journey of success.

We at Domlec pledge, as our theme suggests, to continue to generate the power that empowers our every generation to dare to challenge the world with a sense of national and personal pride - as part of our unique national family!



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**ROBERT BLANCHARD JR.**
Chairman

# CHAIRMAN'S REPORT

The year 2009 was a year of both accomplishments and challenges, although when compared to the turbulence of 2008 it was a relatively calm year.

Despite a depressed world economy, the company's sales grew by 9.0% over 2008. This was attributed to the improved availability of our generating units and the significantly lower cost of fuel in 2009 when compared to 2008. As a result of the improved sales the company's earnings before tax was $8,974,562, and the earnings per share was 59 cents.

The company continued on the steady upward path of technical improvement that it started several years ago, and this year saw system losses drop from 12.5% to 10.3%. In April of 2009 three new 1.46MW medium speed diesel engines installed at Fond Cole came into commercial service. The addition of these units to the generation fleet has contributed to improved fuel efficiency of the company's generating units with the best fuel efficiency ever recorded from the diesel units of 17.65 kWh per imperial gallon. This together with a 20% increase in hydro output reduced the effects of increasing fuel prices on the fuel surcharge.

Several initiatives which were implemented by management have made the company more efficient. These include the merging of the Engineering and System Planning Department and the Transmission and Distribution Department into one department called Engineering, Transmission and Distribution Department (ET&D), the streamlining of the process for new meter connections when line construction is needed, the introduction of smart-grid technology to Dominica with the Advanced Metering Infrastructure (AMI) metering system which is now in service in the Roseau area and which will be implemented throughout the entire country over the next three years. The old FCIB building in Portsmouth was purchased and when renovated and made operational it will greatly improve service to the customers in the north.

The company continued its constant dialogue with the Independent Regulatory Commission (IRC) on several matters of importance. Two of these are the tariff mechanism and the interconnection policy for renewable generation. Both of these issues are in an advanced state of discussion and their finalization is expected shortly.

Previous discussions with the IRC on Quality of Service Standards culminated late last year. These standards were published in February 2010. Several of them carry fines for non -compliance. The IRC has also indicated its intention to introduce reporting requirements for the company.

The company is working with the IRC but fully understands that some of the IRC's requirements could possibly result in additional cost to the consumer as additional staff may be needed to meet these new reporting and service standards.

The company recognizes the development potential that exists in exploring Dominica's geothermal resource to generate electricity and displace the country's dependence on fossil based fuel. There is much benefit to the local market from the use of geothermal energy to generate electricity as well as immense possibilities for foreign exchange earnings from export of this electricity. With this in mind the company is making some initiatives and preparing for full involvement and participation in the geothermal initiative particularly in the local market.

It is widely known that in 2006 the Government, over Domlec's objections, chose to pass a new Electricity Supply Act. This legislation significantly diminishes Domlec's rights and could seriously jeopardize its ability to operate efficiently, as well as undermine its economic interests. Since the passage of this Act, we have continued to meet with both the Government and the IRC to determine how Domlec could operate under this new regime and protect our economic interests. Unfortunately in this process it has become clear that this new legislation and the subsequent decisions by the Government and the IRC will be a significant detriment to Domlec's ability to meet the needs of our customers and maintain economic viability. Accordingly, on December 22, the Company filed an arbitration claim against the Commonwealth of Dominica. In this action we are seeking to reinstate Domlec's legal and economic rights under the 1996 ESA, and for compensation for damages suffered by removing these rights. Your Board did not make this decision lightly. We were well advised by both local and international counsel. We feel this step was necessary to fulfill our fiduciary obligations to the shareholders of Domlec, and that it is in their interests as well as those of Domlec's employees and customers that we pursue this action. We will continue to discuss possible resolutions of these matters with the Government while the case proceeds; however, your Board is fully committed to seeing that Domlec's interests are protected.

Many thanks to the management team for steering the company through another successful year despite the challenging environment. The year saw the addition of three new directors to the board. Mr. Murray Skeete was appointed a member of the board in March 2009 to fill the post vacated by the late Managing Director. Mr. Skeete, along with Mssrs. Geoffery Guye and Yvor Nassief were elected as board members at the Annual General Meeting in May 2009. All three have made worthwhile contributions and added valuable insight to the functioning of the board. We hope for a long and productive tenure for these gentlemen.

ROBERT BLANCHARD JR.
**Chairman**


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# BOARD OF DIRECTORS

01 **Mr. Robert Blanchard Jr.**
Chairman

02 **Mr. Nigel Wardle**
Chairman Audit Committee

03 **Mr. Norman Rolle**
Director

04 **Mr. Grayson Stedman**
Director

05 **Mr. Yvor Nassief**
Director (From May)

06 **Mr. Malcolm Harris**
Director

07 **Mr. Murray Skeete**
Director (From March)

08 **Mr. Geoffrey Guye**
Director (From May)

"Overcoming the challenges of the past,
forging a new vision for the future,
that is the true power of Domlec."

# DIRECTORS' REPORT

## FINANCIAL RESULTS

In 2009 the company generated 80.3 GWh of electricity sales, an increase of 9.0% over the 73.7 GWh sold in the previous year which resulted in a gross profit increase over 2008 of $3.0 million. Substantial increases in administrative expenses, depreciation and the deferred tax liability, however, brought the company's net income after tax to $6.2 million.

## DIVIDENDS

In 2009, two dividend payments totaling 15 cents per share were made to shareholders on May 15th and December 30th amounting to $1.56 million representing 25% of the company's net income for the year.

## DIRECTORATE

At the Annual General Meeting of shareholders held on May 15th 2009, Messieurs Murray Skeete, Geoffrey Guye and Yvor Nassief were elected as directors to the Board. Mr. Skeete holds a Bachelor of Science in Engineering (Hons) from the University of Leicester, United Kingdom (1984) and serves as Vice President Engineering at WRB Enterprises, Inc. Mr. Geoffrey Guye holds a Bachelor of Science in Electrical Engineering from Ryerson University, Canada (1995) and currently works as a business proprietor and executive. He previously served as Managing Director of Freestyle Inc. and is currently CEO of N2N Distributors Ltd. Mr. Yvor Nassief holds a Bachelor of Arts from York University, Canada (1982) and is the Managing Director of Archipelago Trading Ltd and former Minister of Tourism. These gentlemen bring a wealth of expertise to the Board and their contribution in that regard has been noteworthy.

## SECURITIES EXCHANGE

There was active trading in Domlec shares throughout 2009 and during the 52 week period the share price ranged between EC$2.00 and EC$3.00 per share. As at December 31st 2009, the shares were being traded at $3.00 per share.

*BY ORDER OF THE BOARD*

Ellise Darwton

ELLISE DARWTON
**COMPANY SECRETARY**


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# EXECUTIVE MANAGEMENT

01 **Mr. Collin Cover**
General Manager (From March)

02 **Mr. Murray Skeete**
Acting General Manager (To March)

03 **Mr. Rawlins Bruney**
Chief Engineer

04 **Mrs. Marvelin Etienne**
Financial Controller

05 **Ms. Ellise Darwton**
Corporate Secretary/Legal Officer

06 **Mrs. Bertilia Mc Kenzie**
HR and Administration Manager

07 **Mr. Mark Riddle**
Generation Manager

08 **Mr. Nathaniel George**
Commercial Manager

09 **Mr. Lemuel Lavinier**
Engineering Transmission and Distribution Manager

10 **Mr. Carl Maynard**
IT Manager

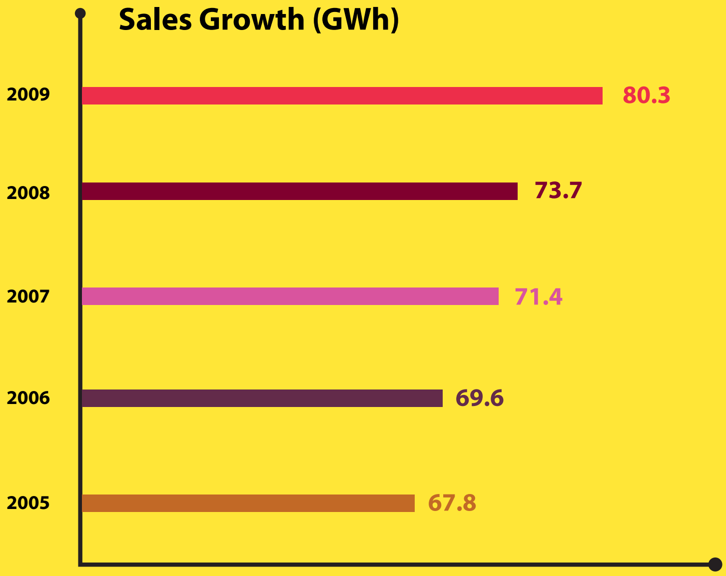
“The achievement of every generation
is the starting point for the next.
Domlec powering today to empower tomorrow”

# OPERATIONS REVIEW

## FINANCIAL OVERVIEW

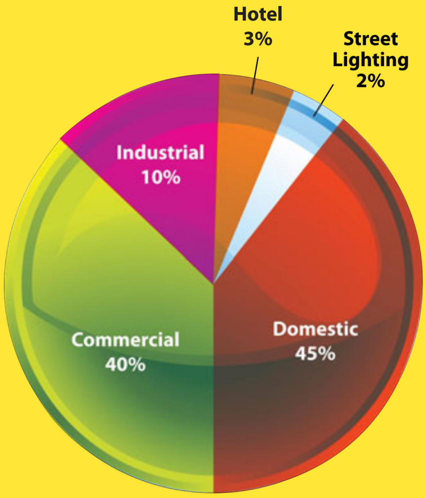
### OPERATING REVENUE

***Sales*** – Energy sales for 2009 totalled 80.3 GWh (million kWh), an increase of 9.0% over 2008. All sectors experienced growth, with the Industrial and Hotel sectors leading the way with 31.2% and 15.4% respectively. While the Domestic sector showed an increase of 6.8%, it represented the largest quantum of 2.31 GWh. The Commercial sector grew by 6.6%.




Contributing factors to the rise in electricity consumption during 2009 include:

(1) Lower fuel surcharge compared with the previous year
(2) Improved reliability of supply
(3) Less self generation by large business customers
(4) Addition of several large Commercial clients and the continued expansion by a major customer in the Industrial sector

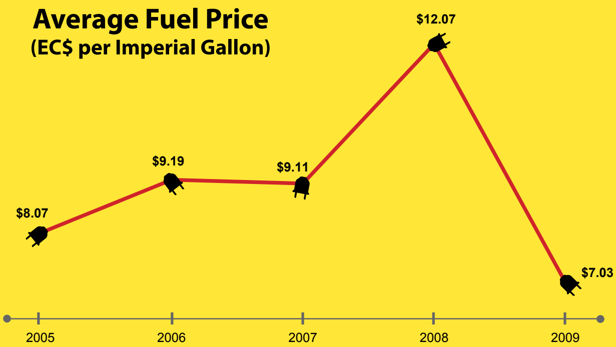



**Energy Sales in 2009**

Revenue from electricity sales increased by 9.0% or EC$4.6 million, consistent with the rise in GWh sales and an unchanged base tariff. Despite the substantial sales growth – 9% in 2009 compared to 3.2% in 2008 – gross revenue declined in 2009 by 16.1% to EC$76.8 million due to a significant reduction in the fuel surcharge component. In 2008, fuel surcharge amounted to EC$40.6 million, while in 2009 the figure dropped sharply to EC$20.4 million, a 50% decline, resulting from a reduction in fuel prices.

### DIRECT EXPENSES

Direct Expenses decreased by EC$17.7 million, or 24.3% from 2008 for the following reasons:




***Fuel Cost*** – Fuel cost was the foremost reason for the decline in direct expenses. Fuel prices dropped from an average of EC$12.07 per imperial gallon in 2008 to EC$7.03 in 2009 resulting in a decrease of EC$19.6 million or 41.3% over 2008. Other factors contributing to the decrease in fuel cost were increased Hydro output, and improved fuel efficiency resulting from the addition of three new engines.

***Maintenance Expenses*** – Maintenance expenses increased by EC$0.81 million over 2008. This 17.0% increase was as a result of more generating plant overhauls done in 2009 due to scheduling difficulties in 2008. Additionally, the unexpected breakdown of one of the new generators resulted in over-expenditure of EC$0.45 million.

### ADMINISTRATIVE EXPENSES

There was an EC$0.91 million, or 9.9% increase in Administrative Expenses over the comparable period. There was an increase in the premium for property damage all risk insurance. Also contributing to the increased expense was professional fees paid to regulatory consultants to advise and provide guidance on the company's interactions with the Independent Regulatory Commission. Towards the end of the year the company initiated arbitration proceedings against the Government to remedy the loss of shareholder value brought about by the revocation of the company's operating licence and these legal expenses further contributed to the increased costs in 2009.

### OTHER GAINS

Other gains were EC$0.46 million in 2009 compared to EC$2.44 million in 2008, a decline of EC$1.98 million. The primary reason for the decline is that in 2008, EC$3.9 million was received from an insurance settlement for the rebuild of the Padu power station and the distribution network which were damaged by Hurricane Dean in 2007.

### PROFIT

Profit before taxes for the financial year was EC$8.97 million in 2009; a decrease of EC$0.4 million over 2008.

Taxes for the year in review amounted to EC$2.82 million compared to EC$1.77 million in 2008. The increase in income tax expense is attributed to deferred income tax charge in the current year.

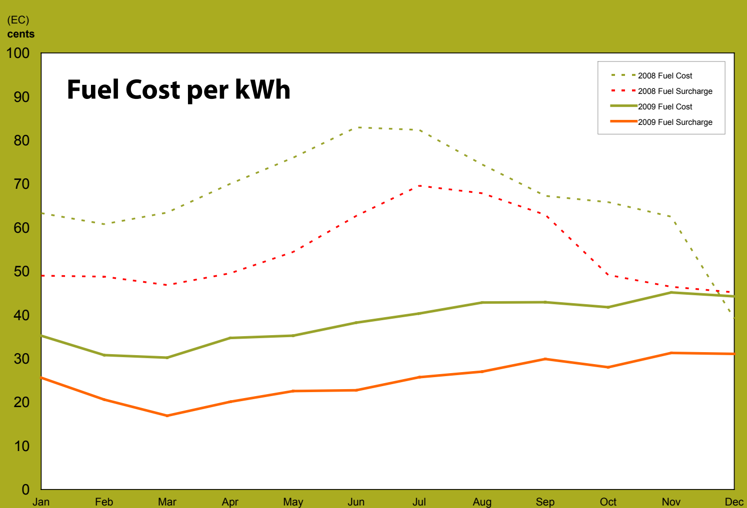
Tax depreciation is higher than financial depreciation in the earlier years of the asset's useful life. During the year, the company recognized depreciable assets amounting to $30 million. Accordingly, financial income in 2009 was higher than taxable income. This resulted in the increase in deferred tax liability with a corresponding charge in deferred income tax expense.

Net profit after tax was EC$6.15 million or a 19.6% decline from the corresponding amount of EC$7.6 million in 2008.

## CUSTOMER SERVICE

### FUEL PRICES

In July 2008 the fuel surcharge component of the electricity bill exceeded the basic energy rate for the first time in the company's history. One year later in 2009, fuel prices dropped significantly causing the fuel surcharge rate to decline to the lowest level in the last five years. The average fuel surcharge rate during the year in review was 25.39 cents/kWh, which was 53.9% less than the average for previous year of 55.10 cents/kWh.





*AMI installation in progress*

### ADVANCED METERING INFRASTRUCTURE – AMI

Following a successful pilot project in 2008, the AMI project was officially launched on October 15th 2009. By year end, 3,480 meters were installed in the capital, Roseau. In early 2010, the project team will begin installing AMI meters in the second town of Portsmouth. It is anticipated that over the next three years, all of our estimated 27,000 post paid customers, will have AMI meters.

Information gathered from the AMI system has provided valuable insight into activities on the system which impact on service to the customer. This has been used, for example, to verify information provided by customers in claims for compensation for damaged equipment and so improve the quality of response to customer queries.

### PREPAID SOFTWARE UPGRADE

On December 18th the Company began the upgrade of the software for its PAUG meter system to meet the growing number of customers and enhance management efficiencies. This new system will make it possible to:

- Increase the number of vending locations
- Eventually replace traditional PAUG meters with AMI PAUG meters
- Transfer credit between customers
- Perform text and email messaging
- Redeem top-up scratch cards
- Buy power online using credit/debit cards from anywhere in the world and via – Interactive Voice Response (IVR)
- Create individual internet accounts to view consumption data, credit balances etc
- Direct credit to AMI meters

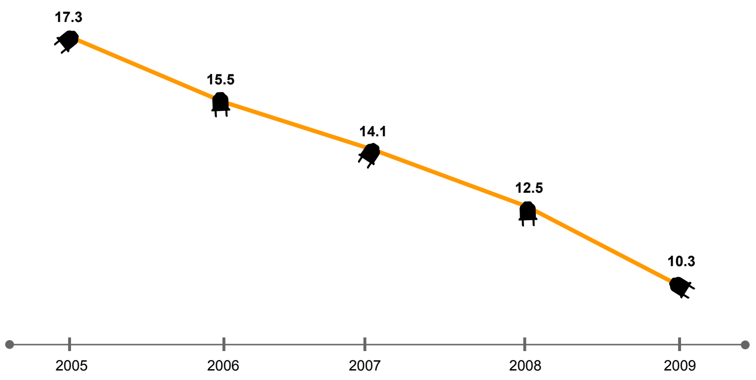
Additionally, the new software is a complete accounting and financial system. It has its own General Ledger therefore transactions can be more easily reconciled. The system is web based so it can be accessed from anywhere in the world. Domlec can now market the prepaid concept more aggressively since the company has the infrastructure that fully supports this enterprise. The system went live on 1st February 2010.

## TECHNICAL OPERATIONS

### DISTRIBUTION

***System Losses*** - System losses for the year in review is the lowest on record at 10.3%, down from the previous year's 12.5% and well below the forecast level of 11.8%. This resulted from sustained loss management activity on both the non-technical and technical sides and is in line with a trend of steady improvement over the past five years.

**System Losses (%)**




Building on the historical achievements of 2008, the non-technical Loss Reduction Team maintained their strict vigilance during the year. The following activities were undertaken:

- Timely investigation of exception reports from the billing system
- Close monitoring of high value clients
- Replacement of identified high risk defective meters
- Continuous scrutinizing of the database
- Investigation and prosecution of electricity theft

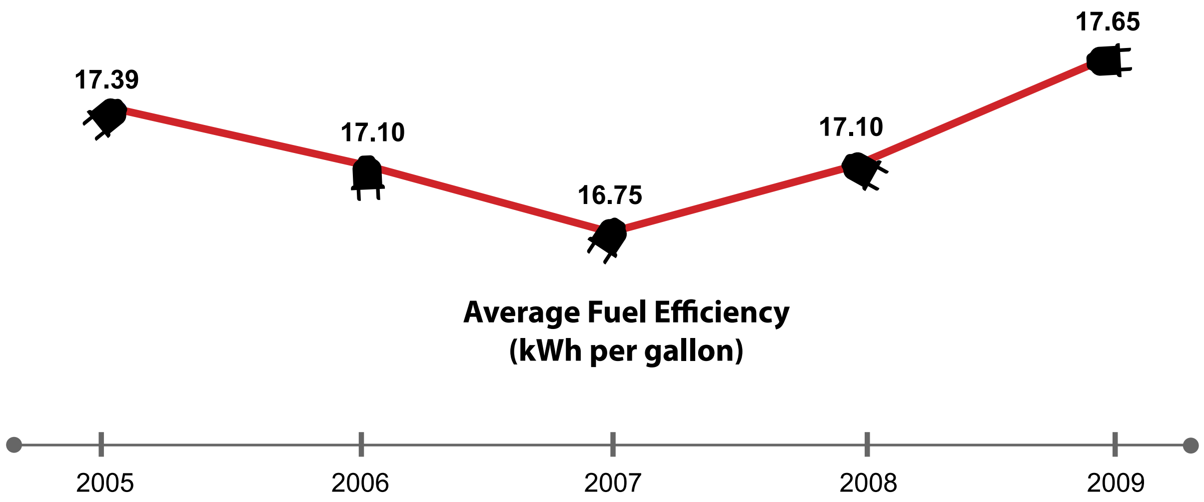
On the technical side, activities such as the installation of an additional 600 kVAr of capacitors, the removal of 225 kVA of excess transformer capacity and the upgrade of 20 km of conductors in villages around the island made a significant impact. The Loss Reduction Teams of the Commercial Department and the T&D Department must be congratulated.

***Reliability*** - There was improvement in overall system reliability with the SAIDI index (the average time in minutes each customer was without power) recorded as 51.5, down from 76.1 in 2008. This can be attributed to a combination of greater available generation capacity – hence minimal load shedding, improved line surveillance using infra-red inspection equipment and increased hotline maintenance activity. A crew of eight, which includes two supervisors, was trained and certified to execute a variety of tasks utilizing hotline sticks. Rubber glove certification is expected to be completed in 2010.

*Hotline Crew in training.*

## GENERATION

Since being commissioned on 27th March 2009, the new MAN units have contributed significantly towards improvements in average fuel efficiency and overall system reliability. The installation of this 4.2 MW of additional generation capacity made it possible to execute the preventive maintenance programme according to schedule. The company was able to deliver the higher than expected amount of energy and peak loads during the year, and do so with the best fuel efficiency on record (averaging 17.65 kWh per imperial gallon).

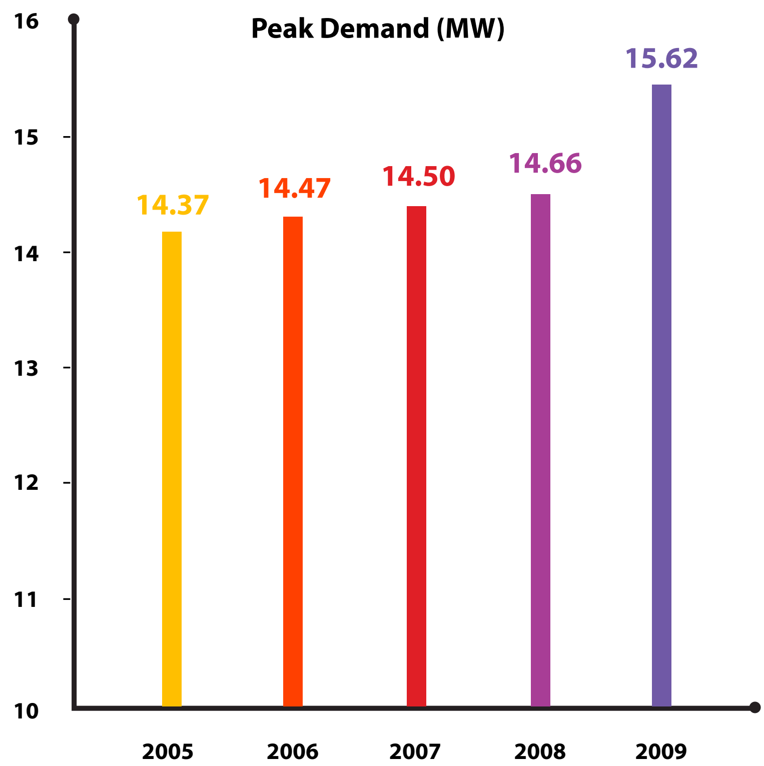



A total of 92.7 GWh of electricity was produced during 2009, 25.0% of which was contributed by the hydro. These numbers compare favourably with 87.5 GWh and 23.5% respectively, in the previous year. Peak demand climbed 6.5% to 15.6 MW in 2009.

Significant technical improvements were made within the Generation Department including the installation of new digital Ethernet based energy meters for several generators and the replacement of some control and power monitoring equipment at Trafalgar and Laudat power stations.

***Restoration of Padu*** - New electrical machines along with the refurbished mechanical components were shipped to Dominica in October and assembled at Padu Power Station. The installation process proved somewhat challenging and after a few delays work is currently progressing. It is expected that the turbo-generators will be commissioned in the first quarter of 2010.

***Automation of the Hydro*** - For several years now, the company had conceptualized a plan to automate the monitoring and control of its three hydro-electric stations in a bid to further reduce operating costs. The first step towards the realization of this plan was made in 2009. A bid for tenders on the project has been sought and by year's end the process of negotiating a contract with the successful bidder was at an advanced stage. After the contract is concluded the full installation of the system is expected to take ten months. Once the project is complete the system will be operated remotely from the System Control Center.



### INTERCONNECTION

Requests and enquiries have been received from a few developers of renewable energy about interconnecting their installation to the grid for the purpose of selling [excess] energy to Domlec. The company fully supports developments in renewable energy and accordingly has prepared a draft Interconnection Policy which is currently being discussed with the Independent Regulatory Commission (IRC). The main objective of this policy is to establish clear guidelines for procedure and technical standards that will apply to all, so there will be no confusion or discrimination in the manner applications for interconnection are handled. The primary areas of concern to Domlec are as follows:

- to define engineering standards that Renewable Energy (RE) developers would have to meet before connection onto the grid in order to protect the integrity of the network and to safeguard the interests of other customers;
- to set standard operating procedures for coming on and off the grid safely;
- to achieve proper synchronization, grid stability and protection as well as quality of supply so as to minimise the level of interference imposed on the system;

## INFORMATION TECHNOLOGY

### BUSINESS CONTINUITY PHASE 2

In 2008 IT introduced the virtual disaster recovery infrastructure to assist in recovering much more quickly from IT related disasters. To enable the system to operate at its best, several sites are needed. To date, the Protected Site at the Head Office and the Recovery Site at Fond Colé have been commissioned. The Alternate Recovery site at Portsmouth will be commissioned in 2010.

There are two virtual servers located at the Head Office and Fond Colé sites. The physical servers housing the ACCPAC, Payroll, Billing, Web Server and Antivirus systems were all converted into virtual machines and copies of each are located on both the Fond Colé and Head Office servers. As a result of this conversion the main server room in Roseau has been relieved of redundant cabling and furniture thus making the area and equipment more manageable. A dedicated fibre link was also setup between Roseau and Fond Colé to accommodate the high volume of traffic between these two sites.

### TAPE LIBRARY FOR DISASTER RECOVERY

The back up device in the computer room was updated with a new tape library. This new tape library can store more data and considerably reduces the time for backup and restoration of data.

### TELEPHONE SYSTEM LIVE

For the past few years, IT has faced a significant challenge in controlling the telecommunications cost of the company. As a result, a Voice over Internet Provider (VOIP) system was purchased and on August 3rd 2009, Domlec went live with its own telephone system. This system covers Head Office and remote areas of Domlec where there are offices and network connectivity. It has numerous functionalities and is a major upgrade over the outdated rental system which existed before. A GSM gateway was also installed which enables Domlec to pass through all cellular calls originating from fixed lines at affordable rates. The VOIP system has brought considerable savings to the company particularly in respect of rental charges, local and overseas calls.

### PADU NOW ON FIBRE

There is now fibre connectivity between the locations of Head Office and Padu power station. This type of connectivity replaced the ADSL connection that existed between the two locations and which posed a significant reliability challenge. As a result, there has been considerable improvement in the network performance on the Head Office-Padu-Trafalgar links.

## HUMAN RESOURCES AND ADMINISTRATION

During the first quarter, the organization developed a Pandemic Preparedness Policy and Procedures document which proved useful in dealing with the threat of the Influenza A H1N1 virus in Dominica. The organization also contributed to the preparation of the National Pandemic Preparedness Plan.

Domlec improved on its solid and liquid waste management by installing oil recovery systems at the Sugar Loaf and Fond Colé power stations. A system was also put in place requiring linesmen to return unused material from the field.

In May, Domlec held its first ever Health and Safety month. Activities for the month included visits to eight primary schools, training in drug awareness and HIV/AIDS awareness for employees.

One hundred and fifty-one employees or 74% of the organization's workforce received training in a variety of subject areas during seventy-two programmes. The following table provides additional information.

| SECTION | NUMBER OF EMPLOYEES TRAINED |
|---|---|
| Operations | 97 |
| Accounts & Finance | 15 |
| Commercial | 27 |
| HR & Administration | 12 |
| TOTAL | 151 |

In the final quarter of 2009, the company purchased property at Portsmouth to enable the establishment of improved office facilities for commercial and technical staff in that area. When refurbishment and construction is completed, the company will be able to collect bill payments from customers at its offices in Portsmouth for the first time in the company's history. This project is expected to be complete by the second quarter of 2010.

"Empowering the success of youth"

## COMMUNITY

Despite a reduced budget in 2009 Domlec was nevertheless able to touch the lives of many individuals, institutions and organizations.

Our focus on giving back to the less fortunate of the community, to health, education, sports and cultural enhancement continued in the year under review.

The Grotto Home for the Homeless received its annual donation of $10,200 towards electricity consumption for the year. The island's centenarians benefit from $600 annually which is credited towards their electricity bill. In cases where the centenarians are resident at an institution the credit is applied to the account of the said institution.

The Private Sector Foundation for Health, a non-profit organization providing assistance to persons requiring health care, was the recipient of $25,000 as part of Domlec's annual contribution to the foundation.

In the area of culture the Waitukubuli Dance Theatre Company was presented with $10,000 towards the staging of the Ms. Teen Dominica Pageant. The Nature Island Book Fair which was hosted the 'Literary Festival' held for the first time during the island's reunion celebration in 2008, again received $10,000 for the staging of the event in 2009.

*Ms. Teen Dominica 2009, Kelcia Righton, in spectacular wear.*


*HR& Admin Manager Bertila Mc Kenzie with students of the Dominica Grammar School on "Career Day" at the school.*

Much of the company's community outreach is aimed at education. The Education Trust Fund received a contribution of $5,000. As customary, the company made its annual presentation in recognition of a deserving graduate of every secondary school on island as well as the Dominica State College. These students have either excelled in Physics, Chemistry, Electricity, or have been awarded the student of the year prize. In 2009 a total of $6,500 was donated in that regard.

Domlec continues to play a major role in the lives of the staff and students of the Fond Cole Pre-School. For the past three years the company has made an annual contribution of $12, 480 for the upkeep and further development of that learning center.

Sponsorship was provided to various sporting disciplines on the island. $29,690 was allocated to the further development of sporting activities and the recipients for 2009 were: The Dominica Softball Cricket Development Association for hosting the Primary Schools Softball Academy; the Dominica Netball Association for hosting the National Netball League, the Trafalgar Football Organizing Committee for hosting the Domlec Roseau Valley Football League, the Southeast Sports Committee for hosting the Domlec Southeast Basketball League, the Grassroots Cricket Academy and the Dominica Bridge Association.

Institutions which cater to the social welfare needs of others were also benefactors of the company's community outreach. These included: The Dominica Association of People with Disabilities, Northern District Home for the Aged, National Drug Abuse Prevention Unit, R.E.A.C.H, Rotary Club, Welfare Division and the Community Mental Health Team.

As a good corporate citizen, Domlec takes pride in making meaningful contributions to the lives of many on the island.

“The achievement of every generation
is the starting point for the next.
Domlec powering today to empower tomorrow”

*Cassandra Delsol - 1st female FIFA referee for Dominica and a former player in the National Women’s Football League shares some techniques with Cassandra Augustine, Sportswoman of the Year 2009 and national player in the Women’s Football League.*

PRICEWATERHOUSECOOPERS

**PriceWaterhouseCoopers**
Pointe Seraphine
P.O.Box 195
Castries
St. Lucia, West Indies
Telephone (758) 456-2600
Facsimile (758) 452-1061

***March 17, 2010***

# Independent 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, 2009 and the related statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the accompanying financial statements present fairly, in all material respect, the financial position of the Company as of December 31, 2009, and its financial performance 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 31, 2009

(expressed in Eastern Caribbean dollars)

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents (Note 5) | **563,162** | 2,325,808 |
| Trade and other receivables (Note 6) | **13,644,139** | 17,691,802 |
| Inventories (Note 7) | **10,774,818** | 12,089,876 |
| | **24,982,119** | 32,107,486 |
| **Capital work-in-progress** (Note 8) | **7,056,159** | 21,383,638 |
| **Property, plant and equipment** (Note 9) | **111,849,155** | 90,355,646 |
| **Total assets** | **143,887,433** | 143,846,770 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Borrowings (Note 10) | **8,378,121** | 7,890,284 |
| Trade and other payables (Note 11) | **10,176,984** | 14,106,263 |
| Due to related party (Note 12) | **132,698** | 295,279 |
| Income tax payable | **1,896,225** | 1,508,967 |
| | **20,584,028** | 23,800,793 |
| **Borrowings** (Note 10) | **40,296,635** | 43,327,621 |
| **Deferred tax liabilities** (Note 13) | **15,293,718** | 14,501,636 |
| **Other non-current liabilities** (Note 14) | **8,464,818** | 7,270,456 |
| **Capital grants** (Note 15) | **1,197,260** | 1,484,131 |
| **Total liabilities** | **85,836,459** | 90,384,637 |
| **Equity** | | |
| **Share capital** (Note 16) | **10,417,328** | 10,417,328 |
| **Retained earnings** | **47,633,646** | 43,044,805 |
| **Total equity** | **58,050,974** | 53,462,133 |
| **Total liabilities and equity** | **143,887,433** | 143,846,770 |

Approved by the Board of Directors on March 17, 2010

_______________ Director          _______________ Director

Dominica Electricity Services Limited

# Statement of Comprehensive Income

For the year ended December 31, 2009

(expressed in Eastern Caribbean dollars)

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Revenue** | | |
| Energy sales | **54,911,299** | 50,265,339 |
| Fuel surcharge (Note 20) | **20,393,259** | 40,600,738 |
| Other revenue | **1,505,300** | 658,534 |
| | **76,809,858** | 91,524,611 |
| **Direct expenses** (Note 18) | | |
| Fuel cost | **27,697,284** | 47,254,920 |
| Operating costs | **13,111,330** | 13,601,257 |
| Depreciation | **8,813,250** | 7,295,113 |
| Maintenance | **5,595,818** | 4,787,848 |
| | **55,217,682** | 72,939,138 |
| **Gross profit** | **21,592,176** | 18,585,473 |
| **Administrative expenses** (Note 18) | **(10,122,184)** | (9,213,438) |
| **Other income, net** (Note 21) | **460,529** | 2,440,692 |
| **Operating profit** | **11,930,521** | 11,812,727 |
| **Finance costs** (Note 22) | **(2,955,959)** | (2,434,739) |
| **Profit before income tax** | **8,974,562** | 9,377,988 |
| **Income tax** (Note 23) | **(2,823,122)** | (1,773,731) |
| **Profit and comprehensive income for the year** | **6,151,440** | 7,604,257 |
| **Earnings per share for profit attributable to the equity holders of the Company during the year** (Note 24)<br>**- basic and diluted** | **0.59** | 0.73 |

**Dominica Electricity Services Limited**

# Statement of Changes in Equity

**For the year ended December 31, 2009**

(expressed in Eastern Caribbean dollars)

| | **Share capital** (Note 16) **$** | **Retained earnings** **$** | **Total equity** **$** |
|---|---|---|---|
| Balance at January 1, 2008 | 10,417,328 | 37,003,147 | 47,420,475 |
| Total comprehensive income | | | |
| Profit for the year | – | 7,604,257 | 7,604,257 |
| Transactions with owners | | | |
| Dividends (Note 17) | – | (1,562,599) | (1,562,599) |
| **Balance at December 31, 2008** | **10,417,328** | **43,044,805** | **53,462,133** |
| Balance at January 1, 2009 | 10,417,328 | 43,044,805 | 53,462,133 |
| Total comprehensive income | | | |
| Profit for the year | – | 6,151,440 | 6,151,440 |
| Transactions with owners | | | |
| Dividends (Note 17) | – | (1,562,599) | (1,562,599) |
| **Balance at December 31, 2009** | **10,417,328** | **47,633,646** | **58,050,974** |

## Dominica Electricity Services Limited

# Statement of Cash Flows

### For the year ended December 31, 2009

(expressed in Eastern Caribbean dollars)

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before income tax | **8,974,562** | 9,377,988 |
| Adjustments for: | | |
| Depreciation (Note 9) | **8,813,250** | 7,295,113 |
| Amortisation of capital grants (Notes 15 and 21) | **(286,871)** | (294,902) |
| Gain on disposal of plant and equipment (Note 21) | **(2,578)** | (1,934,127) |
| Unrealised foreign exchange (gains)/losses | **5,386** | (59,469) |
| Finance costs (Note 22) | **2,955,959** | 2,434,739 |
| Operating profit before working capital changes | **20,459,708** | 16,819,342 |
| Decrease/(increase) in trade and other receivables | **4,047,663** | (2,674,549) |
| Decrease /(increase) in inventories | **1,315,058** | (3,478,932) |
| (Decrease)/increase in trade and other payables | **(3,929,279)** | 7,079,474 |
| (Decrease)/increase in due to related party | **(162,581)** | 123,532 |
| Cash generated from operations | **21,730,569** | 17,868,867 |
| Finance costs paid | **(2,925,047)** | (2,522,120) |
| Income tax paid | **(1,643,782)** | (1,319,054) |
| Net cash provided by operating activities | **17,161,740** | 14,027,693 |
| **Cash flows from investing activities** | | |
| Increase in capital work-in-progress (Note 8) | **(7,942,760)** | (23,113,068) |
| Purchase of property, plant and equipment (Note 9) | **(8,090,792)** | (8,778,004) |
| Proceeds on disposal of property, plant and equipment | **56,850** | 3,938,320 |
| Net cash used in investing activities | **(15,976,702)** | (27,952,752) |
| **Cash flows from financing activities** | | |
| Proceeds from borrowings | **4,500,000** | 21,804,827 |
| Repayment of borrowings | **(6,888,066)** | (3,352,905) |
| Dividends paid (Note 17) | **(1,562,599)** | (1,562,599) |
| Increase in other non-current liabilities | **1,194,362** | 540,204 |
| Net cash (used in)/provided by financing activities | **(2,756,303)** | 17,429,527 |
| **Net (decrease)/increase in cash and cash equivalents** | **(1,571,265)** | 3,504,468 |
| **Cash and cash equivalents, beginning of year** | **1,175,320** | (2,329,148) |
| **Cash and cash equivalents, end of year** (Note 5) | **(395,945)** | 1,175,320 |

Dominica Electricity Services Limited

# Notes to Financial Statements

For the year ended December 31, 2009

(expressed in Eastern Caribbean dollars)

## 1 General information

Dominica Electricity Services Limited (the Company) was incorporated as a public limited liability company in the Commonwealth of Dominica on April 30, 1975.

The Company operates in a fully liberalised sector under the newly enacted Electricity Supply Act of 2006. Under the Act an Independent Regulatory Commission is vested with broad regulatory oversight over all aspects of the energy sector. The Company's operations are regulated by this Commission.

The Company is listed on the Eastern Caribbean Securities Exchange and falls under the jurisdiction of the Eastern Caribbean Regulatory Commission.

Dominica Private Power Ltd., a company incorporated in the Turks and Caicos Islands owns 52% of the issued share 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) and 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 judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**Changes in accounting policy and disclosures**

(a) New and amended standards adopted by the Company

The Company has adopted the following new and amended IFRS as of January 1, 2009:

- IFRS 7 'Financial instruments – Disclosures' (amendment) – effective after January 1 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies …continued

**Changes in accounting policy and disclosures …continued**

- IAS 1 (revised) 'Presentation of financial statements' – effective January 1, 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company previously recognised all borrowing costs as an expense immediately. This change in accounting policy was due to the adoption of IAS 23, 'Borrowing costs' (2007) in accordance with the transition provisions of the standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

(b) Standard and amendment to existing standard that is not yet effective and has not been early adopted by the Company

Below is the standard and amendment to existing standard which has been published and is mandatory for the Company's accounting periods beginning on or after January 1, 2010 or later periods, but the Company has opted not to early adopt:

- IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the International Accounting Standards Board's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from January 1, 2010 but the adoption is not expected to have a material impact on the Company's financial statements.

**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.

**Dominica Electricity Services Limited**

# Notes to Financial Statements

**December 31, 2009**

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies…continued

**Trade receivables**

Trade receivables are carried at fair value and subsequently measured at amortised cost using effective interest method, less provision made for impairment of these receivables. 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the future collectible amount. The carrying amount of the asset is reduced through the use of allowance account, and the amount of the loss is recognized in the statement of comprehensive income within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited against administrative expenses in the statement of comprehensive income.

**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**

Land and buildings comprise mainly generation plants and offices. 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 statement of comprehensive income during the financial period in which they are incurred.

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

| | |
|---|---|
| Buildings, headworks and pipelines | 2 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.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies…continued

**Property, plant and equipment...continued**

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

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.

**Impairment of non-financial 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).

**Trade payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Borrowings and borrowing costs**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

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. 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.

**Income taxes**

*(a) Current tax*

The current income tax expense is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies…continued

**Income taxes…continued**

*(b) Deferred tax*

Deferred income tax is recognised, 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 differences arise mainly from depreciation on property, plant and equipment and capital grants.

**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.

**Consumers' contributions**

In certain specified circumstances, consumers requiring line extensions are required to contribute the estimated capital cost of the extension. These contributions are recorded as deferred revenue and the actual cost incurred is capitalised in property, plant and equipment.

**Consumers' deposits**

Given the long-term nature of the customer relationship, consumers' 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 in which 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 statement of comprehensive income 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 approved by the Company's shareholders.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies…continued

**Revenue and expense recognition**

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

*(a) 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 other receivables.

*(b) Interest income*

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

*(c) Other income*

Other income is recorded on an accrual basis.

Costs and expenses are recognised as incurred.

**Employee benefits**

*(a) Pension*

Up till February 2009, the Company contributed 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.

Due to financial difficulties being experienced by the Pension Plan Provider, a decision was taken in March 2009 to cease payment of both the employer and employee's contributions to that provider. Instead, the contributions have been placed in a bank account until an alternative provider was sourced. At that point the said contributions would be transferred to the new Plan.

*(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.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 2 Summary of significant accounting policies…continued

**Foreign currency translation**

*(a) 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.

*(b) 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 statement of comprehensive income.

**Provisions**
Provisions, if any, are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

**Contingent liabilities**
Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of the outflow of resources embodying the economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**Subsequent events**
Post year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the Company's financial statements. Post year-end events that are not adjusting events are disclosed when material to the financial statements, if any.

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

**Dominica Electricity Services Limited**

# Notes to Financial Statements

**December 31, 2009**

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management

**Financial risk factors**

The Company's activities expose it to a variety of financial risk: market risks (including foreign exchange, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the Finance department. The Board of Directors is involved in the Company's overall risk management providing guidance on matters such as market risk, credit risk and liquidity risk.

**(a) Market risk**

*(i) Foreign exchange risk*

The Company trades internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the United States dollars, Euros and the Great Britain Pound (GBP). 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.

The Management has set up a policy requiring the Company to manage its foreign exchange risk against their functional currency. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Company attempts to enter into transactions that are based primarily in United States dollars. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Company's functional currency.

At December 31, 2009, if the currency had weakened/strengthened by 10% against the Euro and GBP with all other variables held constant, post-tax profit for the year would have been $77,650 (2008 - $56,833) lower/higher, mainly as a result of foreign exchange gains/losses on translation of Pounds Sterling denominated trade payables and Euro denominated borrowings.

*(ii) Cash flow and fair value interest rate risk*

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings and consumer deposits. Borrowings and deposits issued at variable rates expose the Company to cash flow interest rate risk. Similarly, such facilities issued at fixed rates expose the Company to fair value interest rate risk.

*(iii) Price risk*

Price risk arises primarily from exposure to equity securities. As the Company holds no such instruments, it has no price risk exposure at December 31, 2009.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management…continued

**Financial risk factors…continued**

**(b) Credit risk**

Credit risk arises from cash and cash equivalents held with financial institutions, as well as credit exposure to customers, including receivables and committed transactions. The Company's bank deposits are placed with financial institutions which have developed a good reputation over the years. Within the immediate region, there are no credit rating mechanisms for financial institutions. The Company assesses the credit quality of its receivables by taking into account the individual customer's rating, past experience and other factors. Individual risk limits are set based on management credit policies. Management performs periodic credit evaluations of its customers' financial condition and monitors credit limits regularly. Management does not believe that significant credit risk exists at December 31, 2009.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Company attempts to maintain flexibility in funding by maintaining availability under committed credit facilities coupled with support from its related parties.

Management monitors the Company's liquidity position on the basis of expected cash flow.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months are estimated to equal their carrying balances as the impact of discounting is not significant.

| | Less than 1 year $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Total $ |
|---|---|---|---|---|---|
| **At 31 December, 2009** | | | | | |
| Borrowings | 9,904,230 | 9,569,940 | 28,709,820 | 7,974,940 | 56,158,930 |
| Trade and other payables | 10,309,682 | – | – | – | 10,309,682 |
| Consumers' deposits | – | – | – | 3,750,247 | 3,750,247 |
| | 20,213,912 | 9,569,940 | 28,709,820 | 11,725,187 | 70,218,859 |
| **At 31 December, 2008** | | | | | |
| Borrowings | 9,382,642 | 8,969,596 | 26,137,872 | 15,973,144 | 60,463,254 |
| Trade payables | 14,401,542 | – | – | – | 14,401,542 |
| Consumers' deposits | – | – | – | 3,578,061 | 3,578,061 |
| | 23,784,184 | 8,969,596 | 26,137,872 | 19,551,205 | 78,442,857 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 3 Financial risk management…continued

**Capital risk management**

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain optimal capital to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue new shares or sell assets to reduce debt.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

During 2009, the Company maintained a gearing ratio within the 40% range.

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Total borrowings (Note 10) | **48,674,756** | 51,217,905 |
| Less: cash and cash equivalents (Note 5) | **(563,162)** | (2,325,808) |
| Net debt | **48,111,594** | 48,892,097 |
| Total equity | **58,050,974** | 53,462,133 |
| Total capital | **106,162,568** | 102,354,230 |
| Gearing ratio | **45%** | 48% |

The decrease in the gearing ratio during 2009 resulted primarily from loan repayments during the year.

**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.

The carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, and due to related party approximate their fair values due to the short-term maturity of these items.

The fair value of borrowings for disclosure purposes are estimated by discounting the future contractual cash flows at the current market rate that is available to the Company in respect of similar financial instruments.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 4 Critical accounting estimates and judgements

The Company's financial statements prepared under IFRS requires the Company to make judgment and estimates that affect the amounts reported in the financial statements and related notes. Future events may occur which may cause the judgements and assumptions used in arriving at the estimates to change. The effects of any change in judgements and estimates are reflected in the Company's financial statements as they become reasonably determinable.

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.

**(a) Critical accounting estimates and assumptions**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

*(i) Provision for impairment of receivables*

The Company maintains a provision for impairment of receivables at a level considered adequate to provide for potentially uncollectible receivables. The level of provision is evaluated by management based on experience and other factors that may affect the recoverability of these assets. If there is an objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount and timing of recorded expenses for any period would therefore differ based on the judgements or estimates made. An increase in provision for impairment of receivables would increase the Company's recorded expenses and decrease current assets.

Provision for impairment of receivables amounted to $421,907 (2008 - $2,434,850). Trade and other receivables, net of provision for impairment of receivables amounted to $13,664,139 (2008 - $17,691,802).

*(ii) Estimated useful lives*

The useful life of each of the Company's property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property, plant and equipment would increase the recorded depreciation expense and decrease non-current assets.

Property, plant and equipment, net of accumulated depreciation, amounted to $111,849,155 as of December 31, 2009 (2008 - $90,355,646).

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 4 Critical accounting estimates and judgements...continued

*(iii) Asset impairment*

IFRS requires that an impairment review be performed when certain impairment indicators are present. In purchase accounting, estimation and judgement are used in the allocation of the purchase price to the fair market values of the assets purchased and liabilities assumed. Likewise, determining fair value of assets requires the estimation of cash flows expected to be generated from the continued use of the ultimate disposition of such assets.

Property, plant and equipment are the non-current assets that are subject to impairment testing when impairment indicators are present.

**(b) Critical accounting judgements**

In the process of applying the Company's accounting policies, management has made judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

*(i) Contingencies*

The Company's contingent liability pertains to corporate income tax, penalties and interests amounting to $6,643,047 which was assessed by the Inland Revenue Division. No provision for contingencies was recognised as of the balance sheet date (Note 26).

## 5 Cash and cash equivalents

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Cash at bank | **563,162** | 2,325,808 |

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

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Cash at bank | **563,162** | 2,325,808 |
| Bank overdraft (Note 10) | **(959,107)** | (1,150,488) |
| | **(395,945)** | 1,175,320 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 6 Trade and other receivables

| | 2009 $ | 2008 $ |
|---|---|---|
| Government | **2,083,896** | 3,467,459 |
| Other | **6,704,399** | 9,698,265 |
| Trade receivables, gross | **8,788,295** | 13,165,724 |
| Provision for impairment of trade receivables | **(103,050)** | (1,834,201) |
| Trade receivables, net | **8,685,245** | 11,331,523 |
| Accrued income | **1,362,425** | 1,106,474 |
| | **10,047,670** | 12,437,997 |
| Other receivables | **3,889,326** | 5,793,134 |
| Provision for impairment of other receivables | **(318,857)** | (600,649) |
| Other receivables, net | **3,570,469** | 5,192,485 |
| Prepayments | **26,000** | 61,320 |
| | **13,644,139** | 17,691,802 |

The fair values of trade and other receivables approximate their carrying values.
As of December 31, 2009, trade receivables of $7,468,609 (2008 - $8,749,741) were fully performing. These relate to a number of independent customers for whom there is no recent history of default.

Trade receivables that are categorized as active and are less than 30 days past due are not considered impaired.
As of December 31, 2009, trade receivables of $1,200,938 (2008 - $2,490,507) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

| | 2009 $ | 2008 $ |
|---|---|---|
| 61 - 90 days | **272,852** | **606,428** |
| 91 + days | **928,086** | **1,884,079** |
| | **1,200,938** | **2,490,507** |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 6 Trade and other receivables…continued

As of December 31, 2009, trade receivables of $118,747 (2008 - $1,925,476) were impaired and partially provided for. The amount of the provision was $103,050 as of December 31, 2009 (2008 - $1,834,201). The individually impaired receivables mainly relate to customers who are in unexpectedly difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Up to 12 months | **107,991** | 182,550 |
| Over 12 months | **10,756** | 1,742,926 |
| | **118,747** | 1,925,476 |

The carrying amounts of the Company's trade and other receivables are all denominated in Eastern Caribbean Dollars.

Movements on the Company's provision for impairment of trade and other receivables are as follows:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| At beginning of year | **2,434,850** | 2,440,102 |
| Bad debt expense (Note 18) | **113,953** | 114,811 |
| Written off during the year | **(2,126,896)** | (120,063) |
| At end of year | **421,907** | 2,434,850 |

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the statement of comprehensive income (Note 18). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company holds cash as security for its receivables.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 7 Inventories

| | 2009 $ | 2008 $ |
|---|---|---|
| Network spares | **5,401,547** | 7,540,771 |
| Generation spares | **5,573,435** | 4,768,498 |
| Fuel | **279,698** | 206,051 |
| Other | **401,237** | 455,655 |
| | **11,655,917** | 12,970,975 |
| Provision for impairment of inventories | **(881,099)** | (881,099) |
| Inventories, net | **10,774,818** | 12,089,876 |

Movements on the Company's provision for impairment of inventories are as follows:

| | 2009 $ | 2008 $ |
|---|---|---|
| At beginning of year | **881,099** | 697,002 |
| Provision for inventory obsolescence (Note 18) | **425,579** | 195,355 |
| Written off during the year | **(425,579)** | (11,258) |
| At end of year | **881,099** | 881,099 |

## 8 Capital work-in-progress

| | 2009 $ | 2008 $ |
|---|---|---|
| At beginning of year | **21,383,638** | 636,452 |
| Additions | **7,942,760** | 23,113,068 |
| Transferred to property, plant and equipment (Note 9) | **(22,270,239)** | (2,365,882) |
| At end of year | **7,056,159** | 21,383,638 |

**Dominica Electricity Services Limited**

# Notes to Financial Statements

**December 31, 2009**

(expressed in Eastern Caribbean dollars)

## 9 Property, plant and equipment

| | Land and Buildings $ | Generation, Transmission and Distribution $ | Motor Vehicles $ | Furniture and Fittings $ | Total $ |
|---|---|---|---|---|---|
| **At January 1, 2008** | | | | | |
| Cost or valuation | 58,786,667 | 112,197,888 | 3,578,638 | 7,121,206 | 181,684,399 |
| Accumulated depreciation | (24,909,793) | (59,949,785) | (2,385,311) | (5,928,444) | (93,173,333) |
| Net book amount | 33,876,874 | 52,248,103 | 1,193,327 | 1,192,762 | 88,511,066 |
| **Year ended December 31, 2008** | | | | | |
| Opening net book amount | 33,876,874 | 52,248,103 | 1,193,327 | 1,192,762 | 88,511,066 |
| Additions for the year | 56,355 | 7,661,047 | 447,500 | 613,102 | 8,778,004 |
| Transfer from capital work-in-progress | 102,689 | 2,263,193 | – | – | 2,365,882 |
| Disposals | – | (2,004,190) | (3) | – | (2,004,193) |
| Depreciation | (1,547,520) | (4,778,930) | (426,579) | (542,084) | (7,295,113) |
| Closing net book amount | 32,488,398 | 55,389,223 | 1,214,245 | 1,263,780 | 90,355,646 |
| **At December 31, 2008** | | | | | |
| Cost or valuation | 58,945,711 | 118,099,552 | 3,821,267 | 7,734,308 | 188,600,838 |
| Accumulated depreciation | (26,457,313) | (62,710,329) | (2,607,022) | (6,470,528) | (98,245,192) |
| **Net book amount** | 32,488,398 | 55,389,223 | 1,214,245 | 1,263,780 | 90,355,646 |
| **Year ended December 31, 2009** | | | | | |
| Opening net book amount | 32,488,398 | 55,389,223 | 1,214,245 | 1,263,780 | 90,355,646 |
| Additions for the year | 399,672 | 6,733,978 | 346,527 | 610,615 | 8,090,792 |
| Transfer from capital work-in-progress | 94,847 | 22,175,392 | – | – | 22,270,239 |
| Disposals | – | – | (54,272) | – | (54,272) |
| Depreciation | (1,559,838) | (6,187,085) | (432,821) | (633,506) | (8,813,250) |
| Closing net book amount | 31,423,079 | 78,111,508 | 1,073,679 | 1,240,889 | 111,849,155 |
| **At December 31, 2009** | | | | | |
| Cost or valuation | 59,440,230 | 147,008,922 | 3,650,878 | 8,344,923 | 218,444,952 |
| Accumulated depreciation | (28,017,151) | (68,897,414) | (2,577,199) | (7,104,034) | (106,595,797) |
| Net book amount | 31,423,079 | 78,111,508 | 1,073,679 | 1,240,889 | 111,849,155 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 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. The liability is limited to $130,000,000 for all property including Transmission and Distribution assets within 1,000 ft from the generating plant. Transmission and Distribution assets over 1,000 ft from the generating plant are not covered for wind and wind related perils. A catastrophe standby facility of $10,000,000 from January 1st, 2009 to May 31st 2009 and $20,000,000 from June 1st, 2009 to December 31st, 2009 was arranged with a financial institution to cover the Transmission and Distribution assets.

Depreciation expense charged to direct expenses and administrative expenses amounted to $8,179,743 (2008 - $6,753,029) and $633,507 (2008 - $542,084), respectively.

## 10 Borrowings

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| **Current** | | |
| Bank overdraft (Note 5) | **959,107** | 1,150,488 |
| Bank borrowings | **7,223,394** | 6,360,964 |
| Other financial institution borrowings | **195,620** | 378,832 |
| | **8,378,121** | 7,890,284 |
| **Non-current** | | |
| Bank borrowings | **40,296,635** | 43,133,381 |
| Other financial institution borrowings | **–** | 194,240 |
| | **40,296,635** | 43,327,621 |
| **Total borrowings** | **48,674,756** | 51,217,905 |

Included in the current portion of bank borrowings is interest payable of $58,829 (2008 - $27,917). Interest expense on bank borrowings and other financial institutions amounted to $2,841,815 (2008 - $2,289,714), while interest on bank overdraft amounted to $13,124 (2008 - $50,170) (Note 22).

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 10 Borrowings…continued

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

| | 2009 % | 2008 % |
|---|---|---|
| Bank overdraft | **5.75** | 5.75 |
| Bank borrowings | **4.72** | 5.71 |
| Other financial institutions | **5.00** | 5.00 |

Maturity of non-current borrowings:

| | 2009 $ | 2008 $ |
|---|---|---|
| Between 1 and 2 years | **7,446,922** | 6,659,750 |
| Between 2 and 5 years | **25,084,120** | 21,568,843 |
| Over 5 years | **7,765,593** | 15,099,028 |
| | **40,296,635** | 43,327,621 |

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 carrying amounts and fair value of the non-current borrowings are as follows:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2009 $ | 2008 $ | 2009 $ | 2008 $ |
| Bank borrowings | **40,296,635** | 43,133,381 | **41,037,492** | 44,334,024 |
| Other financial institution borrowings | **–** | 194,240 | **–** | 205,909 |
| | **40,296,635** | 43,327,621 | **41,037,492** | 44,539,933 |

The fair value of the non-current borrowings are based on cash flows discounted using a rate based on the government bond rate of 3.5% (2008 - 3.5%).

The carrying amounts of short-term borrowings approximate their fair value.

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 10 Borrowings…continued

The carrying amounts of the Company's borrowings are denominated in the following currencies:

| | 2009 $ | 2008 $ |
|---|---|---|
| Eastern Caribbean dollars | **48,287,509** | 50,286,680 |
| Euros | **195,620** | 573,072 |
| US dollars | **191,627** | 358,153 |
| | **48,674,756** | 51,217,905 |

As at December 31, 2009, the Company has unused credit facilities of $27,712,491 (2008 - $25,713,320).

## 11 Trade and other payables

| | 2009 $ | 2008 $ |
|---|---|---|
| Trade creditors | **7,559,723** | 11,297,356 |
| Accruals | **2,011,683** | 2,169,021 |
| Other | **605,578** | 639,886 |
| | **10,176,984** | 14,106,263 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 12 Related party balances and transactions

In the normal course of business, the Company transacts with companies and individuals which are considered related parties.

Related parties and relationships are as follows:

| **Related parties** | **Relationship** |
|---|---|
| Dominica Private Power Ltd. | Parent company |
| Dominica Social Security | Shareholder |
| WRB Enterprises Limited | Under common control |

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

| | **2009 $** | **2008 $** |
|---|---|---|
| Management fees: | | |
| WRB Enterprises Limited | **339,612** | 271,690 |
| Dominica Social Security (shareholder) | **–** | 67,923 |
| Director expenses, internal auditor costs, technical consultancies, feasibility studies, and recruitment expenses: | | |
| WRB Enterprises Limited | **576,655** | 489,106 |

Transactions with related parties were carried out on commercial terms and conditions and at market prices. Short-term advances from related parties are reimbursed at the original amount advanced. Related parties did not grant or receive guarantees in relation to short-term advances.

Year-end balance of payable arising from transactions with related parties as of December 31 is as follows:

| | **2009 $** | **2008 $** |
|---|---|---|
| **Due to related party** | | |
| WRB Enterprises Limited | **132,698** | 295,279 |

**Key management compensation**
Key management comprises directors, divisional management and senior management of the Company. Compensation for these individuals was as follows:

| | **2009 $** | **2008 $** |
|---|---|---|
| Salaries and other short-term employee benefits | **1,613,247** | 1,517,635 |
| Post-employment benefits | **68,831** | 65,819 |
| | **1,682,078** | 1,583,454 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 13 Deferred tax liabilities

Deferred tax liability is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on deferred tax liabilities is as follows:

| | 2009 $ | 2008 $ |
|---|---|---|
| At beginning of year | **14,501,636** | 14,692,113 |
| Statement of income charge/(credit) (Note 23) | **792,082** | (190,477) |
| At end of year | **15,293,718** | 14,501,636 |

The deferred tax liabilities pertain to temporary differences on the following:

| | 2009 $ | 2008 $ |
|---|---|---|
| Accelerated capital allowance | **52,143,228** | 49,690,546 |
| Capital grants | **(1,164,168)** | (1,351,759) |
| | **50,979,060** | 48,338,787 |

## 14 Other non-current liabilities

| | 2009 $ | 2008 $ |
|---|---|---|
| Deferred revenue | **4,818,274** | 3,791,081 |
| Consumers' deposits | **3,641,016** | 3,473,847 |
| Retirement benefit plan | **5,528** | 5,528 |
| | **8,464,818** | 7,270,456 |

**Deferred revenue**

Deferred revenue represents payments made by customers towards the cost of capital works to be undertaken by the Company in order for the customers to receive electricity. When the asset is completed and transferred to property, plant and equipment, the deferred revenue will be amortised in accordance with the depreciation rate of the asset.

**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 $101,020 (2008 - $94,855) was charged against income (Note 22).

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 15 Capital grants

| | 2009 $ | 2008 $ |
|---|---|---|
| At beginning of year | **1,484,131** | 1,779,033 |
| Amortisation (Note 21) | **(286,871)** | (294,902) |
| At end of year | **1,197,260** | 1,484,131 |

## 16 Share capital

| | 2009 $ | 2008 $ |
|---|---|---|
| Authorised: | | |
| Ordinary shares at no par value | **15,000,000** | 15,000,000 |
| Issued and fully paid: | | |
| 10,417,328 | **10,417,328** | 10,417,328 |

## 17 Dividends

The Company paid dividends of $1,562,599 (2008 - $1,562,599) to ordinary shareholders in respect of the year ended December 31, 2009.

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

| | 2009 $ | 2008 $ |
|---|---|---|
| Dividend declared and paid | **1,562,599** | 1,562,599 |
| Weighted average number of ordinary shares issued | **10,417,328** | 10,417,328 |
| Dividends per share | **0.15** | 0.15 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 18 Expenses by nature

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Fuel costs (Note 20) | **27,697,285** | 47,254,920 |
| Employee benefit expenses (Note 19) | **13,520,219** | 13,623,548 |
| Depreciation (Note 9) | **8,813,250** | 7,295,113 |
| Equipment and line repairs and maintenance | **5,595,139** | 5,055,163 |
| Legal and professional | **3,020,227** | 1,613,646 |
| Insurance | **2,103,886** | 1,668,664 |
| Office expenses | **800,196** | 1,053,092 |
| Communication | **656,377** | 720,117 |
| Travel expenses | **628,347** | 868,509 |
| Commercial expenses | **613,837** | 751,307 |
| Public relations | **447,363** | 544,920 |
| Provision for inventory obsolescence (Note 7) | **425,579** | 195,355 |
| Security | **412,058** | 424,581 |
| Bank and credit card charges | **248,057** | 260,383 |
| Bad debt expense/(recovery) (Note 6) | **113,953** | 114,811 |
| Hurricane restoration costs | **–** | 840 |
| Other expenses | **244,093** | 707,607 |
| **Total direct expenses, maintenance, operating and administrative expenses** | **65,339,866** | 82,152,576 |

## 19 Employee benefit expenses

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Salaries and wages | **10,584,115** | 10,431,115 |
| Other staff cost | **2,936,104** | 3,192,433 |
| | **13,520,119** | 13,623,548 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 20 Fuel cost

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Fuel cost at base price | **7,545,580** | 7,179,681 |
| Fuel surcharge | **20,151,704** | 40,075,239 |
| Total fuel cost (Note 18) | **27,697,284** | 47,254,920 |
| Fuel surcharge recovery | **(20,393,259)** | (40,600,738) |
| Net fuel cost | **7,304,025** | 6,654,182 |

## 21 Other income, net

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Gains/(losses) on disposal of plant and equipment | **2,578** | 1,934,127 |
| Amortisation of capital grants (Note 15) | **286,871** | 294,902 |
| Amortisation of deferred revenue | **188,751** | 144,530 |
| Foreign exchange (losses)/gains - net | **(17,671)** | 67,133 |
| | **460,529** | 2,440,692 |

## 22 Finance costs

Finance costs comprise the following:

| | 2009<br>$ | 2008<br>$ |
|---|---|---|
| Loan interest charges (Note 10) | **2,841,815** | 2,289,714 |
| Other interest charges (Note 14) | **101,020** | 94,855 |
| Overdraft charges (Note 10) | **13,124** | 50,170 |
| | **2,955,959** | 2,434,739 |

Dominica Electricity Services Limited

# Notes to Financial Statements

December 31, 2009

(expressed in Eastern Caribbean dollars)

## 23 Taxation

| | 2009 $ | 2008 $ |
|---|---|---|
| **Taxation** | | |
| Current | **2,031,040** | 1,964,208 |
| Deferred charge/(credit) (Note 13) | **792,082** | (190,477) |
| | **2,823,122** | 1,773,731 |

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:

| | 2009 $ | 2008 $ |
|---|---|---|
| Profit before income tax | **8,974,562** | **9,377,988** |
| Tax calculated at the rate of 30% | **2,692,369** | **2,813,396** |
| Income not subject to taxation | **(29,784)** | **(1,042,585)** |
| Expenses not deductible for tax purposes | **163,358** | – |
| Adjustment on deferred income tax | **(2,821)** | – |
| Other | – | **2,920** |
| Tax charge | **2,823,122** | **1,773,731** |

## 24 Earnings per share

| | 2009 $ | 2008 $ |
|---|---|---|
| Profit for the year | **6,151,440** | 7,604,257 |
| Weighted average number of ordinary shares issued | **10,417,328** | 10,417,328 |
| Basic and fully diluted earnings per share | **0.59** | 0.73 |

Earnings per share have been computed by dividing profit for the year by the average number of issued ordinary shares.

## 25 Commitments

The Company has committed to purchase products and services in the amount of $5,257,179 and $4,356,687 from a number of companies as at December 31, 2009 and 2008, respectively.

**Dominica Electricity Services Limited**

# Notes to Financial Statements

**December 31, 2009**

(expressed in Eastern Caribbean dollars)

## 26 Contingency

The income tax filings of the Company for periods 2001 to 2004 were assessed by the Inland Revenue Division which has resulted in a revised tax liability for corporate income tax, penalties and interests in the amount of $6,643,047. The Company has objected to the Notices of Reassessment in accordance with the provisions of the Income Tax Act. No provision has been made in the financial statements, since the final outcome cannot be fully determined at the balance sheet date.

**Dominica Electricity Services Limited**

# Operating Statistics

| CAPACITY & DEMAND (kW) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Generating Plant Installed Capacity** | | | | | |
| - Hydro | **4,760** | 4,760 | 7,600 | 7,600 | 7,600 |
| - Diesel | **19,460** | 16,570 | 17,170 | 15,890 | 15,890 |
| Total | **24,220** | 21,330 | 24,770 | 23,490 | 23,490 |
| **Firm* Capacity** | | | | | |
| - Hydro (Dry Season) | **2,300** | 2,300 | 3,200 | 3,200 | 3,200 |
| - Diesel | **15,500** | 12,330 | 12,930 | 11,650 | 11,650 |
| Total | **17,800** | 14,630 | 16,130 | 14,850 | 14,850 |

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

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Peak Demand** | **15,623** | 14,663 | 14,501 | 14,467 | 14,368 |
| Growth (%) | **6.5** | 1.1 | 0.2 | 0.7 | 8.9 |
| Load Factor = Average Demand / Maximum Demand | **0.68** | 0.68 | 0.68 | 0.67 | 0.66 |

| ENERGY PRODUCED (kWh x 1000) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Gross Generation** | | | | | |
| - Hydro | **23,156** | 20,554 | 21,885 | 27,797 | 27,876 |
| - Diesel | **69,565** | 66,944 | 64,497 | 57,619 | 55,779 |
| Energy Purchased | **-** | - | - | - | - |
| Total | **92,721** | 87,498 | 86,382 | 85,416 | 83,655 |
| Growth (%) | **6.0** | 1.3 | 1.1 | 2.1 | 5.6 |
| **Diesel Fuel Used in Generation** | | | | | |
| Quantity (Imp.Gal) | **3,942,115** | 3,915,979 | 3,850,914 | 3,368,935 | 3,207,976 |
| Fuel Efficiency (kWh per Imp.Gal) | **17.6** | 17.1 | 16.7 | 17.1 | 17.4 |

Dominica Electricity Services Limited

# Operating Statistics

| **ENERGY SOLD** (kWh x 1000) | **2009** | **2008** | **2007** | **2006** | **2005** |
|---|---|---|---|---|---|
| - Domestic | **36,369** | 34,051 | 33,732 | 34,176 | 33,492 |
| - Commercial | **32,280** | 30,278 | 28,788 | 26,469 | 24,993 |
| - Industrial | **7,877** | 6,004 | 5,600 | 5,357 | 5,504 |
| - Hotel | **2,339** | 2,028 | 2,002 | 2,439 | 2,649 |
| - Lighting | **0** | 0 | 1 | 0 | 1 |
| - Street Lighting | **1,443** | 1,325 | 1,298 | 1,130 | 1,150 |
| Total | **80,308** | 73,686 | 71,421 | 69,571 | 67,789 |
| Growth (%) | **9.0** | 3.2 | 2.7 | 2.6 | 2.1 |

| **OWN USE & LOSSES** (kWh x 1000) | | | | | |
|---|---|---|---|---|---|
| Power Station Use | **2,642** | 2,630 | 2,696 | 2,477 | 1,013 |
| Office Use | **522** | 559 | 451 | 512 | 523 |
| Losses | **9,249** | 10,623 | 11,814 | 12,856 | 14,330 |
| Losses (% of Gross Generation) | **10.0** | 12.1 | 13.7 | 15.1 | 17.1 |
| Losses (% of Net Generation) | **10.3** | 12.5 | 14.1 | 15.5 | 17.3 |

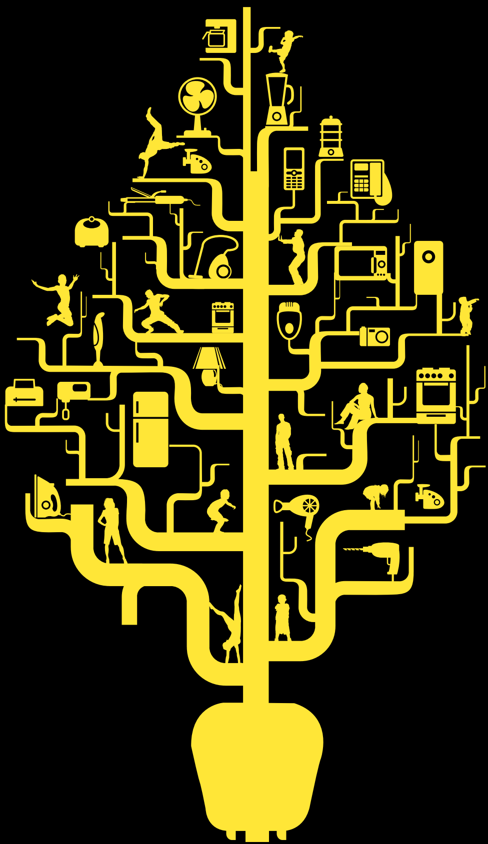
| **NUMBER OF CUSTOMERS AT YEAR END** | | | | | |
|---|---|---|---|---|---|
| - Domestic | **25,904** | 29,183 | 28,388 | 27,436 | 24,851 |
| - Commercial | **3,567** | 4,287 | 4,132 | 3,896 | 3,536 |
| - Industrial | **30** | 30 | 27 | 38 | 39 |
| - Hotel | **477** | 429 | 392 | 307 | 274 |
| - Lighting | **0** | 2 | 2 | 0 | 5 |
| - Street Lighting | **571** | 430 | 364 | 331 | 320 |
| Total | **30,549** | 34,361 | 33,305 | 32,008 | 29,025 |
| Growth (%) | **(11.1)** | 3.2 | 4.1 | 10.3 | 0.2 |
| **Number of Permanent Employees** | **192** | 181 | 179 | 175 | 180 |
| Number of Customers per Employee | **159** | 190 | 186 | 183 | 161 |

Dominica Electricity Services Limited

# Financial Statistics

(expressed in Eastern Caribbean dollars)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **ENERGY SOLD (kWh x 1000)** | **80,308** | 73,686 | 71,421 | 69,571 | 67,789 |
| **REVENUE/kWh SOLD (EC cents)** | **93.77** | 123.32 | 109.25 | 105.57 | 98.29 |
| **SUMMARIZED BALANCE SHEET (EC$ 000)** | | | | | |
| Share capital | **10,417** | 10,417 | 10,417 | 10,417 | 10,417 |
| Retained earning | **47,634** | 43,045 | 37,003 | 32,487 | 28,051 |
| Deferred credits | **16,491** | 15,986 | 16,471 | 16,888 | 17,226 |
| Long term liabilities | **48,761** | 50,598 | 34,890 | 35,940 | 35,673 |
| | **123,303** | 120,046 | 98,781 | 95,732 | 91,367 |
| Fixed assets (net) | **111,849** | 90,356 | 88,511 | 83,127 | 83,288 |
| Capital WIP | **7,056** | 21,384 | 636 | 2,930 | 300 |
| Current assets | **24,982** | 32,107 | 23,863 | 25,463 | 20,856 |
| Current liabilities | **(20,584)** | (23,801) | (14,229) | (15,788) | (13,077) |
| | **123,303** | 120,046 | 98,781 | 95,732 | 91,367 |
| **SUMMARIZED STATEMENT OF INCOME** | | | | | |
| **EXPENSES** | | | | | |
| Fuel | **27,697** | 47,255 | 35,095 | 30,971 | 25,884 |
| Operating expenses | **13,111** | 13,601 | 12,261 | 12,608 | 11,669 |
| Administration | **10,123** | 9,213 | 7,424 | 9,134 | 8,674 |
| Depreciation | **8,813** | 7,295 | 6,628 | 6,770 | 6,349 |
| Maintenance | **5,596** | 4,788 | 6,043 | 4,015 | 4,465 |
| | **65,340** | 82,152 | 67,451 | 63,498 | 57,041 |
| **OPERATING REVENUE** | | | | | |
| Electricity sales | **54,911** | 50,265 | 49,397 | 47,384 | 46,458 |
| Fuel surcharge | **20,393** | 40,601 | 28,627 | 26,063 | 20,171 |
| Other | **1,506** | 659 | 698 | 528 | 698 |
| | **76,810** | 91,525 | 78,722 | 73,975 | 67,327 |
| Operating income | **11,470** | 9,373 | 11,271 | 10,477 | 10,286 |
| Interest charges | **(2,956)** | (2,435) | (2,240) | (2,378) | (2,689) |
| Other charges & credits | **3** | 1,934 | (716) | 43 | 51 |
| Amortization of capital grants | **475** | 439 | 527 | 764 | 632 |
| Realised exchange gain (loss) | **(12)** | 8 | (39) | (85) | 172 |
| Unrealised exchange gain (loss) | **(5)** | 59 | (108) | (207) | 256 |
| Taxation | **(2,824)** | (1,774) | (2,616) | (2,616) | (2,535) |
| Net income | **6,151** | 7,604 | 6,078 | 5,999 | 6,172 |
| Dividend | **1,563** | 1,563 | 1,563 | 1,563 | 1,250 |
| Reinvested earnings | **4,588** | 6,041 | 4,515 | 4,436 | 4,922 |
| Rate base (average fixed assets) | **101,102** | 89,433 | 85,819 | 83,207 | 79,270 |
| Return on average fixed assets | **11.34%** | 10.48% | 13.13% | 12.59% | 12.98% |
| Debt/Equity ratio | **1.46** | 1.66 | 1.35 | 1.55 | 1.65 |
| Current Ratio | **1.21** | 1.35 | 1.68 | 1.61 | 1.59 |
| Collection period (days) | **49** | 57 | 57 | 82 | 69 |



GENERATING POWER,
EMPOWERING GENERATIONS.

**DOMINICA ELECTRICITY SERVICES LTD**
18 CASTLE STREET
P.O. BOX 1593, ROSEAU
COMMONWEALTH OF DOMINICA,
WEST INDIES
T. 767.255.6000 OR 767.448.2681
F. 767.448.5397
WEBSITE: WWW.DOMLEC.DM
EMAIL: DOMLEC@DOMLECONLINE.COM

Bankers: **National Bank of Dominica**
Auditors: **PriceWaterhouseCoopers**
Solicitors: **Defreitas & Johnson**