

FORM ECSRC - Q

QUARTERLY REPORT

For the period ended March 31st 2014

Issuer Registration Number: DOMLEC30041975DM

DOMINICA ELECTRICITY SERVICES LIMITED
(Exact name of reporting issuer as specified in its charter)

DOMINICA
(Territory or jurisdiction of incorporation)

P.O. BOX 1593, 18 CASTLE STREET, ROSEAU, DOMINICA
(Address of principal executive Offices)

(Reporting issuer's:

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

Fax number: (767) 448 5397

Email address: domlec@domlec.dm

1. Financial Statements

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED BALANCE SHEET
AS AT MARCH 31, 2014
(expressed in Eastern Caribbean Dollars)

	March 2014 \$	March 2013 \$	December 2013 \$
Assets			
Current assets			
Cash and cash equivalents	6,427,917	248,541	6,579,947
Receivables and prepayments	16,830,278	20,514,138	16,583,503
Inventories	10,256,398	14,150,290	10,813,881
	<u>33,514,593</u>	<u>34,912,969</u>	<u>33,977,331</u>
Capital work in progress	1,480,658	2,802,965	448,645
Property, plant and equipment	<u>124,990,979</u>	<u>118,456,104</u>	<u>126,542,073</u>
	<u>159,986,230</u>	<u>156,172,038</u>	<u>160,968,049</u>
Liabilities			
Current liabilities			
Borrowings	3,421,426	3,578,472	4,539,667
Accounts payable and accruals	11,911,934	12,934,911	12,170,968
Due to related party	0	0	0
Income tax Payable	(218,525)	283,605	940,604
	<u>15,114,835</u>	<u>16,796,988</u>	<u>17,651,239</u>
Borrowings	36,485,707	41,038,732	36,485,708
Deferred tax liability	19,498,118	17,531,306	19,214,446
Other Non-current liabilities	12,287,127	11,540,155	12,075,657
Capital grants	<u>488,252</u>	<u>622,056</u>	<u>521,702</u>
	<u>83,874,039</u>	<u>87,529,237</u>	<u>85,948,752</u>
Shareholders' Equity			
Share capital	10,417,328	10,417,328	10,417,328
Retained earnings	<u>65,694,865</u>	<u>58,225,474</u>	<u>64,601,969</u>
	<u>76,112,193</u>	<u>68,642,802</u>	<u>75,019,297</u>
	<u>159,986,230</u>	<u>156,172,038</u>	<u>160,968,049</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF INCOME
FOR THE QUARTER ENDED MARCH 31, 2014
(expressed in Eastern Caribbean Dollars)

	March 2014 \$	March 2013 \$	December 2013 \$
Revenue			
Energy sales	14,273,138	14,328,906	60,830,368
Fuel surcharge	7,824,875	9,846,251	37,473,942
Other revenue	168,846	179,934	619,966
	<u>22,266,859</u>	<u>24,355,092</u>	<u>98,924,276</u>
Direct expenses			
Operating	4,353,897	3,890,335	15,135,189
Maintenance	1,900,804	2,104,673	7,901,348
Depreciation	2,413,383	2,806,163	8,388,831
Fuel	9,283,867	11,575,009	43,436,628
	<u>17,951,951</u>	<u>20,376,180</u>	<u>74,861,996</u>
Gross profit	4,314,908	3,978,912	24,062,280
Administrative expenses	<u>2,275,138</u>	<u>1,993,439</u>	<u>9,150,725</u>
Net operating income	<u>2,039,769</u>	<u>1,985,473</u>	<u>14,911,555</u>
Other expenses/(income)			
Amortization of capital grants	(136,038)	(125,095)	(577,453)
Foreign exchange losses/(gains)	5,315	(4,549)	(29,548)
Loss/(Gain) on disposal of plant and equipment	0	(2,999)	213,884
	<u>(130,723)</u>	<u>(132,644)</u>	<u>(393,117)</u>
Net income before finance	2,170,493	2,118,116	15,304,672
Finance charges	(604,810)	(692,072)	(2,601,741)
Net income before tax	1,565,683	1,426,044	12,702,931
Income tax	<u>(472,789)</u>	<u>(502,901)</u>	<u>(3,860,564)</u>
Net income/(loss) for the period	<u>1,092,894</u>	<u>923,143</u>	<u>8,842,367</u>
Earnings/(loss) per share	<u>0.10</u>	<u>0.09</u>	<u>0.85</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE QUARTER ENDED MARCH 31, 2014
(expresses in Eastern Caribbean Dollars)

	March 2014 \$	March 2013 \$	December 2013 \$
Share capital			
Ordinary shares, beginning and end of period	<u>10,417,328</u>	<u>10,417,328</u>	<u>10,417,328</u>
Retained earnings			
At beginning of period	64,601,969	57,843,068	57,843,068
Net income/(loss) for the period	1,092,894	923,143	8,842,367
Ordinary dividends (declared)	<u> </u>	<u>(540,739)</u>	<u>(2,083,466)</u>
At end of period	<u>65,694,865</u>	<u>58,225,472</u>	<u>64,601,969</u>
Shareholders' equity, end of period	<u>76,112,193</u>	<u>68,642,801</u>	<u>75,019,297</u>

DOMINICA ELECTRICITY SERVICES LIMITED
UN-AUDITED STATEMENT OF CASH FLOW
FOR THE QUARTER ENDED MARCH 31, 2014
(expressed in Eastern Caribbean Dollars)

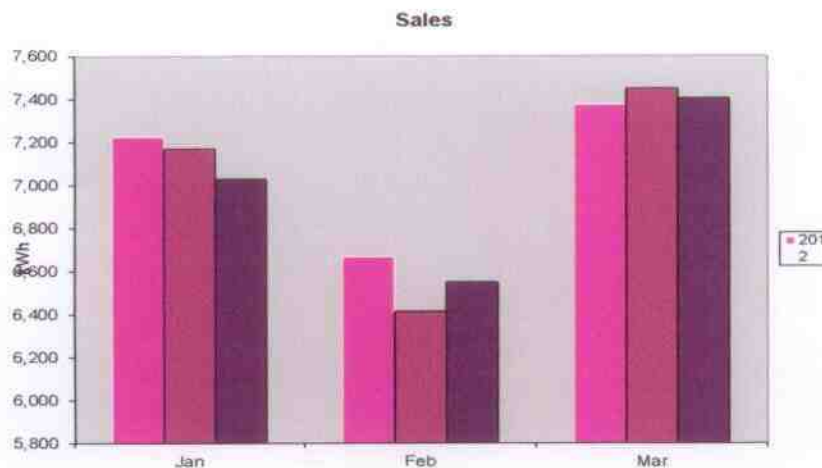
	March 2014 \$	March 2013 \$	December 2013 \$
Cash flows from operating activities			
Net income/(loss) before tax	1,565,683	1,426,044	12,702,931
Adjustments for:			
Depreciation	2,413,383	2,806,163	8,388,831
Loss/(Gain) on disposal of property, plant and equipment	0	(2,999)	213,884
Foreign exchange (gains)/Loss	0	0	0
Provision for inventory obsolescence	(120,760)	(269,436)	(239,384)
Amortization of deferred revenue	(102,585)	(91,644)	(443,648)
Amortization of capital grants	(33,450)	(33,450)	(133,805)
Interest expense	604,810	692,072	2,601,741
Operating profit before working capital changes	4,327,081	4,526,750	23,090,550
Decrease (Increase) in receivables and prepayments	(246,774)	(1,286,944)	2,643,690
Decrease/(increase) in inventories	678,243	1,638,211	1,507,014
Increase/(decrease) in accounts payable and accruals	(259,034)	(633,138)	(1,397,081)
Increase/(decrease) in due to related party	0	(90,120)	(90,120)
Cash generated from operations	4,499,515	4,154,758	25,754,053
Interest paid	(604,810)	(692,072)	(2,601,741)
Income tax paid	(1,348,244)	(874,766)	(1,892,291)
Net cash from operating activities	2,546,461	2,587,920	21,260,020
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,894,301)	(2,073,137)	(10,295,923)
Proceeds on disposal of property, plant and equipment	0	3,000	40,500
Net cash used in investing activities	(1,894,301)	(2,070,137)	(10,255,423)
Cash flows from financing activities			
Proceeds from borrowings	0	0	0
Repayment of borrowings	(1,118,241)	(1,780,635)	(5,372,465)
Dividends paid	0	(540,739)	(2,083,466)
Increase in other liabilities	314,051	103,361	1,082,509
Net cash generated from/(used in) financing activities	(804,190)	(2,218,013)	(6,373,422)
Net increase/(decrease) in cash and cash equivalents	(152,031)	(1,700,230)	4,631,175
Cash and cash equivalents, beginning of period	6,579,947	1,948,772	1,948,772
Cash and cash equivalents, end of period	6,427,917	248,542	6,579,947

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

Net profit after tax for the first quarter ending March 31st 2014 was EC\$1.09 million compared with EC\$0.92 million for the comparable period of 2013, an increase of 18.4% or EC\$0.17 million.

Total revenue for the quarter was EC\$22.27 million decreasing by 8.6% from 2013. Revenue from electricity sales declined by 0.4% or EC\$0.06 million. Similarly, revenue from fuel surcharge decreased from EC\$9.85 million in 2013 to EC\$7.82 million this quarter.

The decline in revenue from energy sales has been driven by an overall reduction in unit sales for the year to date compared to the same period of 2013. Sales totalled 20.98 GWh compared to 21.03 GWh in 2013, a decrease of 0.2%. Electricity sales to commercial, hotel and domestic consumers declined by 2.5%, 1.9% and 0.4% respectively. Sales to the industrial consumers however recorded growth of 11.5%.



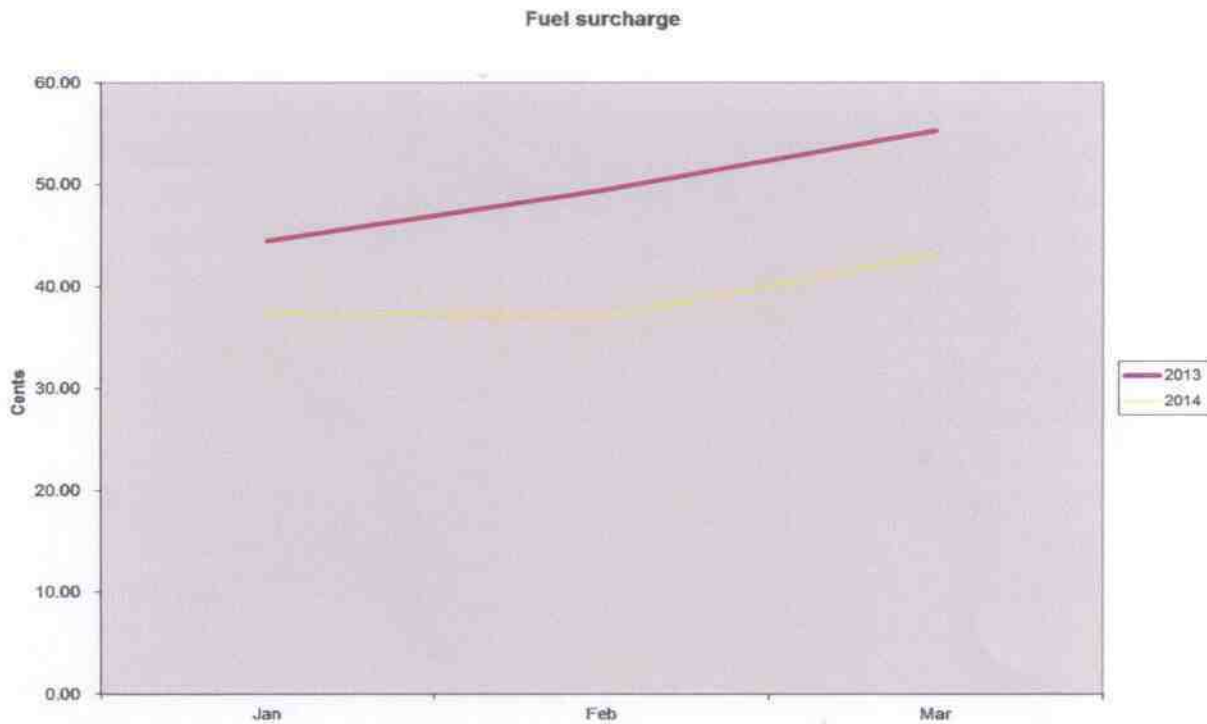
Total energy generated in the first quarter increased by 0.6% to 23.77 GWh. There was greater production from hydro generation largely due to the availability of generating unit NT2 during this period. This unit was out of commission for the comparable period last year due to repair work on its generator.

Diesel generation accounted for 64% of total energy generated compared to 74% in 2013. Energy through diesel generation recorded 15.16 GWh, a decrease of 13.3% over last year. As a result, diesel consumption decreased by 14.7% to 852,964 imperial gallons.

Energy produced from hydro on the other hand, increased by 40.0% to 8.61 GWh. In 2013, output from hydro generation was 6.15 GWh and only accounted for 26% of total generation compared to 36% at the end of this quarter.

System losses (Moving Annual Total) stood at 8.5% compared to 7.9% in 2013. The company remains committed to the reduction of system losses.

For the quarter, revenue from fuel surcharge amounted to EC\$7.82 million. Fuel surcharge rate moved from 37.52 cents per kWh in January to 43.12 cents per kWh in March. In the same period of 2013, there was a steady increase from 44.52 cents to 55.29 cents.



Direct expenses totalled EC\$17.95 million; a decrease of EC\$2.43 million or 11.9%. The decrease was primarily attributed to a reduction in fuel costs, depreciation and maintenance expenses of 20%, 14% and 10% respectively. The decrease in fuel costs was due to a decline in diesel consumption and a 6.4% reduction in the average price paid from EC\$12.22 to EC\$11.44 per gallon.

During 2013, a depreciation rate study was conducted. The new depreciation rates recommended from the study were applied in this quarter resulting in a decrease in depreciation expense when compared to 2013.

Another contributing factor for the reduction in direct expenses was the capitalization of major spares for the overhaul of its major generating units during this quarter. In the same period of 2013, however, the company expensed its major spares on its generating plants and maintained the excess spares as inventory. In a recent amendment to accounting standard, *IAS 16 Property Plant and Equipment*, the company is required to account for critical spares and servicing equipment associated with property, plant and equipment as fixed assets and not as inventory or operating expenses as was done in the past. In addition, although breakdown and inspection expenses were higher in 2013, maintenance expenses to date were further reduced by credits valued at about EC\$0.25 million relating to work done in 2013 but only applied this year.

DOMLEC IN THE FIRST QUARTER OF 2014

Operating Highlights	2014	2013
Hydro generation (1,000 kWh)	8,606	6,146
Diesel generation (1,000 kWh)	15,163	17,491
Purchased generation (1,000 kWh)	45.81	25.27
Units sold (1,000 kWh)	20,983	21,028
Fuel efficiency(kWh per IG)	17.8	17.5
System losses	8.5%	7.9%

(a) **Liquidity**

Total outstanding debt in the first quarter declined when compared with the same period last year.. Trade receivables (excluding unbilled sales) stood at EC\$11.72 million at the end of this quarter compared to EC\$11.99 million in 2013.

Debt within the Commercial sector represented the major portion of collectibles, accounting for 44% of gross receivables, while Domestic debt represented 17% of all debt receivables. Government debt accounts for 27% of receivables, an increase from 18% in 2013. At the end of the quarter, 55% of all outstanding debt was current compared to 61% in 2013.

The company remains in a stable liquid position at the end of the first quarter of the year.

(b) **Capital Resources**

The company has committed \$2.20 million during the period to acquire fixed assets and the funding of major capital projects and has spent EC\$1.89 million to date. These were funded from internally generated funds.

(c) **Financial Outlook**

Electricity sales in the first quarter have been 0.2% lower than the same period last year and 1.4% higher than the budgeted sales. At year end, sales growth is expected at 0.1% over 2013. Given the adverse economic conditions at this time, the company continues to closely monitor fuel prices though there has been a reduction in the average price to date, as rising prices could stifle demand for electricity and will continue to manage its spending for both operating and capital expenses. The company expects continued profitability in the next quarter and anticipates an EPS of at least EC 69 cents for this fiscal year.

3. DISCLOSURE OF RISK FACTORS

Financial assets, which potentially subject the Company to concentrations of credit risk, consist principally of bank deposits, available-for-sale financial assets and trade receivables. The Company's bank deposits are placed with high credit quality financial institutions. Trade receivables are presented net of the provision for impairment of receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's customer base and their dispersion across different economic sectors. Management performs periodic credit evaluations of its customers' financial condition and does not believe that significant credit risk exists at March 31st 2014.

The most significant risk to which the company are firstly the possibility of losing a significant share of its generation production to power produced by geothermal energy within approximately five years, secondly the lack of insurance for the transmission and distribution assets, and thirdly the continuing uncertainty of the outcome of the tariff review mandated by the Independent Regulatory Commission for September of this year.

Competition from Geothermal Production

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

Regulatory Environment

The issuing of two new 25 year licences, one a Generation Licence and the other a Transmission, Distribution and Supply Licence has removed much of the uncertainties of the regulatory environment.

The most significant risk still remains that the rate of return the company will be allowed when filing for a new tariff is unknown and will be at the discretion of the Independent Regulatory Commission.

Operating Environment

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

4. LEGAL PROCEEDINGS

DEMAND FOR ARBITRATION –DOMLEC V GOVERNMENT OF THE COMMONWEALTH OF DOMINICA

With the recent approval of new licences for the company the Government and the company are jointly seeking to discontinue the legal proceedings brought by both parties in relation to the matter.

5. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None

6. DEFAULTS UPON SENIOR SECURITIES.

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

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

None

CLASS	NUMBER
Common	10,417,328

SIGNATURES

Name of Chief Executive Officer:

Name of Director:

Collin Cover

Norman P. Rolle

Collin Cover

N. Rolle

Signature

Signature

28th April 2014

28th April 2014

Date

Date