ANNUAL REPORT 2005

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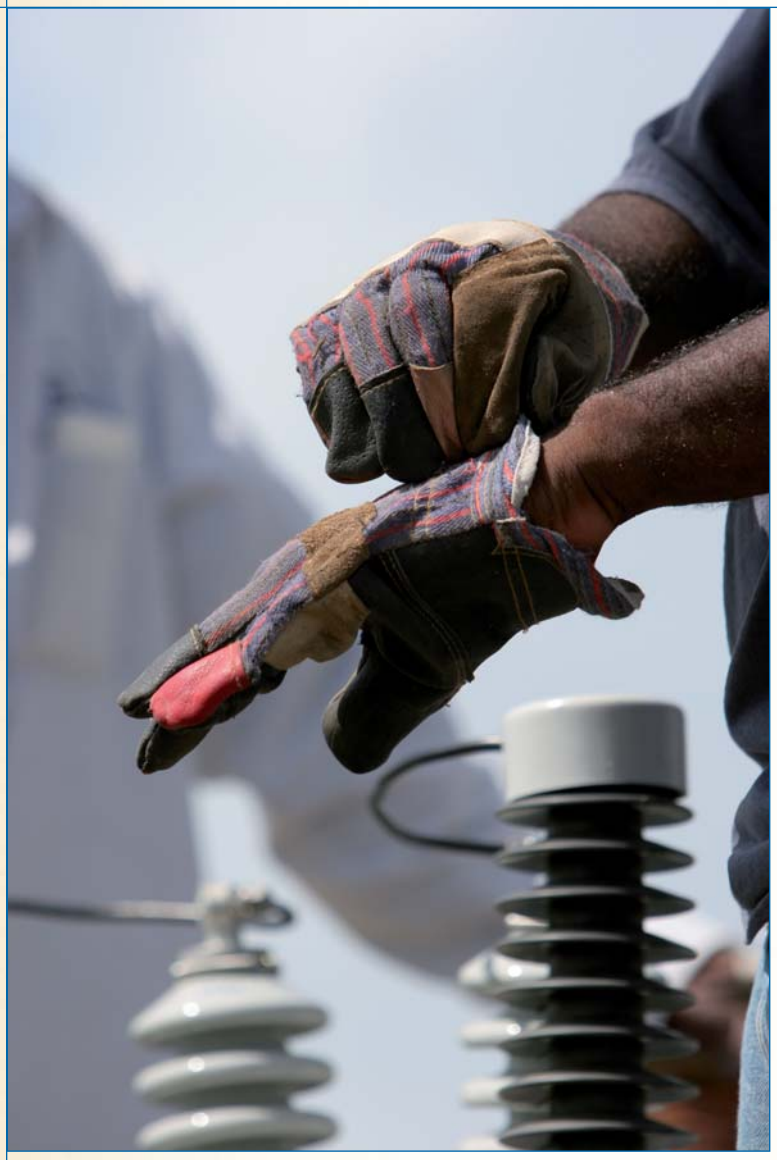
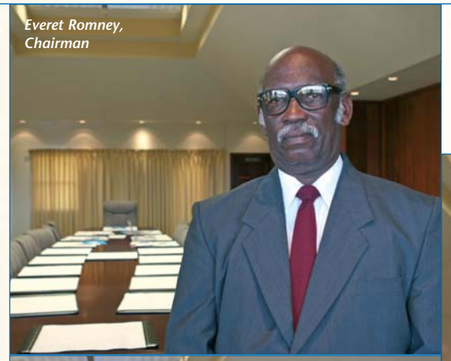


Board of Directors


Everet Romney, Chairman


Ambrose Richardson, Vice-Chairman


Alan Gumbs


Alecia Ballin


Rodney Rey

Board of Directors


Monsell Lloyd


Aidan Harrigan

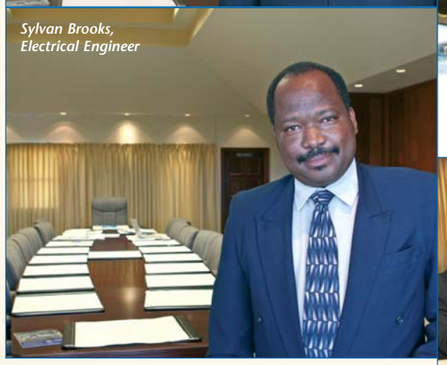

Doris Fleming


Ian Ferguson

Divisional Managers

Neil McConnie,
General Manager

Thomas Hodge,
Generation Superintendent



Sylvan Brooks,
Electrical Engineer

ANNUAL REPORT 2005

Divisional Managers

Erville Hughes,
Chief Corporate Officer

Ivor Ible,
Transmission and Distribution
Superintendent

Maureen Woodley,
Accountant

Chairman's message

Escalating fuel prices dominated the electricity sector in most Caribbean Utilities in 2005 and our Company was no exception, when prices reached an all time high of EC$7.63 per imperial gallon. Although imposition of a fuel surcharge resulted in some recovery of our additional fuel costs, we were mindful of the hardship being experienced by a number of our customers and a decision was taken by the Company to absorb a portion of the additional cost which could have been applied under the Electricity Regulations.

A major development during 2005 was the commencement of construction of the Power Station extension. The successful tenderer for the supply, installation and commissioning of two new generating units was Wartsila N.S.D., whilst a local contractor, Sun Enterprises, was selected to undertake the civil works associated with the Power Station's expansion and a new Mechanical Workshop.

The Company successfully negotiated a loan with the Caribbean Development Bank to provide financing for the generating units and auxiliary equipment. The loan agreement was signed on 31st May 2005 for an amount of US$6,089,000. The Civil Works associated with the Mechanical Workshop and Power Sation expansion were funded directly by Anglec. The extension of the Power Station is designed not only to cater for the two diesel generators ordered from Wartsila, but also to accommodate future expansion so that the electricity sector can continue to stay ahead of Anguilla's economic development. The new Mechanical Workshop will replace the workshop originally built at Corito when there were only four generating sets in Anguilla. With the commissioning of units #13 and #14, additional space and specialized tools are required to keep all of the units in good operating condition.

Chairman's message

The new sets were commissioned at the end of May, 2006.

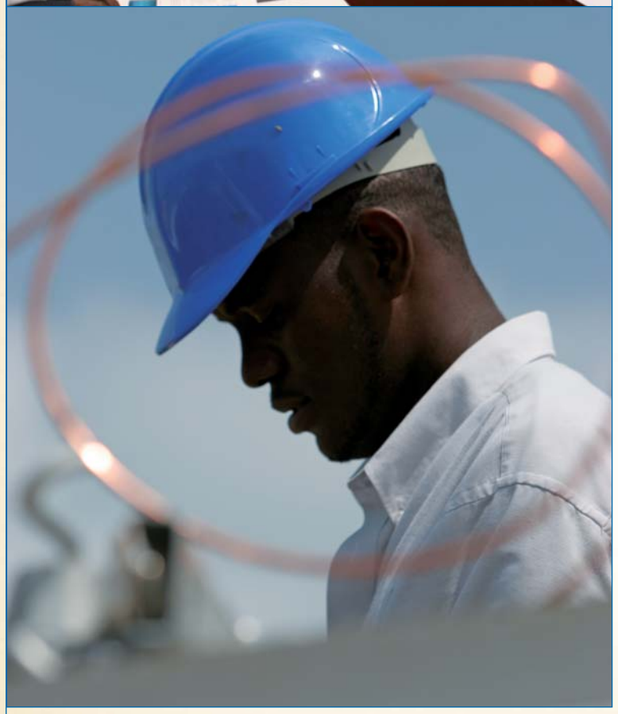
The Government of Anguilla's 2005 budget pointed to a number of large tourism hotel projects currently under consideration for approval. According to the Minister of Finance's 2005 budget address, Anguilla attracted US$1.1 billion in foreign direct investment in the tourism industry since 2000; approximately US$475 million in projects have already been approved and are at varying stages of implementation, with a further US$625 million in projects currently under consideration by the Government of Anguilla's Tourism Investment Committee. The rise in tourism investment suggests an expansion in development activity as well as increased population growth in upcoming years, indicating a rise in both commercial and household demand for electricity. In fact, this trend has already been observed at Anglec from the growth in demand, which rose from 10.4% in 2004 to 15.2% in 2005, whilst consumption growth increased from 5.8% in 2004 to 14.1% in 2005. Changes in weather patterns have also influenced demand as Anguilla experiences the effects of global warming.

Higher revenues were partially offset by increases in generation costs fueled by exorbitant excalation in oil prices. The Company continues to look at various alternatives to the use of light fuel oil and other methodologies including hedging as a means of reducing the cost of production. In light of the additional cost which consumers have to bear as a result of high fuel prices, a booklet on electricity conservation methods will be developed and published in 2006 to enable our customers to manage their electricity bills. Energy price volatility is not entirely new but through energy efficiency and conservation education, we are hoping to buffer the resulting price increases.

The financial results were not as outstanding as the previous year principally because of the fuel price crisis that confronted us in addition for the US$3,000,000 expenditure which had to be incurred on the extension of the Power Plant.

THE YEAR IN REVIEW

Chairman's message



The rise in fuel prices has accounted for virtually the entire rise in the organization's operating expenses and every effort will be expended in finding economic solutions to the steep fuel increases which we have had to face in recent years.

Although some concerns are raised by consumers regarding the cost of electricity with the imposition of the fuel surcharge, it should be noted that the base price of electricity has not changed since 1997 when a rate increase was granted. This has only been possible by the optimization and modernization of resources which are used in the Generation, Distribution and Administrative sectors of the organization and this philosophy will be continued in the foreseeable future

We continue to be concerned about the environment in which we operate and efforts will be intensified regarding the timely disposal of obsolete and scrap material in an environmentally sound process through sale to recycling companies overseas. The new section of the Power Station has been specially designed to attenuate noise levels and emissions monitoring equipment will be placed on the new exhaust stacks to ensure that the emissions stay within international standards.

It is once again my pleasure to thank all Stakeholders including my fellow Directors, the Management and Staff, the Shareholders, Government Authorities and our Customers for their unstinting support and encouragement in a year that was full of challenges, some of which were unprecedented in our history of operations.

Finally, is with the deepest remorse that I report the passing of Mrs Alecia Ballin and acknowledge the sterling contribution which she made to of the Board. She will be greatly missed by her co-directors and we extend our deepest sympathy to her relatives.

Everet F. Romney, MBE
Chairman

DIVISIONAL REVIEWS

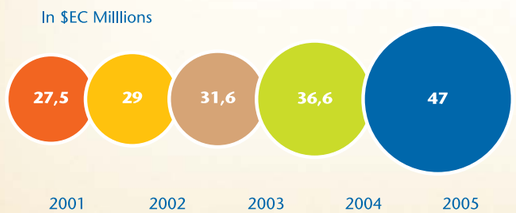
Finance

Revenue

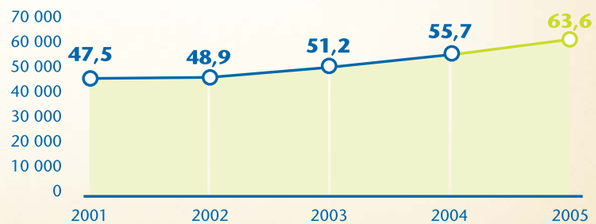
Gross Operating Revenue from the sale of electricity was EC$47.09 million, including fuel surcharge recovery of EC$7.863 million. This represented an increase of 28.7% over the previous year's figure of EC$36.593 million. The increase in Gross Operating Revenue was driven by the buoyant growth in the economy of the island, which resulted in an increase in kwh sales by 14.1% to 63.6 million kwh. Higher kwh sales were recorded by all sectors of the economy. The hotel sector accounted for 32.0 % of sales. The domestic sector accounted for 28% while the commercial sector and the government sector accounted for 22.0% and 13.0% respectively. Other sectors accounted for 1.0% of sales.

The Company was impacted negatively throughout the year, by large increases in the price of fuel, which continued its upward trend and remained at unprecedented high levels. Because of the continuous hike in fuel prices, it was deemed necessary in accordance with the Electricity Regulations to impose a fuel surcharge which at the end of December 2005 was 20 cents per kwh. With the basic tariff of EC$0.66 per kwh remaining unchanged during the year the cost of electricity to consumers was driven by increases in the fuel surcharge imposed during the year. In spite of the challenges of high fuel prices the Company has refrained from imposing the full statutory surcharge in order to ease the burden on its consumers.

+28,7%
Gross Revenue (in $EC Millions)



+14,1%
Units Sold (KWh, in 000's)



Finance

Operating expenses

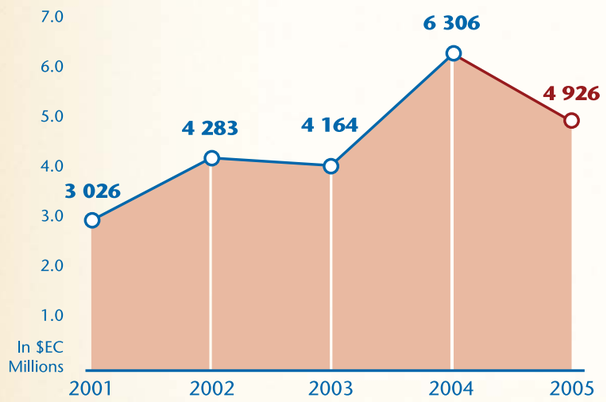
Operating costs for the year including depreciation amounted to EC$35.813 million compared to the previous year's figure of EC$24.932 millions. Fuel cost at EC$24.882million accounted for 69.47% of operating costs and 52.83% of gross operating revenue compared to 64.35% and 43.85% respectively in the previous year. Administration and Consumer Services costs at EC$4.847m accounted for 12.82% of operating costs and 10.29% of operating revenue.

There was a 37.33% increase in other generation costs due to increased maintenance and overhauls during the course of the year. There were no significant increases in Transmission and Distribution operating costs.

Net Profit

Net profit for the year at EC$4.927 million was 21.8% below the figure of EC$6.306 for 2004. This setback in profits can be attributed mainly to the increases in fuel cost during the year. Fuel is a major cost in our operations and the price on the world market is governed by global demand, geo-political and economic conditions which are outside our control. The additional cost in fuel amounted to EC$8.566 million which was reduced by the recovery of EC$7.863 million due to the application of the fuel surcharge on consumer bills. Cognizant of the impact of high fuel prices on the Company's operating costs and profitability management is continually monitoring the movement in fuel prices so as to make the necessary adjustment to the fuel surcharge in accordance with the Electricity Regulations.

Net Profit (in $EC Millions)



Capital expenditure

During the year we continued our capital investment program so as to improve operating efficiency. Capital expenditure other than the Corito Expansion Project at EC$1.803m was deliberately restricted to critical areas of our operation. Work in Progress is mainly related to the Corito Expansion Project. Capital expenditure was made in the following areas:

	EC$
Plant & Equipment	923,053
Land & Buildings	91,553
Furniture & Equipment (Including Computers)	719,137
Motor Vehicles	69,449
Work-in- Progress	19,755,281

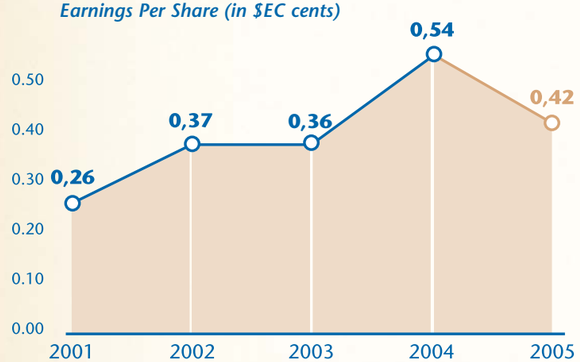
Finance

Retained Earnings at 31st December (before dividends declared and not sanctioned by shareholders) was EC$19.192 million. This meant an increase of 24.74% over 2004 or EC$3.18m. The increase was 37.6% less than in the previous year as a result in the decline in profits.

Earnings per share

A direct consequence of the decline in profit was the reduction in basic Earning Per Share (EPS) from EC$ 0.54 in 2004 to EC$ 0.42 in 2005. In view of this less than favourable earnings per share, the cash flow position and debt service coverage obligations to our lending institutions, the Board of Directors thought it prudent to maintain a dividend payout ratio of 28% which translated into a recommended dividend of 12 cents per share to shareholders for 2005.

Earnings Per Share (in $EC cents)



Transmission and Distribution

The rapid growth experienced in 2005 in Anguilla placed heavy demands on the Transmission and Distribution Division. The two major construction projects at the Flag Anguilla and Viceroy sites have not only resulted in additional requests for line extensions but with the influx of overseas workers, the demand for new connections, etc. has also increased. New connections showed a 4% increase in 2005 compared to 2004.

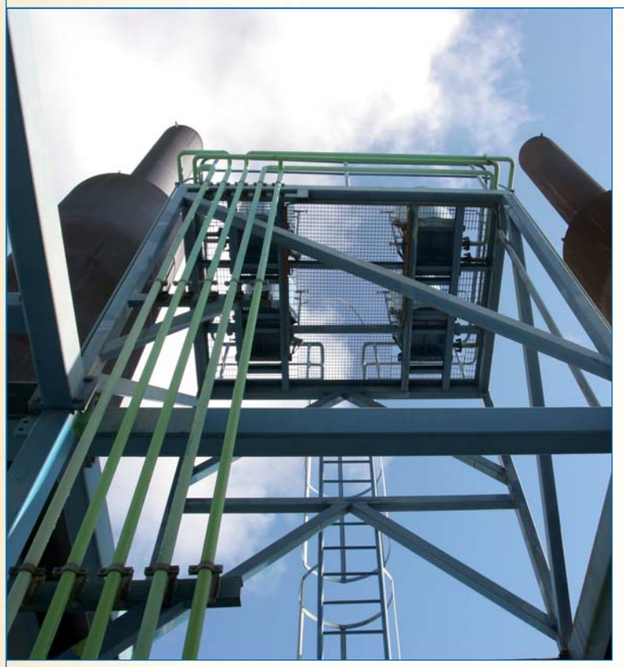
Inter-Island Interconnection Study

The inter-island interconnection feasibility study between Anguilla, St. Martin, St. Maarten and St. Barths was completed in 2005. The study found that interconnection between the islands will provide all stakeholders with technical and financial benefits. As a result, a Memorandum of Understanding was signed by the General Managers representing GEBE (St. Maarten), EDF (St. Barths and St. Martin) and Anglec (Anguilla) in early 2006. A Project Team and Steering Committee was appointed to commence discussions on the issues that would be faced if a joint agreement is to be successful.

Future Outlook

The planning for the installation of a 34.8KV system continues. Design work and detailed planning are expected to be completed in 2006.

Generation Division



In 2005, Generation's peak demand of 11,710 kw reflected a 15.2% increase over 2004's peak of 10,160 kw. This increase reflect the continued growth of demand for electricity in Anguilla and confirmed the need for expansion of the Corito Power Station.

The total units generated for the year of 72,040,745 kWh exceeded production in 2004 by 16.1%.

This unusually high demand for electricity necessitated the purchase of a new high speed generating unit in mid-2005 to meet the peak demand over the Christmas season. As a result of the acquisition of this new unit, the #7 Caterpillar unit, was retired in mid-2005.

Fuel consumption increased 18.7% over 2004, reflecting the increased demand and more use of high speed generating sets to meet it. 2006 should see a reduction in the rate of increase in fuel consumption with the commissioning of the new base load generating sets as they are more fuel efficient and the high speed sets will no longer be needed to meet base load demand.

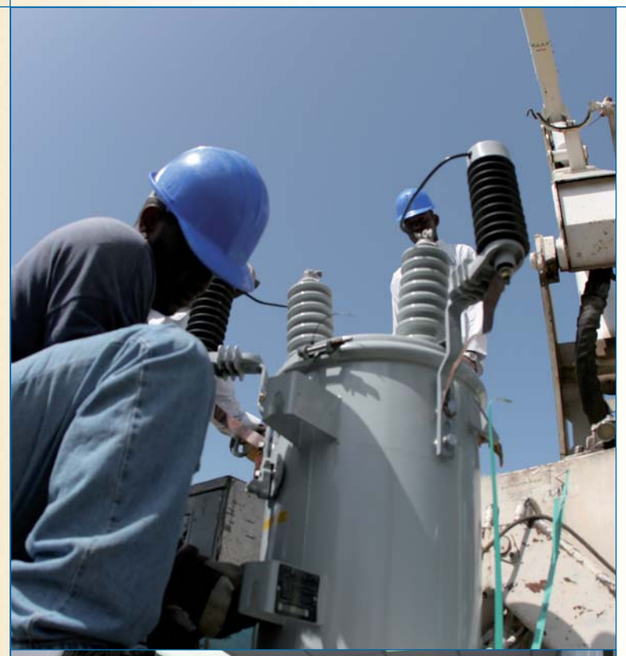
Tenders for both the civil works and generating sets were reviewed during the first quarter of 2005 and by May, contracts had been awarded to Sun Enterprises of Anguilla (civil work) and Wartsila NSD (generating sets). Contracts were also awarded for the upgrading of the Control Room systems.

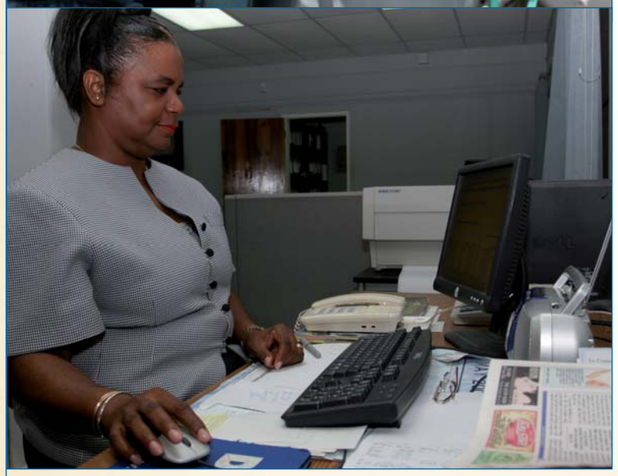
Construction of the Power Station Extension and Mechanical Workshop was begun in mid-2005 and by year end, the power station extension was ready for installation of cabling and auxiliary equipment associated with the new Wartsila engines.

Wartsila had a team on site from September 2005 to construct foundations and platforms for the engine equipment. The two 9LW32 generating sets arrived in Anguilla in late March 2006.

Waste oil continues to be exported to St. Maarten in 6000 gallon flexitanks for blending with bunker fuel, an alternative fuel used in other power plants.

Information Technology





In 2005 the Information Technology Division undertook a major project to install a new billing system. The system was purchased from Daffron & Associates, Inc., a provider of application software and services for the utility industry since 1976.

The new billing system was commissioned in September 2005, after several training sessions were conducted locally by Daffron & Associates. The Daffron software provides features such as work order tracking, real time billing and processing, online inquiry, credit card payment, online bill printing, automated telephone inquiry and electronic bill delivery. It is expected that these additional features of the system will be activated by early 2007.

MacAfee Virus Protection and Windows 2003 server software were purchased and installed during the year to provide increased protection and functionality to Anglec's computer network.

Human Resources

An important human resource objective is the training and development of staff to acquire or enhance skills and competencies in line with current and future needs of Anglec. Training is also an important tool to help staff take on new responsibilities or adapt to a change in activity, thus enabling the organization to achieve its short, medium and long-term objectives.

The technical training program continues to supply training opportunities, focused on Generation and Transmission & Distribution personnel. For example, Mr. Clarence Lake, Mr. Thomas Hodge and Mr. Sylvan Brooks attended training on the upgraded Power Rich System in anticipation of the technological changes which will occur with the commissioning of the new engines.

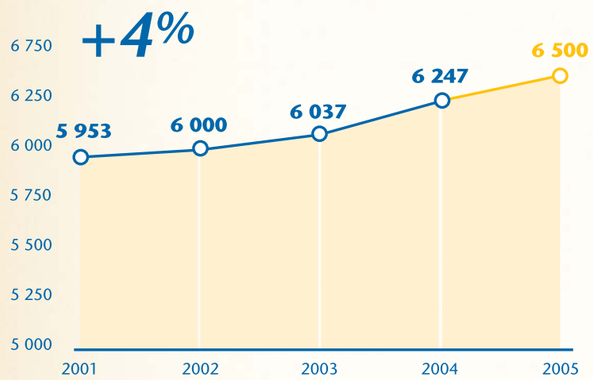
We continue in assist and support our employees to pursuing tertiary education. This is in keeping with our manpower planning to ensure that Anglec has sufficient human resources to keep pace with the technological advancement taking place in the engineering field. Mr. Terone Hodge-Carty is pursuing a degree in electronics at DeVry University. In addition, Mr. Steve Hodge obtained a Bachelors and Masters degree in Engineering from the University of West England. He has returned to Anglec and is now participating in the Engineer-In-Training program. Other staff members were also exposed to time management, productivity and supervisory training.

Anglec conducted a job evaluation exercise, which is a method used to recommend a system of compensation for all levels of the company's staff that is fair, equitable and responsive to the present and projected needs of Anglec. Additonally, the job evaluation exercise was used to assess the proper classification of each post and to set its salary or wage rate internally and externally with the job market.

Six new employees were recruited during the year including a Human Resource Officer and a Projects Officer, which brings the total staffing level to 74 full and part-time employees. Part of the human resource planning next year is to continue to focus on training with a particular emphasis on technical, customer service and computer skills, examining non-monetary benefits and increasing staff's morale and productivity.

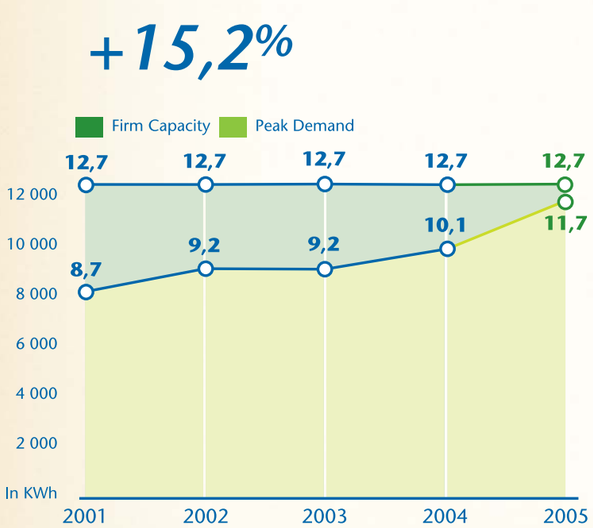
The Anglec Sports & Social Club was reintroduced during the year. The Club provides an outlet to all employees of the Anglec family to meet outside of work. Through the various social and sports activities, the Club was able to provide an avenue for team building, social interaction and camaraderie.

Operational statistics



Customers

Anglec's customer base of 6500 is 4.1% higher than 2004's base of 6247.

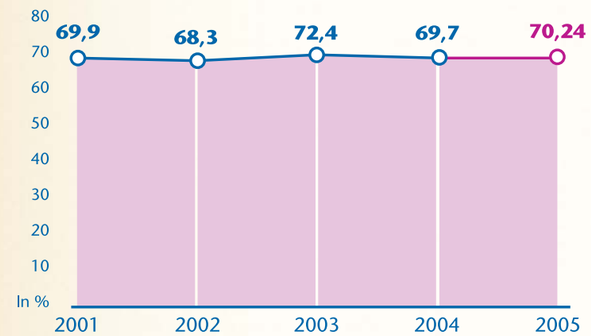


Firm Capacity & Peak Demand

Firm capacity was 12,772 Mw. It has remained unchanged since the Wartsila engines were installed in 2000, but will show an increase in 2006 when the Corito expansion project is completed.

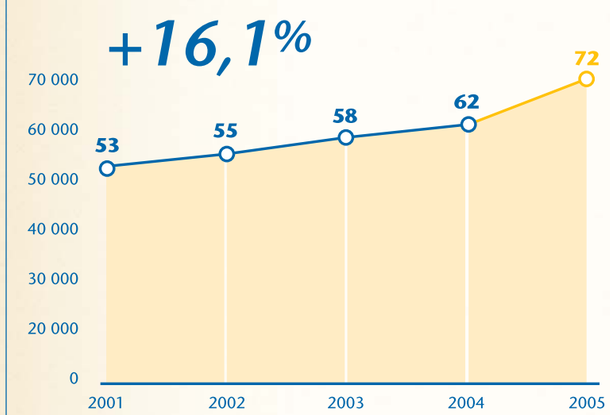
Peak demand, which represents a point during the year when electricity demand was highest, increased 15.2% to 11,710 Mw in 2005.

Operational statistics



System Load Factor

In 2004, Anglec's load factor was 70.24%. Load factor is an important indication of the investment return on generating equipment. When the load factor is high, the Company's investment in generating equipment is more profitable.



Units generated

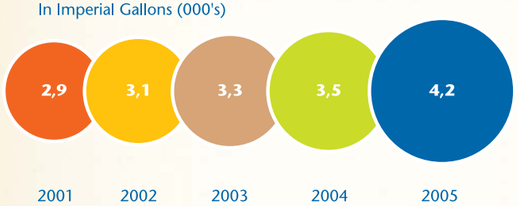
Corito Power Station generated 72,040,745 kWh in 2005, compared to 62, 031,690 kWh in 2004.

DIVISIONAL REVIEWS

Operational statistics

+18,7%

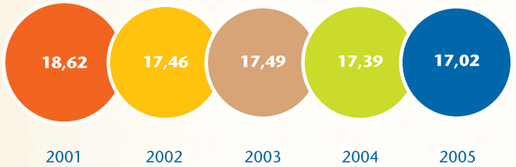
In Imperial Gallons (000's)



Fuel Consumed

Fuel consumption rose by 18.2% to 4.2 million imperial gallons (IG) over 2003's consumption of 3.3 million IG. Increased consumption of fuel is a direct result of the increase in generation output.

In kWh/IG

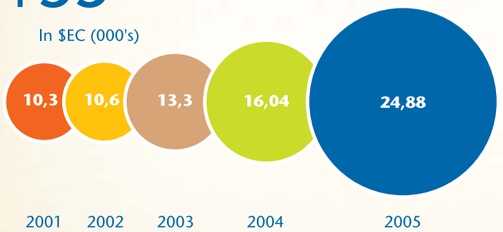


Fuel Efficiency

Fuel efficiency reflects the performance of Anglec's generating sets. The decrease in 2005 can be attributed to the greater use of hight speed sets to meet demand.

+55%

In $EC (000's)



Fuel Cost

The cost of fuel increased 55% over 2004, from EC$ 16.046 million to EC$ 24.882 million.

KPMG

KPMG LLC
Caribbean Commercial Centre
P.O. Box 136. The Valley, Anguilla, B.W.I

Telephone (264) 497 5500
Fax (264) 497 3755
Email cvromney@kpmg.com

AUDITORS' REPORT

To the Shareholders of
Anguilla Electricity Company Limited

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

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

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

KPMG LLC

Chartered Accountants
The Valley
Anguilla

July 10, 2006

BALANCE SHEET

December 31, 2005, with corresponding figures for 2004
Expressed in Eastern Caribbean Dollars (EC$)

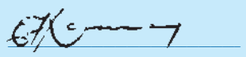
ASSETS

	Notes	2005	2004
PROPERTY, PLANT & EQUIPMENT	3	49,118,174	30,679,429
CURRENT ASSETS			
Investments	4	929,049	885,003
Inventories	5	4,780,222	3,581,464
Trade Receivables	6	7,945,427	7,001,759
Other Receivables	7	2,100,490	1,487,662
Cash and Cash Equivalent	8	2,234,611	3,967,665
		17,989,799	16,923,553
Total Assets		**67,107,973**	**47,602,982**

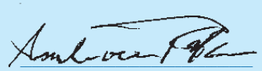
SHAREHOLDERS' EQUITY AND LIABILITIES

SHAREHOLDERS' EQUITY			
Share Capital	9	14,536,147	14,536,147
Retained Earnings		19,191,799	16,010,556
		33,727,946	30,546,703
LONGTERM LIABILITIES			
Interest-bearing Loans	10	24,528,772	10,264,648
Contribution in Aid of Construction	11	2,808,063	2,661,370
		27,336,835	12,926,018
CURRENT LIABILITIES			
Bank Overdraft	8	370,045	
Current Portion Interest-bearing Loans	10	1,739,808	1,255,926
Accounts Payable and Accruals		3,673,985	2,532,109
Customer Deposits		259,354	342,226
		6,043,192	4,130,261
Total Shareholders' Equity and Liabilities		**67,107,973**	**47,602,982**

These financial statements were approved on behalf of the Board on July 10, 2006 by the following:



Chairman



Director

Everet Romney

Ambrose Richardson

The accompanying notes form an integral part of the financial statements.

STATEMENT OF INCOME

Year ended December 31, 2005, with corresponding figures for 2004
Expressed in Eastern Caribbean Dollars (EC$)

	Notes	2005	2004
GROSS OPERATING REVENUE	12	47,097,552	36,592,972
COST OF OPERATING REVENUE:			
Generation Fuel		(16,316,703)	(13,336,511)
Fuel Surcharge		(8,565,698)	(2,709,674)
Other	13	(6,037,047)	(4,395,781)
Transmission and Distribution	14	(4,893,380)	(4,490,468)
		(35,812,828)	(24,932,434)
GROSS OPERATING PROFIT		11,284,724	11,660,538
OPERATING EXPENSES:			
Administration	15	(4,458,264)	(4,097,685)
Consumer Service		(389,044)	(436,253)
		(4,847,308)	(4,533,938)
OTHER INCOME	16	1,110,601	1,646,740
NET OPERATING PROFIT		7,548,017	8,773,340
Environmental levy		(1,982,918)	(1,647,528)
Finance cost		(638,434)	(820,099)
NET PROFIT FOR YEAR		**4,926,665**	**6,305,713**

EARNINGS PER SHARE FIGURES	EC$	EC$
Earnings per share	0.42	0.54
Dividends per share	0.12	0.15

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended December 31, 2005, with corresponding figures for 2004
Expressed in Eastern Caribbean Dollars (EC$)

	2005	2004
Share capital		
At beginning and end of year (Note 9)	14,536,147	14,536,147
Retained earnings		
At beginning of year	16,010,556	10,868,458
Net profit for year	4,926,665	6,305,713
Dividends paid	(1,745,422)	(1,163,615)
At end of year	19,191,799	16,010,556
Dividends declared after 12/31/05		
and not yet sanctioned by the shareholders	(1,396,338)	(1,745,422)
Balance after dividend declared	17,795,461	14,265,134
Shareholders' equity, end of year	**33,727,946**	**30,546,703**

The accompanying notes form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

Year ended December 31, 2005, with corresponding figures for 2004
Expressed in Eastern Caribbean Dollars (EC$)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for year	4,926,665	6,305,713
Adjustments for:		
Depreciation	3,114,504	3,682,820
Provision for slow moving/obsolete inventories	98,336	(98,336)
Amortisation of contributions in aid of construction	(315,638)	(304,639)
Interest expense	220,782	233,076
Provision for bad and doubtful debts	140,632	16,476
	8,185,281	9,835,110
(Increase)/decrease in current assets:		
Inventories	(1,297,094)	434,590
Trade receivables	(1,084,300)	25,087
Other receivables	(612,828)	(553,231)
Increase/(decrease) in current liabilities:		
Accounts payable and accruals	1,163,106	172,098
Customer deposits	(82,872)	(64,086)
Net cash from operating activities	6,271,293	9,849,568
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to property, plant and equipment	(21,558,473)	(1,944,685)
Proceeds on disposal of property, plant and equipment	5,224	-
Interest received	(44,046)	(40,236)
Net cash used in investing activities	(21,597,295)	(1,984,921)
CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		
Proceeds from interest-bearing loans	16,368,450	-
Repayment of interest-bearing loans	(1,620,444)	(1,550,571)
Contributions in aid of construction	462,331	585,499
Dividends paid	(1,745,422)	(1,163,615)
Interest paid	(242,012)	(266,270)
Net cash from/(used in) financing activities	13,222,903	(2,394,957)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENT	(2,103,099)	5,469,690
CASH & CASH EQUIVALENT AT BEGINNING OF YEAR	**3,967,665**	**(1,502,025)**
CASH & CASH EQUIVALENT AT END OF YEAR	**1,864,566**	**3,967,665**
Represented by:		
Cash and cash equivalent	2,234,611	3,967,665
Bank overdraft	(370,045)	-
	1,864,566	**3,967,665**

The accompanying notes form an integral part of the financial statements.

December 31, 2005

1. The Company

The Company was incorporated in Anguilla on January 11, 1991 under the Companies Act and is governed by the Electricity Ordinance, 1991, as amended and operates in The Valley, Anguilla. The Government of Anguilla which was the major shareholder of the Company, offered 6,600,000 shares to the general public through an Initial Public Offering on August 1, 2003.

The Company has an exclusive public supplier's license to generate, transmit and distribute electricity on the island of Anguilla for a period of fifty years from April 1, 1991.

The financial statements were authorized for issue by the Board of Directors on July 10, 2006 .

2. Significant Accounting Policies

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB).

(b) Basis of preparation:

The financial statements are presented under the historical cost basis and are presented in Eastern Caribbean Dollars, (EC$) as the majority of assets are denominated in this currency. These policies have been consistently applied to all years presented, unless otherwise stated.

(c) Use of estimates:

The preparation of the financial statements in accordance with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the amounts reported in these financial statements and the accompanying notes. It also requires management to exercise judgement in the process of applying the Company's accounting policies. These estimates are based on relevant information available at the balance sheet date and, as such, actual results could differ from those estimates.

(d) Property, plant and equipment:

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (refer below) and impairment losses (accounting policy "p"). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Impairment

Property, plant and equipment are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. All impairment losses are charged to the income statement.

Subsequent Expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the existing component being written off. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the statement of income as an expense as incurred.

December 31, 2005

2. Significant Accounting Policies (Continued)

(d) Property, plant and equipment (continued):

Depreciation

Depreciation is charged to the income statement on the straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

Freehold Buildings	*40 years*
Plant and Machinery	*10-20 years*
Furniture, Fittings and Equipment	*5 years*
Motor Vehicles	*3-5 years*

(e) Investments:

Classification

Heldto-maturity investments are financial assets with fixed or determinable payments, fixed maturity and those that the Company has a positive intent and ability to hold to maturity. These include shortterm placements with banks.

Recognition/Derecognition and Measurement

Held-to-maturity investments are recognised/derecognised on the day they are transferred to/by the Company, respectively.

Investments are initially measured at cost, including transaction costs.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and are amortized based on the effective interest rate of the instrument.

Impairment

Investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. All impairment losses are charged to the income statement.

(f) Inventories:

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Allowance is made for obsolete and slow moving items.

(g) Trade and other receivables:

Trade and other receivables are stated at their cost less impairment losses (accounting policy "p").

December 31, 2005

2. Significant Accounting Policies (Continued)

(h) Cash & cash equivalents:

Cash and cash equivalents comprise cash balances and term deposits. For the purpose of the statement of cash flows, cash and cash equivalents are presented net of bank overdraft.

(i) Repurchase of share capital:

When share capital recognized as equity is repurchased by the Company, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total shareholders' equity.

(j) Interest-bearing loans:

Interest-bearing loans are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, interest-bearing loans are stated at amortized cost.

(k) Revenue:

Revenue from the sale of electricity is recognised in the statement of income based on consumption recorded by monthly meter readings, with due adjustment made for unread consumption at year-end by apportioning the consumption of the following month.

(l) Trade and other payables:

Trade and other payables are stated at their cost.

(m) Contributions in aid of construction:

Contributions in aid of construction are amounts received from certain customers towards the cost of providing services. These amounts are amortized over the estimated service lives of the related assets over the same period. Contributions received in respect of unfinished construction are amortized once the assets are placed in service.

(n) Finance cost:

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of finance costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as a part of the cost of the asset.

(o) Foreign currencies:

Transactions in foreign currencies are converted to EC Dollars, the functional and reporting currency of the Company, at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to EC Dollars at the foreign exchange rate ruling at that date. Foreign exchange gains and losses are recognized in the income statement in the year in which they arise. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to EC Dollars at the foreign exchange rate ruling at the date of the transaction.

(p) Impairment:

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

December 31, 2005

2. Significant Accounting Policies (Continued)

(q) Provisions:

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

(r) Employee benefits:

Defined Contribution Plan

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined Benefit Plan

The net obligation in respect of defined benefit pension is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method.

Past service by employees, if any is recognised as an expense in the income statement on a straightline basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

Where the calculation results in a benefit to the Company, the asset recognised is in accordance with IAS 19.

(s) Income tax:

No provision is made for income tax since Anguilla does not have any form of income tax.

(t) Dividends:

Dividends are recognised as a liability in the period in which they are sanctioned by the shareholders. Dividends per share have been calculated by dividing the dividend declared by the weighted average number of issued ordinary shares.

(u) Earnings per share:

Earnings per share have been calculated by dividing the net profit for the year of $4,926,665 (2004:$6,305,713) by the weighted average number of issued ordinary shares of 11,636,147 (2004:11,636,147).

(v) Corresponding information:

Certain corresponding figures for 2004 have been reclassified to conform to current year's presentation, where necessary.

December 31, 2005

Expressed in Eastern Caribbean Dollars (EC$)

3. Property, Plant and Equipment

	Land & Buildings	Plant & Machinery	Furniture, Fittings & Equipment	Motor Vehicles	Capital Work in Progress	Total
At Cost:						
January 1, 2005	6,858,766	52,829,093	2,956,500	2,840,089	161,805	65,646,253
Additions/(disposals)	91,553	923,053	719,137	69,449	19,755,281	21,558,473
December 31, 2005	6,950,319	53,752,146	3,675,637	2,909,538	19,917,086	87,204,726
Accumlated Depreciation:						
January 1, 2005	1,696,294	28,957,457	2,362,944	1,955,353	-	34,972,048
Depreciation	182,094	2,645,929	177,833	108,648	-	3,114,504
December 31, 2005	1,878,388	31,603,386	2,540,777	2,064,001	-	38,086,552
Net Book Values:						
December 31, 2005	5,071,931	22,148,760	1,134,860	845,537	19,917,086	49,118,174
December 31, 2004	5,162,473	23,876,861	593,556	884,735	161,804	30,679,429

December 31, 2005

Expressed in Eastern Caribbean Dollars (EC$)

4.Investments

	2005	2004
Held to maturity	929,049	885,003

These comprise certificates of deposit with banks maturing in October 2006 and earn interest @ 4.75% per annum.

5. Inventories

	2005	2004
Generation parts and fuel	3,389,380	2,668,896
Transmission and distribution parts	1,956,928	1,413,127
Administration supplies	174,671	141,862
	5,520,979	4,223,885
Provision for slowmoving/obsolete inventories	(740,757)	(642,421)
	4,780,222	3,581,464

6. Trade Receivables

	2005	2004
Trade receivables	8,934,483	7,850,183
Provision for bad and doubtful debts	(989,056)	(848,424)
	7,945,427	7,001,759

7. Other Receivables and Prepayments

	2005	2004
Accounts receivable-control	94,317	56,373
Other debtors	88,160	641,966
Other prepayments	1,918,013	1,191,572
	2,100,490	1,889,911
Bad debt provision	-	(402,249)
	2,100,490	1,487,662

8. Cash & Cash Equivalent-Net

	2005	2004
Cash in hand and at bank	2,234,611	3,416,733
Chequing account/(bank overdraft), [secured by a debenture on assets with interest rate of 9.2% per annum and expires on 30th September, 2006]	(370,045)	550,932
Cash resources in the statement of cash flows	1,864,566	3,967,665

December 31, 2005

Expressed in Eastern Caribbean Dollars (EC$)

9. Share Capital

	2005	2004
Authorized:	30,000,000	30,000,000
All shares are voting shares and carry equal rights		
Issued and fully paid:		
17,036,147 Ordinary shares at no par value	17,036,147	17,036,147
Less: Treasury Stock		
5,400,000 Ordinary shares at no par value	(5,400,000)	(5,400,000)
	11,636,147	11,636,147
Add:		
Discount on treasury stock	2,900,000	2,900,000
	14,536,147	14,536,147

The current percentage of ownership is:

	2005	2004
Government of Anguilla	40%	40%
Social Security Board	16%	16%
National Bank of Anguilla Ltd.	12%	12%
Caribbean Commercial Bank (Anguilla) Ltd.	11%	11%
General Public	21%	21%

In 1998, the Company repurchased 5,400,000 of class "B" ordinary shares at a consideration of EC$2,500,000. The difference between the original issue price and the cost to acquire treasury stock is shown as discount on treasury stock. In June 2003, all shares of the Company were converted to one class of ordinary shares to rank Pari Passu, thus removing the various stock categories.

On September 1, 2003, the Government of Anguilla (GOA), sold 6,600,000 ordinary shares of the Company in an Initial Public Offering at EC$2.50 per share.

The Board of Directors for the Social Security Board are appointed by the Government of Anguilla.

All classes of shares have been converted to one class of ordinary shares effective June 3, 2003.

To date, the shares of the Company are not listed on any stock exchange.

December 31, 2005

Expressed in Eastern Caribbean Dollars (EC$)

10. Interest-Bearing Loans

	2005	2004
Caribbean Development Bank (See I below)	332,721	699,370
Caribbean Commercial Bank (Anguilla) Ltd (See II below)	2,342,758	2,763,211
Caribbean Development Bank (See III below)	7,224,651	8,057,993
Caribbean Development Bank (See IV below)	16,368,450	-
	26,268,580	11,520,574
Less: Current Portion	(1,739,808)	(1,255,926)
	24,528,772	**10,264,648**

(I) This loan (03 SFR-ANG) was made to the Government of Anguilla on February 18, 1986. The total amount disbursed was US$1,435,709 (EC$3,859,473) which was transferred to the Company on April 1, 1991. The loan is guaranteed by the Government of Anguilla and is repaid in equal quarterly installments of US$24,754, (EC$66,544) plus interest at the rate of 4% per annum. The final payment is due on March 31, 2007.

(II) This loan was made to the Company by the Caribbean Commercial Bank (Anguilla) Ltd. (CCB) on May 7, 1998 to refinance the Commonwealth Development Corporation loan. The loan is guaranteed by the Government of Anguilla. The total amount disbursed was US$1,800,000 (EC$4,838,760). This loan is repaid in equal semiannual installments of US$116,550, (EC$313,310), including interest at the rate of 7.75% per annum. The final payment is due on May 7, 2010.

(III) This loan (02/OR-ANL) was made to the Company by the Caribbean Development Bank (CDB) in the year 2000 to finance the purchase of two generators. The total amount disbursed was US$3,720,000 (EC$10,000,104). This loan is repaid in forty eight (48) equal and consecutive quarterly installments of US$113,280 (EC$304,519) with a current interest rate of 5.75% per annum. This will be payable after two (2) years following the expiry of the first disbursement. Borrowing costs of US$91,415 (EC$245,743) were capitalized and included in property, plant and equipment (Note 3). This loan is secured by a legal charge over the Company's property, plant and equipment as well as the freehold property of the Company.

(IV) This loan (03/OR-ANL) was made to the Company by the Caribbean Development Bank (CDB) in the year 2005 to finance the purchase of two generators. The total amount disbursed was US$6,089,000 (EC$16,368,450). This loan is repaid in forty eight (48) equal and consecutive quarterly installments of US$158,553 (EC$426,222) with a current interest rate of 5.75% per annum. This will be payable after two (2) years following the expiry of the first disbursement. Borrowing costs of US$224,686 (EC$604,000) were capitalized and included in property, plant and equipment (Note 3). This loan is secured by a legal charge over the Company's property, plant and equipment as well as the freehold property of the Company.

December 31, 2005

Expressed in Eastern Caribbean Dollars (EC$)

11. Contributions in Aid of Construction

	2005	2004
At beginning of the year	2,661,370	2,380,510
Contributions during the year	462,331	585,499
	3,123,701	2,966,009
Amount amortised during the year	(315,638)	(304,639)
At end of year	**2,808,063**	**2,661,370**

12. Gross Operating Revenue

	2005	2004
Amounts billed during the year	39,303,574	34,327,725
Less: unbilled revenue at beginning of the year	(1,821,662)	(1,215,501)
	37,481,912	33,112,224
Add: unbilled revenue at end of the year	1,753,053	1,821,662
	39,234,965	34,933,886
Fuel surcharge	7,862,587	1,659,086
	47,097,552	**36,592,972**

As per Electricity (rates & charges) Regulations, tariffs shall be subject to a surcharge of 1 cent per unit for every 10 cents per gallon increase in the price of fuel oil over EC$3.64 per gallon. The Company imposed a fuel surcharge of 10 cents until September 2005. It was increased to 20 cents in October 2005 until present.

13. Generation-Other Expenses

	2005	2004
Repairs and maintenance	2,857,946	1,444,814
Depreciation	1,741,386	1,688,137
Staff costs	1,437,715	1,268,057
	6,037,047	**4,401,008**

14. Transmission and Distribution Expenses

	2005	2004
Staff costs	1,572,110	1,439,921
Depreciation	1,304,152	1,044,647
Insurance	1,039,906	1,325,216
Repairs and maintenance	977,212	680,684
	4,893,380	**4,490,468**

December 31, 2005

Expressed in Eastern Caribbean Dollars (EC$)

15. Administration Expenses

	2005	2004
Salaries and wages	1,479,188	1,309,840
Office expenses	987,778	883,942
Consultancy and professional fees	810,251	585,248
Depreciation	401,036	600,103
General	390,018	383,063
Insurance	389,993	335,489
	4,458,264	4,097,685

16. Other Income

	2005	2004
Late charges	476,803	476,983
Miscellaneous	434,788	518,043
Upgrades and relocation of poles	147,060	585,014
Reconnection fees	51,950	66,700
	1,110,601	1,646,740

17. Personnel Expenses

	2005	2004
Salaries & wages	4,004,241	3,648,498
Other Benefits	389,248	352,753
Training	183,801	208,630
Social security	153,524	148,276
Pension Expense*	147,244	95,914
	4,878,058	4,454,071

*This represents a defined benefit plan with Zurich International and a defined contribution plan with Sagicor Life Inc.

18. Related Party Transactions and Balances

	2005	2004
Directors' Fees	242,803	232,067
Benefits to Executive Officers	579,530	549,343
	822,333	781,410
Revenues from Government	**6,990,012**	**6,557,066**
Amounts paid to GOAT for the Environmental levy	**1,982,918**	**1,647,528**

18. Related Party Transactions and Balances (Continued)

The Company has entered into the following transactions/balances with the Government of Anguilla (GOA) as follows:

- The GOA imposed an environmental levy of 5% on Revenues excluding Government's usage, on the Company effective September 1, 2003. The amount payable to GOA for the month of December is $208,158.
- Trade receivable from GOA EC$764,440 (2004: EC$1,672,128).
- License fees paid to GOA is EC$400,000 for the years 2005 and 2004.
- The GOA has guaranteed the CDB (03SFR-ANG) and CCB loans borrowed by the Company (see note 10).
- The Company has a loan with the Caribbean Commercial Bank (Anguilla) Ltd. (CCB) with an outstanding balance of EC$2,342,758 (2004: EC$2,763,211) (see note 10).
- The Company has an overdraft facility with a limit of EC$3.2 million with the National Bank of Anguilla Limited with an interest rate of 9.2% per annum. The present balance is EC$370,045.

19. Commitments

During the current year, the directors have approved approximately EC$5,175,683 (2004: EC$2,965,114) for capital expenditure of which EC$3,372,490 had not been spent at December 31, 2005.

20. Credit Risk and Fair Value Disclosure of Financial Instruments

Financial assets of the Company include cash, term deposits, investments and accounts receivable. Financial liabilities include accounts payable, accruals and loans.

(a) Credit Risk

Credit risk on receivables is concentrated in the Government of Anguilla, one of the largest consumers and also the largest debtor. The level of credit risk is reflected in the provision for bad and doubtful receivables. (Refer to notes 6 and 7).

(b) Fair Value

The fair values of cash, accounts receivable, accounts payable and accruals and longterm loans are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect estimates. All nonfinancial instruments such as prepaid expenses, and contributions in aid of construction are excluded from fair value disclosure.

21. Subsequent Events

(a) During the year the Company sought funding from the Caribbean Development Bank for the purchase of two new generators. The full loan amount is US$6.089 million which was fully drawn in April 2006 when the generators were commissioned.

(b) The company has decided to self insure its Transmission and Distribution assets in 2006. Rather than paying insurance premiums the Company has decided to put funds into a interest bearing deposit account. In the event of an emergency, the Company has established a line of credit with Caribbean Commercial Bank (Anguilla) Limited against which they can draw immediately.

(c) Threatened Litigation. In January 2006, the Company received correspondence from Delta Petroleum claiming the sum of US$195,879.68 (EC$526,564) which represents late payments on invoices and legal costs. No claim form has been submitted to the court and it is anticipated that the matter will be passed to Arbitration prior to court action.

Corporate information

REGISTERED OFFICE

Main Office
The Valley, Anguilla

Power Station
Corito, Anguilla

Mailing Address
P.O. Box 400
The Valley, Anguilla

Tel: (264) 497-5200
Fax: (264) 497-5440

E-mail: info@anglec.com
Web site: www.anglec.com

AUDITORS

KPMG LLC
Caribbean Commercial Centre
The Valley, Anguilla

Mailing Address
P.O. Box 136
The Valley, Anguilla

Tel: (264) 497-5500
Fax: (264) 497-3755
email: cvromney@kpmg.com

ATTORNEYS-AT-LAW

Caribbean Juris Chambers
Hannah-Waver House
The Valley, Anguilla

Mailing Address
P.O. Box 328
The Valley, Anguilla