

**Schedule 2
FORM ECSRC - Q**

(Select One)

Quarterly Report
For the period ended March 31, 2011

or

TRANSITION REPORT _____
(Applicable where there is a change in reporting issuer's financial year)

For the transition period from _____ to _____

Issuer Registration Number: 350360

Grenada Electricity Services Ltd.

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

Grenada W.I.

(Territory or jurisdiction of incorporation)

Halifax Street, St. George's, P.O. Box 381

(Address of principal executive Offices)

Reporting issuer's:

Telephone number (including area code): (473) 440-3391

Fax number: (473) 440-4106

Email address: mail@grenlec.com

(Former name, former address and former financial year, if changed since last report)

(Provide information stipulated in paragraphs 1 to 8 hereunder)

Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report. _____

CLASS	NUMBER
Ordinary Shares	19,000,000

SIGNATURES

Name of Director:

Vernon Lawrence

Signature 

Date 26/4/2011

Name of Director:

Allan Bierzynski

Signature 

Date 26/4/11

INFORMATION TO BE INCLUDED IN THE REPORT

1. **Financial Statements**

(a) Included herewith are the following unaudited Financial Statements:

1. Statement of Financial Position at March 31, 2011.
2. Statement of Comprehensive Income for the three months to March 31, 2011.
3. Statement of Cash Flow for the three months to March 31, 2011.

2. **Management's Discussion and Analysis of Financial Condition and Results of Operations**

(a) **Liquidity**

The Company's liquidity position with a cash balance of \$10.86M is reflective of a reasonable collection performance despite the financial challenges faced by many customers. In particular the Government of Grenada has maintained its recent payment history and kept their outstanding balances at low levels along with several of our large customers. However, there have been some customers who have fallen into arrears and the Company continues to work with them by entering into payment arrangements.

During the first quarter the Company saw a decrease in cash and equivalents of \$4.23M mainly due to the funding of the Hurricane Fund with \$2.77M which covers 2011 and the increase in receivables and prepayments of \$4.36M. Cash provided by operating activities of \$5.43M was lower than expected partly due to the impact of world fuel prices on the net fuel revenue performance.

Principal and interest repayments of \$1.54M and \$0.73M respectively were made to March 31, 2011 as per the loan agreements. Additionally, a dividend of \$2.09M or 11 cents per share was recommended in February and paid in March. The Company has met all of its obligations for the year to date and expects to continue to do so for the foreseeable future.

(b) **Capital Resources**

Capital expenditure of \$3.42M in the first quarter included \$1.08M for the new Administrative Building which was completed in this period. There is retention and a

final payment totalling \$0.83M to be paid re this contract. The capital budget for 2011 exclusive of the administration building was \$10.59M of which \$2.34M was expended in the quarter. The financing for these regular capital items came from internally generated funds and the company continues to show the capacity to do so. The company's cash flow performance and position indicates that it is quite capable of meeting its budgeted capital commitments to the end of the financial year. As far as generation expansion is concerned the Company does not foresee that this will be required before 2013.

c) **Results of Operation**

In the first quarter of 2011, energy sales declined comparative to the same period in 2010 by 3.81%. This was the first instance since privatization that Grenlec has seen sales units contracting at any point in the year as compared to the prior year without the impact of a hurricane. All sectors with the exception of street lights experienced this decline with the sharpest being that of commercial with 5.01%.

Non Fuel Revenue for the first quarter was \$19.00M reflecting a decline of \$4.52% compared to the same period in 2010. This decline was due to lower energy sales in addition to the impact of a 0.96% reduction in non fuel rates from February 2011. This was in compliance with the Electricity Supply Act of 1994 which requires rates to be adjusted by RPI – 2. The decline in energy sales is attributable to two factors; first the continued impact of the global economic recession on the Grenadian economy which has seen negative GDP growth and, second significantly contrasting weather conditions between the comparative quarters with 2010 experiencing high ambient temperatures. Our expectation is that this contraction will be slowly reversed as we get to the second half of the year when the weather conditions are unlikely to have such a contrast.

The first quarter of 2011 has seen world fuel prices increasing by 18.90% compared to the last quarter of 2010. Increasing fuel prices because of the lag effect in the adjustment of the fuel charge leads to the recovery rate being lower than in a situation of stable prices. The budgeted recovery rate based on stable fuel prices is 99.10% whereas the actual for the first quarter of 2011 was 89.01%. This means that the net fuel revenue for the period was negative by \$2.56M which has a net impact on the profit after taxes of \$1.48M. The Company does not expect that world fuel prices will continue to increase for the entire year which will mean a decrease in the negative impact of the net fuel revenue going forward.

Due to the higher fuel prices total revenues to March 31, 2011 were higher than that of 2010 by 5.93% despite non fuel revenue decreasing by 4.52%.

Other operating and administrative expenses increased by 6.95% (\$0.91M) in the first quarter of 2011 compared to the same period in 2010. This was based mainly on additional line maintenance and depreciation in the Distribution department which

saw an increase of (\$0.77M). However, total non fuel expenses declined by 0.55% with lower interest costs based on declining principal balances and other charges which are mainly based on a percentage of profit after interest.

Profit after taxes of \$1.27M was 69.53% lower than that for the equivalent period in 2010 of \$4.05M and unable to cover the dividend declared for the first quarter of \$2.28M. This situation is not foreseen to continue given the expected reversal in the net fuel revenue performance as noted earlier. Additionally the Company intends to take steps to reduce expenditure in the coming months to offset any decrease that may occur in non fuel revenue.

The Company's healthy statement of financial position was maintained during the quarter with total assets of \$190.31M at March 31, 2011 and net assets of \$70.29M. Importantly, all of the financial covenants set by the lending institutions continue to be exceeded by the company. The table below reflects the targets and actual for the quarters ended March 2011 and December 2010.

Covenant Table

	Covenant Ratio	March 2011	December 2010
Current Ratio	$\geq 1.50:1$	3.58	4.34
Interest Coverage Ratio	$\geq 2:1$	7.32	8.51
Debt Service Coverage Ratio	≥ 1.50	2.99	2.79
Bank Borrowing to Equity Ratio	$\leq 1.25:1$	0.89	0.89
Capital to Total Assets	$\geq 30\%$	31.41%	32.86%

System losses had a 12 month rolling average of 8.19% at March 31, 2011 compared to an equivalent average of 9.27% in 2010. The Company is making every effort to maintain if not reduce these losses even further by focusing on both technical and non technical areas.

Year to date fuel efficiency of 15.91 kWh per US gallon was the same as that for 2010 as the Company has been able to utilize its more efficient generators to meet the demand.

3. Disclosure of Risk Factors.

With each passing period the hurricane reserve improves and presently stands at \$10.50M, which reduces the main risk exposure associated with post-hurricane recovery. The major risk factors facing the Company continue to be as follows:

- Hurricanes - as clearly established after Hurricane Ivan in 2004 when approximately 90% of our distribution system was affected. This continues to be the most immediate and significant risk being faced. This has been partially offset by the strengthening of the distribution system which has been made more robust in the rebuilding period after hurricanes Ivan and Emily. Additionally, the hurricane fund of \$11.28M has been restored to above 75% of pre Ivan levels.
- A New Electricity Supply Act –Any change to existing legislation can change the landscape in which the Company operates if it allows competition into the market. There is no information that indicates this is a likely occurrence presently.
- Sharply increasing fuel prices can over the short run impact negatively on the company's cash flow and profitability.

4. Legal Proceedings.

There were no pending legal proceedings outstanding as at March 31, 2011 that could materially impact on the company's position.

5. Changes in Securities and Use of Proceeds.

There were no changes in securities during the quarter.

6. Defaults Upon Senior Securities.

- (a) Payments of principal and interest to the ECSE on the Grenlec Bond and NIS loans have been made during the quarter as per existing agreements.
- (b) No arrears in the payment of dividends have occurred and there are no restrictions.

7. Submission of Matters to a Vote of Security Holders.

Grenlec has not submitted any matters with regard to a Vote of Security Holders.

8. Other Information.

None.

**GRENADA ELECTRICITY SERVICES
COMBINED TRADING SUMMARY AS OF 31/3/2011**

	March 2011	March 2010
<u>INCOME</u>		
Sales - Non Fuel Charge	19,004,175.73	19,902,628.12
- Fuel Charge	22,601,860.92	19,664,137.05
Unbilled Sales Adjustments	486,814.87	646,447.60
Net Sales	<u>42,092,851.52</u>	<u>40,213,212.77</u>
Sundry Revenue	905,223.31	690,084.37
TOTAL INCOME	<u>42,998,074.83</u>	<u>40,903,297.14</u>
<u>OPERATING COSTS</u>		
Production less Diesel Consumed	4,410,468.54	4,972,864.80
Diesel Consumed	25,392,498.91	19,246,896.53
Hurricane Provision	500,000.01	500,000.01
Planning & Engineering	643,203.95	469,556.34
Distribution	4,085,648.72	3,233,425.46
TOTAL OPERATING COSTS	<u>35,031,820.13</u>	<u>28,422,743.14</u>
<u>CORPORATE SERVICES</u>	<u>4,266,769.68</u>	<u>3,826,988.27</u>
PROFIT BEFORE INTEREST	<u>3,699,485.02</u>	<u>8,653,565.73</u>
<u>INTEREST</u>		
Bank Loan Interest	908,967.17	1,042,710.95
Other Bank Interest	3,796.76	3,883.72
Consumer Deposit Interest	87,190.18	75,363.10
TOTAL INTEREST COSTS	<u>999,954.11</u>	<u>1,121,957.77</u>
PROFIT AFTER INTEREST	<u>2,699,530.91</u>	<u>7,531,607.96</u>
<u>OTHER CHARGES</u>		
Disposal of Fixed Assets	(55,766.47)	(20,100.00)
Donations	137,764.86	377,585.40
Profit Sharing	796,487.43	1,388,844.14
TOTAL OTHER CHARGES	<u>878,485.82</u>	<u>1,746,329.54</u>
PROFIT BEFORE TAXES	1,821,045.09	5,785,278.42
Corporation Tax @ 30%	<u>546,313.52</u>	<u>1,735,583.53</u>
PROFIT AFTER TAXES	1,274,731.57	4,049,694.89
Dividends	2,280,000.00	2,090,000.00
RETAINED PROFIT to date	<u>(1,005,268.43)</u>	<u>1,959,694.89</u>

GRENADA ELECTRICITY SERVICES LIMITED

**Statement of Cash Flows
For the year to 31st March, 2011**

	March 2011	December 2010
Operating Activities		
Profit before Income Tax	1,821,045.09	14,633,067.91
Adjustments for:		
Depreciation	3,995,796.72	15,954,614.00
(Profit) / Loss on disposal of fixed assets	<u>(55,766.47)</u>	<u>(54,450.68)</u>
	5,761,075.34	30,533,231.23
Changes in Operating Assets / Liabilities		
(Increase) / Decrease in receivables and prepayments	(4,357,090.58)	1,685,941.40
Increase / (Decrease) in accounts payable and accrued charges	3,812,247.35	(4,346,209.91)
Increase in provision for retirement benefits	635,065.76	2,276,350.48
(Increase) / Decrease in inventory	(1,211,493.28)	549,850.54
Increase / (Decrease) in related company balance	9,473.83	(86,702.59)
Payment of income tax	0.00	(4,627,043.88)
Increase in provision for profit sharing	<u>782,831.12</u>	<u>74,545.18</u>
	5,432,109.54	26,059,962.45
Investing Activities		
Disposal of fixed assets	55,766.47	83,888.00
Suspense jobs in progress (increase) / decrease	(167,177.45)	(529,565.62)
Increase in Capital Work in Progress	(1,930,695.19)	(4,991,456.44)
Hurricane Fund Increase	(2,766,675.12)	(1,307,021.27)
Increase in segregated investment	(191,418.09)	(2,174,492.43)
Decrease in consumer contribution to line extension	(137,194.41)	(354,575.58)
Purchase of fixed assets	<u>(1,203,358.47)</u>	<u>(3,020,831.00)</u>
	<u>(6,340,752.26)</u>	<u>(12,294,054.34)</u>
Financing Activities		
Provision for hurricane insurance reserve	500,000.01	2,000,000.00
Loan proceeds	-	-
Repayment of Loan	(1,537,577.91)	(7,785,680.44)
Dividends paid	<u>(2,280,000.00)</u>	<u>(8,550,000.00)</u>
Cash provided by financing activities	<u>(3,317,577.90)</u>	<u>(14,335,680.44)</u>
Net Increase /(Decrease) in cash and cash equivalents	(4,226,220.62)	(569,772.33)
Net cash - at the beginning of year	<u>15,091,048.40</u>	<u>15,660,820.73</u>
- at the end of year	<u>10,864,827.78</u>	<u>15,091,048.40</u>
Represented by		
Cash and due from banks	<u>10,864,827.78</u>	<u>15,091,048.40</u>

GRENADA ELECTRICITY SERVICES
Balance Sheet at 31/3/2011

	March	December
	2011	2011
	EC \$	EC \$
ASSETS		
Non Current Assets		
Property Plant and Equipment	86,859,289.73	89,541,954.81
Suspense Jobs in Progress	2,279,021.12	2,111,843.67
Capital Work in Progress	10,433,312.73	8,502,617.54
Deferred Exchange Loss	1,094,619.62	1,094,619.62
	<u>100,666,243.20</u>	<u>101,251,035.64</u>
CURRENT ASSETS		
Inventories	16,641,453.40	15,429,960.12
Accounts Receivable	30,787,933.53	28,918,589.09
Prepayments	3,341,792.05	854,045.91
Segregated Retirement Investments	16,701,645.12	16,510,227.03
Hurricane Fund	11,279,456.20	8,512,781.08
Other Investments	30,552.00	30,552.00
Cash and due from banks	10,864,827.78	15,091,048.40
	<u>89,647,660.08</u>	<u>85,347,203.63</u>
TOTAL ASSETS	<u>190,313,903.28</u>	<u>186,598,239.27</u>
SHAREHOLDERS EQUITY AND LIABILITIES		
SHAREHOLDERS EQUITY		
Stated Capital	32,339,840.00	32,339,840.00
Other Reserve	14,472.00	14,472.00
Retained Earnings	38,936,203.70	37,203,609.21
Profit to Date after Dividends	(1,005,268.43)	1,760,015.73
	<u>70,265,247.27</u>	<u>71,317,936.94</u>
Non Current Liabilities		
Consumers' Deposits	9,002,751.85	9,178,561.33
Borrowings	53,107,366.88	54,644,944.79
Provision for Retirement Benefits	22,404,996.68	21,769,930.92
Hurricane Reserve	10,500,000.01	10,000,000.00
	<u>95,015,115.42</u>	<u>95,593,437.04</u>
Current Liabilities		
Amount Due to Related Company	9,473.83	-
Accounts Payable and Accrued Expenses	19,862,153.70	15,958,013.62
Consumers' Advances for Construction	1,229,851.17	1,145,934.42
Provision for Profit Sharing	3,937,781.48	3,154,950.36
Provision for Income Tax	(25,719.59)	(572,033.11)
	<u>25,013,540.59</u>	<u>19,686,865.29</u>
TOTAL LIABILITIES	<u>120,028,656.01</u>	<u>115,280,302.33</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>190,313,903.28</u>	<u>186,598,239.27</u>

Covenants / Ratios

Current Ratio - >= 1.50:1	3.58	4.34
Interest Coverage Ratio - >= 2:1	7.32	8.51
Debt Service Coverage Ratio - >= 1.50	2.99	2.79
Bank Borrowing to Equity Ratio - <= 1.25:1	0.89	0.89
Capital to Total Assets >= 30%	31.41%	32.86%