

**Schedule 2  
FORM ECSRC - Q**

**(Select One)**

Quarterly Report For the period ended September 30, 2012

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)

Dusty Highway, Grand Anse, 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

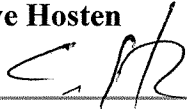
## SIGNATURES

A Director, the Chief Executive Officer and Chief Financial Officer of the company shall sign this Quarterly Report on behalf of the company. By so doing each certifies that he has made diligent efforts to verify the material accuracy and completeness of the information herein contained.

The Chief Financial Officer by signing this form is hereby certifying that the financial statements submitted fairly state the company's financial position and results of operations, or receipts and disbursements, as of the dates and period(s) indicated. The Chief Financial Officer further certifies that all financial statements submitted herewith are prepared in accordance with International Accounting Standards consistently applied (except as stated in the notes thereto) and (with respect to year-end figures) including all adjustments necessary for fair presentation under the circumstances.

Name of Interim Chief Executive Officer:

**Clive Hosten**




Signature

24.10.12

Date

Name of Director:

**Wayne Burks**



Signature

24.10.12

Date

Name of Chief Financial Officer:

**Benedict Brathwaite**



Signature

24.10.12

Date

## 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 September 30, 2012.
2. Statement of Comprehensive Income for the nine months to September 30, 2012.
3. Statement of Cash Flow for the nine months to September 30, 2012.

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

#### (a) **Liquidity**

The Company's liquidity position continues to be very good with a current ratio of 3.82 well above the benchmark 1.50 established by lender institutions.

The average electricity rate inclusive of taxes per kWh fell to \$1.15 in the third quarter from \$1.18 in the second with a YTD of \$1.16. This meant sustained high energy bills for our customers who continue to be severely challenged in an economy that is depressed. The high rates have negatively impacted our trade receivables which increased in the third quarter by 7.77% with an overall upward movement for the year of 16.69%. During the first nine months most of the major sectors experienced increases ranging from 6.82% for commercial to 253.22% for the government. Surprisingly, the hotel sector's balances were stable with a decline of 0.37% while statutory bodies saw decreases of 30.65%. Increased dollar sales of 6.12% would have influenced the higher trade receivables seen but clearly not to the full extent of the movement recognised. Of concern is that the current portion of the overall trade receivables has declined from 54.67% at the end of the second quarter to 49.47% at the end of the third. This indicates that the Company has to revisit its strategies aimed at controlling receivables which includes engaging customers who are in arrears to set up payment arrangements which are closely monitored. Consideration clearly has to be given to a more aggressive disconnection policy aimed at minimizing the potential for bad debt write off arising from the difficult economic realities. Additionally, customers must ensure that they practice conservation to ensure that they keep their bills within manageable limits.

Cash provided by operating activities in the third quarter were \$5.20M which brought the total at September 30, 2012 to \$15.80M. Profit before income tax of \$14.10M and depreciation of \$10.03M were partially reversed by increases in receivables and prepayments of \$5.08M and income tax payments of \$6.34M. Significantly \$3.46M of the income tax paid were prepayments for the 2012 financial year. Investing activities utilized \$6.97M mainly for the purchase of fixed assets and capital works in progress which had a combined expenditure of \$6.35M through the third quarter. Importantly, the Company continued to meet its loan obligations in accordance with the agreements with principal repayments of \$5.49M made.. Not to be left out shareholders also continued to receive dividends sustained at 12 cents per share leading to a total pay-out of \$6.84M for the first nine months of 2012. Overall this

resulted in a net decrease in cash and cash equivalents of \$2.01M in the first nine months of 2012 with a cash balance at the end of the period of \$10.02M.

The Company has continued to meet all of its obligations in the third quarter and based on its cash flow projections will be able to maintain this for the foreseeable future.

**(b) Capital Resources**

The Company's plans relating to capital expenditure in 2012 has not required it to engage in external borrowing. The regular capital expenditure in the first three quarters of \$6.35M has been managed from internally generated funds that the company has demonstrated the capacity to sustain. As part of its renewable energy drive the company along with the European Union (EU) and the Government of Grenada has begun a project to install one to two MW on a wind farm in Carriacou. The funding for the project of €3.89M will be done jointly, with the EU meeting €2.50M or 64.20% and Grenlec €1.39M or 35.80%. The bulk of the Company's expenditure for this project is expected to be incurred in 2013 which, based on the cash balance and expected cash flow performance, will also be financed from internally generated funds. As far as major generation expansion requiring external financing is concerned the Company does not foresee that this will be required before late 2013 at the earliest.

**c) Changes in Financial Condition**

At September 30, 2012 there were only marginal changes in the covenants, as seen in the table below, when compared to June 30, 2012. These covenants all easily exceed the standards that have been set by the lending institutions. During the third quarter of 2012 there has been no significant change in the Company's financial position. As at September 30, 2012 total assets stood at \$188.30M with net assets of \$74.18M which is an increase of \$0.98M over that of the \$73.20M of June 30, 2012.

**Covenant Table**

	<b>Covenant Ratio</b>	<b>September 2012</b>	<b>June 2012</b>	<b>December 2011</b>
Current Ratio	$\geq 1.50:1$	3.82	3.99	3.76
Interest Coverage Ratio	$\geq 2:1$	10.85	10.88	8.06
Debt Service Coverage Ratio	$\geq 1.50$	3.64	3.47	2.86
Bank Borrowing to Equity Ratio	$\leq 1.25:1$	0.67	0.70	0.78
Capital to Total Assets	$\geq 30\%$	32.22	32.21%	31.62%

**d) Results of Operation**

The Company's financial performance continued to show positive returns in the third quarter of 2012 with profit after taxes increasing from \$6.62M at June 30 to \$9.87M at September 30, 2012. The comparative nine months in 2011 had profit after taxes of \$5.57M which amounts to 56.40% of the 2012 return. The fuel cost recovery rate of 104% partially impacted by operational improvements in system losses and fuel efficiency was the main factor accounting for this improved financial performance.

The trend of a decline in kWh sales continued in the third quarter of 2012, with a decrease of 0.68% compared to the equivalent period in 2011. This follows the 2.04% contraction of the second quarter and the 2.15% decline that occurred in 2011. Energy sales over the first nine months of 2012 were lower by 0.97% as against the same period in 2011. All of the main sectors have experienced this decrease as follows: Industrial 5.12%, Domestic 0.98% and Commercial 0.78%. Street lights have seen growth of 1.52%. The economic downturn which has continued for much longer than originally forecasted has been the main factor responsible for lower unit sales which are now comparable to that seen in 2009.

A rate increase of 3.71% has meant that non fuel revenue despite the lower unit sales grew by 1.75% in the first nine months registering an improvement over the 0.97% of the first two quarters. The decrease in unit sales explains why this dollar increase is less than would have been expected given the higher rate.

Over the first nine months of 2012 world fuel prices have been fluctuating. In the third quarter of 2012, world fuel prices averaged USD91.98 a barrel, compared to USD 93.98 in the second and USD102.87 a barrel of the first quarter. However, despite the lower average price of the third quarter we have seen increases in the average price of a barrel of oil in each month since June. This has had the impact because of the lag effect of the fuel charge calculation, which is based on a three month rolling average, of reducing the fuel cost recovery rate. In the first six months of 2012 the fuel cost recovery rate was 105.77% and this declined to 104% at September 30, 2012. This fuel cost recovery rate has had a positive impact on profit after interest in the first nine months of \$4.58M.

The combination of the increased non fuel rates and a higher fuel charge due to world fuel prices meant that total revenues (\$146.31M) to September 30, 2012 were higher than that of the equivalent period in 2011 by 4.87% despite the contraction in kWh unit sales.

Operating and administrative expenses other than for fuel decreased by 0.88% in the first nine months of 2012 relative to the same period in 2011. Cost containment in a period of decreased unit sales growth is an imperative and every effort is being made to keep expenses at 2011 levels or lower.

System losses twelve months rolling average improved from 7.19% at June 30, 2012 to 6.65% at September 30, 2012 well below the 8.07% of 2011. This is a key strategic driver for the Company and its importance cannot be over emphasized in the context of declining sales numbers. The Company's efforts while aimed at continuing the reduction of these losses is also geared at ensuring they do not increase by focusing on both technical and non-technical areas.

Fuel efficiency of 19.16kWh's per imperial gallon in the first nine months of 2012 exceeds the 19.06kWh's achieved in the same period last year and represents a 0.52% improvement. This, like system losses, is very important as it is a key performance indicator for the Company and has a significant impact on its financial performance.

### **3. Disclosure of Risk Factors.**

With each passing period the Hurricane Reserve improves and presently stands at \$13.50M 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 \$11.85M 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. However, a new regional regulatory body Eastern Caribbean Energy Regulatory Authority (ECERA) is being established by the governments of the Organization of Eastern Caribbean States (OECS). This is not scheduled to be in effect for another five years but it is uncertain how this will impact on the current rate structures that exist at this time.
- 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 September 30, 2012 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 ended September 30,2012.

### **6. Defaults Upon Senior Securities.**

- (a) Payments of principal and interest *to the* ECSE on the Grenlec Bond and NIS on their respective loans have been made during the quarter ended September 30, 2012 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.**

(a) None

**8. Other Information.**

None.

**GRENADA ELECTRICITY SERVICES**Balance Sheet as at September 30<sup>th</sup>, 2012 and December 31<sup>st</sup>, 2011

	September 2012 EC \$	December 2011 EC \$
<b>ASSETS</b>		
<b>Non Current Assets</b>		
Property Plant and Equipment	84,759,967.16	90,628,361.63
Suspense Jobs in Progress	1,196,105.06	1,589,858.01
Capital Work in Progress	5,386,035.41	2,856,602.37
Deferred Exchange Loss	760,436.39	760,436.39
	<u>92,102,544.02</u>	<u>95,835,258.40</u>
<b>CURRENT ASSETS</b>		
Inventories	16,807,309.95	15,652,079.10
Accounts Receivable	36,295,883.80	32,255,373.02
Prepayments	1,645,581.02	609,944.68
Segregated Retirement Investments	19,556,753.86	19,060,844.38
Hurricane Fund	11,844,454.37	11,601,773.90
Other Investments	29,480.00	29,480.00
Cash and due from banks	10,018,841.89	12,026,081.62
	<u>96,198,304.89</u>	<u>91,235,576.70</u>
<b>TOTAL ASSETS</b>	<u>188,300,848.91</u>	<u>187,070,835.10</u>
<b>SHAREHOLDERS EQUITY AND LIABILITIES</b>		
<b>SHAREHOLDERS EQUITY</b>		
Stated Capital	32,339,840.00	32,339,840.00
Other Reserve	13,400.00	13,400.00
Retained Earnings	38,795,098.48	39,111,156.46
Profit / (Loss) to Date after Dividends	3,027,002.08	(317,977.07)
	<u>74,175,340.56</u>	<u>71,146,419.39</u>
<b>Non Current Liabilities</b>		
Consumers' Deposits	9,875,684.05	9,639,028.88
Borrowings	40,762,582.96	46,256,908.99
Provision for Retirement Benefits	24,809,972.49	23,740,638.51
Hurricane Reserve	13,500,000.03	12,000,000.00
	<u>88,948,239.53</u>	<u>91,636,576.38</u>
<b>Current Liabilities</b>		
Amount Due to Related Company	135,246.98	189,969.46
Accounts Payable and Accrued Expenses	19,326,876.44	17,306,063.40
Consumers' Advances for Construction	637,020.03	724,379.81
Provision for Profit Sharing	4,201,565.39	3,086,921.25
Provision for Income Tax	876,559.98	2,980,505.41
	<u>25,177,268.82</u>	<u>24,287,839.33</u>
<b>TOTAL LIABILITIES</b>	<u>114,125,508.35</u>	<u>115,924,415.71</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<u>188,300,848.91</u>	<u>187,070,835.10</u>



**GRENADA ELECTRICITY SERVICES**  
**COMBINED TRADING SUMMARY**

For the nine months ended September 30<sup>th</sup>, 2012 and 2011 and year ended December 31<sup>st</sup>, 2011

	September 2012	September 2011	December 2011
<b><u>INCOME</u></b>			
Sales - Non Fuel Charge	58,168,531.72	57,167,527.65	77,346,776.13
- Fuel Charge	86,265,025.19	78,930,134.64	109,294,708.55
Unbilled Sales Adjustments	13,970.76	1,267,490.64	1,134,184.01
Net Sales	144,447,527.67	137,365,152.93	187,775,668.69
Sundry Revenue	1,864,220.42	2,139,848.25	3,120,874.82
<b>TOTAL INCOME</b>	<b>146,311,748.09</b>	<b>139,505,001.18</b>	<b>190,896,543.51</b>
<b><u>OPERATING COSTS</u></b>			
Production less Diesel Consumed	12,538,692.03	13,536,234.15	18,622,535.76
Diesel Consumed	82,950,119.41	83,139,088.28	110,971,540.09
Hurricane Provision	1,500,000.03	1,500,000.03	2,000,000.00
Planning & Engineering	1,685,725.19	1,779,246.10	2,296,748.22
Distribution	12,686,391.60	12,446,576.10	16,563,913.08
<b>TOTAL OPERATING COSTS</b>	<b>111,360,928.26</b>	<b>112,401,144.66</b>	<b>150,454,737.15</b>
<b><u>CORPORATE SERVICES</u></b>	<b>13,397,484.96</b>	<b>12,917,319.79</b>	<b>18,020,080.78</b>
<b>PROFIT BEFORE INTEREST</b>	<b>21,553,334.87</b>	<b>14,186,536.73</b>	<b>22,421,725.58</b>
<b><u>INTEREST</u></b>			
Bank Loan Interest	2,270,186.19	2,673,514.50	3,818,767.07
Other Bank Interest	51,741.76	16,247.01	19,711.15
Consumer Deposit Interest	281,351.30	264,360.90	370,801.34
<b>TOTAL INTEREST COSTS</b>	<b>2,603,279.25</b>	<b>2,954,122.41</b>	<b>4,209,279.56</b>
<b>PROFIT AFTER INTEREST</b>	<b>18,950,055.62</b>	<b>11,232,414.32</b>	<b>18,212,446.02</b>
<b><u>OTHER CHARGES</u></b>			
Disposal of Fixed Assets	(68,954.89)	(42,830.02)	(40,188.83)
Donations	951,245.11	563,762.21	912,631.74
Profit Sharing	3,969,523.05	2,761,117.28	4,414,014.64
<b>TOTAL OTHER CHARGES</b>	<b>4,851,813.27</b>	<b>3,282,049.47</b>	<b>5,286,457.55</b>
<b>PROFIT BEFORE TAXES</b>	<b>14,098,242.35</b>	<b>7,950,364.85</b>	<b>12,925,988.47</b>
Corporation Tax @ 30%	4,231,240.27	2,385,109.44	4,123,965.54
<b>PROFIT AFTER TAXES</b>	<b>9,867,002.08</b>	<b>5,565,255.41</b>	<b>8,802,022.93</b>
Dividends	6,840,000.00	6,840,000.00	9,120,000.00
<b>RETAINED PROFIT to date</b>	<b>3,027,002.08</b>	<b>(1,274,744.59)</b>	<b>(317,977.07)</b>

## GRENADA ELECTRICITY SERVICES LIMITED

### Statement of Cash Flows

For the nine months ended September 30<sup>th</sup>, 2012 and year ended December 31st, 2011

	September 2012	December 2011
<b>Operating Activities</b>		
Profit before Income Tax	14,098,242.35	12,925,988.47
Adjustments for:		
Depreciation	10,034,179.09	14,801,397.21
Profit on disposal of fixed assets	(68,954.89)	(40,188.83)
Prior Year Adjustment	1,919.09	147,531.52
	24,065,385.64	27,834,728.37
<b>Changes in Operating Assets / Liabilities</b>		
Increase in receivables and prepayments	(5,076,147.12)	(3,092,682.70)
Increase in accounts payable and accrued charges	2,170,108.43	1,386,962.72
Increase in provision for retirement benefits	1,069,333.98	1,970,707.59
Increase in inventory	(1,155,230.85)	(222,118.98)
(Decrease) / Increase in related company balance	(54,722.48)	189,969.46
Payment of income tax	(6,335,185.70)	(571,427.02)
Increase /(Decrease) in provision for profit sharing	1,114,644.14	(68,029.11)
	15,798,186.04	27,428,110.33
Cash provided by operating activities		
<b>Investing Activities</b>		
Disposal of fixed assets	103,466.41	1,035,722.08
Suspense jobs in progress (increase) / decrease	393,752.95	521,985.66
(Increase) / Decrease in Capital Work in Progress	(2,529,433.04)	5,646,015.17
Hurricane Fund Increase	(242,680.47)	(3,087,920.82)
Increase in segregated investment	(495,909.48)	(2,550,617.35)
(Increase) / Decrease in consumer contribution to line extension	(379,808.37)	38,818.72
Purchase of fixed assets	(3,820,487.77)	(16,922,156.00)
Decrease in other reserves	-	(1,072.00)
	(6,971,099.77)	(15,319,224.54)
Cash used in investing activities		
<b>Financing Activities</b>		
Provision for hurricane insurance reserve	1,500,000.03	2,000,000.00
Repayment of Loan	(5,494,326.03)	(8,053,852.57)
Dividends paid	(6,840,000.00)	(9,120,000.00)
	(10,834,326.00)	(15,173,852.57)
Cash provided by financing activities		
Net Increase /(Decrease) in cash and cash equivalents	(2,007,239.73)	(3,064,966.78)
Net cash - at the beginning of year	12,026,081.62	15,091,048.40
	10,018,841.89	12,026,081.62
- at the end of period		
<b>Represented by</b>		
Cash and due from banks	10,018,841.89	12,026,081.62