

**Schedule 2
FORM ECSRC - Q**

(Select One)

Quarterly Report
For the period ended June 30, 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)

P.O. Box 381, St. George's
(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)

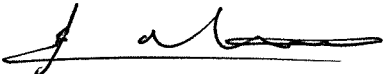
Indicate the number of outstanding shares of each of the reporting issuer's classes of common stock, as of the date of completion of this report. _____

CLASS	NUMBER
Ordinary Shares	19,000,000

SIGNATURES

Name of Director:

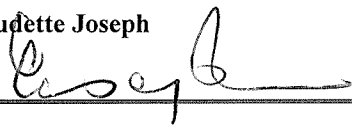
Chester Palmer

Signature 

Date 30th July 2011

Name of Director:

Claudette Joseph



Signature 2/8/2011

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 June 30, 2011.
2. Statement of Comprehensive Income for the six months to June 30, 2011.
3. Statement of Cash Flow for the six months to June 30, 2011.

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

(a) **Liquidity**

The Company's current ratio of 3.72 continues to be healthy and is reflective of a strong liquidity position. This occurred despite many of our customers continuing to face financial challenges as a result of the downturn which is likely to intensify given that the tourist season ended in April. As a result, some customers who have either fallen into arrears or not been able to reduce outstanding balances. The Company has engaged such customers by entering into payment arrangements or continuing to work with them to minimize arrears.

During the second quarter the Company saw a decrease in cash and equivalents of \$5.75M partly due to an increase in receivables and prepayments of \$2.78M and payment of profit sharing in June of \$2.45M. Cash provided by operating activities during the quarter was \$1.58M compared to the \$5.43M of the first quarter. This continued to be lower than expected partly due to the impact of increasing world fuel prices on the net fuel revenue performance.

Principal and interest repayments of \$2.91M and \$1.43M respectively were also made in the second quarter in accordance with the loan agreements. The cumulative principal and interest payments for the year were \$4.45M and \$2.16M each. Additionally, a dividend of \$2.28M or 12 cents per share was paid in June making the total payout for the first half of the year \$4.56M. The Company for the year to date continues to meet all of its obligations and based on its projections expects to do so for the foreseeable future.

(b) Capital Resources

Capital expenditure in the first half of the year totalled \$5.40M inclusive of payments of \$1.28M related to the new Administrative Building. From the capital budget of \$10.59M there is an unexpended amount of \$6.05M. 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 second quarter of 2011, energy sales declined comparative to the same period in 2010 by 3.62%, marginally less than the 3.81% of the first quarter. Overall sales in the first six months were 3.74% below that for 2010 which is unprecedented since the privatization of Grenlec in 1994. Other than for 2005 which would have been impacted by hurricane Ivan in 2004 it is the first such decline in kWh unit sales. All sectors with the exception of street lights experienced this decline with the sharpest being that of commercial with 4.37%.

Non Fuel Revenue to June 2011 was \$38.20M reflecting a decline of 4.55% compared to the same period in 2010. This drop was due to a combination of lower energy sales and a 0.96% reduction in non fuel rates from February 2011. The lower 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 in 2009 and 2010 and, second significantly contrasting weather conditions between the comparative periods, 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 temperatures are unlikely to have as wide a variance

Fuel prices rose by 36.28% in the first six months of 2011 as compared to that for 2010. Increasing fuel prices causes a lag effect in the adjustment of the fuel charge, which is based on a three month rolling average, and 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 half of 2011 was 91.97%. This meant that the net fuel revenue for the period was negative by \$3.8M which has a net impact on the profit after taxes of \$2.05M. The Company's expectation is that world fuel prices will continue to fluctuate, as seen over the last eight weeks, which will lead to the fuel recovery rate increasing over the course of the year.

Due to the higher fuel prices total revenues to June 30, 2011 were higher than that of 2010 by 10.38% despite non fuel revenue decreasing by 4.55%.

Other operating and administrative expenses increased by 3.74% in the first six months, a reduction from the 6.95% (\$0.91M) of the first quarter of 2011, compared to the same period in 2010. The Company based on the decrease in sales implemented cost containment measures aimed at keeping 2011 overall operating and interest expenses stable relative to that of 2011. As of June 2011 these expenses were higher than that of 2010 for the same period by 2.55% which indicates that the strategies implemented have to be sustained over the rest of the year.

Profit after taxes of \$2.71M was 58.93% below that for the equivalent period in 2010 of \$6.60M and unable to cover the cumulative dividend declared for the first two quarters of \$4.56M. The Company's policy has always been to pay dividends out of profits on an annual basis. Given the expected reversal in the net fuel revenue performance as noted earlier there should be sufficient profits over the course of the year to sustain the current level of quarterly dividends. Additionally the Company's steps to reduce expenditure which begun in the second quarter is likely to substantially offset any decrease that is likely to occur in non fuel revenue.

The Company's healthy statement of financial position was maintained during the quarter with total assets of \$185.85M at June 30, 2011 and net assets of \$69.44M. 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 June 2011 and December 2010.

Covenant Table

	Covenant Ratio	June 2011	December 2010
Current Ratio	$\geq 1.50:1$	3.72	4.34
Interest Coverage Ratio	$\geq 2:1$	7.42	8.51
Debt Service Coverage Ratio	≥ 1.50	2.37	2.79
Bank Borrowing to Equity Ratio	$\leq 1.25:1$	0.86	0.89
Capital to Total Assets	$\geq 30\%$	31.45%	32.86%

System losses over the first six months averaged 8.08% which compares favourably to the 8.21% for the year 2010. Given the decline in sales and increasing fuel prices it is even more important that the Company makes every effort to maintain if not reduce these losses even further by focusing on both technical and non technical areas.

Fuel efficiency of 15.89 kWh per US gallon is marginally below the 15.91 kWh per US gallon of the first quarter. This is an area that the Company pays special attention

to and our operations will be reviewed to ensure that there is not a decline in an important area of performance.

3. Disclosure of Risk Factors.

With each passing period the hurricane reserve improves and presently stands at \$11.00M, 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 \$11.38M 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). 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 June 30, 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, EIB on their two outstanding loans and the NIS loan 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.

At the Annual General Meeting of Shareholders on May 10, 2011 the following matters were submitted:

(a) The following directors were elected:

Ambrose Phillip
Claudette Joseph
Alfred Logie
Arthur Campbell

(b) PKF Accountants and Business Advisers were appointed as Auditors for the year ending December 31, 2011 on a majority vote by show of hands.

8. Other Information.

None.

GRENADA ELECTRICITY SERVICES
COMBINED TRADING SUMMARY AS OF 30/6/2011

	June 2011	June 2010
<u>INCOME</u>		
Sales - Non Fuel Charge	38,201,393.67	40,017,859.48
- Fuel Charge	49,845,937.09	40,351,841.84
Unbilled Sales Adjustments	999,630.62	374,798.93
Net Sales	89,046,961.38	80,744,500.25
Sundry Revenue	1,535,972.73	1,324,983.40
TOTAL INCOME	90,582,934.11	82,069,483.65
<u>OPERATING COSTS</u>		
Production less Diesel Consumed	9,645,703.93	9,453,515.31
Diesel Consumed	54,200,557.96	39,721,174.50
Hurricane Provision	1,000,000.02	1,000,000.02
Planning & Engineering	1,187,092.09	965,836.13
Distribution	8,316,018.60	7,885,019.33
TOTAL OPERATING COSTS	74,349,372.60	59,025,545.29
<u>CORPORATE SERVICES</u>	8,510,744.18	8,321,675.73
PROFIT BEFORE INTEREST	7,722,817.33	14,722,262.63
<u>INTEREST</u>		
Bank Loan Interest	1,818,527.12	2,070,193.06
Other Bank Interest	8,709.92	4,264.85
Consumer Deposit Interest	175,801.15	160,145.25
TOTAL INTEREST COSTS	2,003,038.19	2,234,603.16
PROFIT AFTER INTEREST	5,719,779.14	12,487,659.47
<u>OTHER CHARGES</u>		
Disposal of Fixed Assets	(71,640.55)	(27,600.84)
Donations	289,570.98	625,602.17
Profit Sharing	1,627,656.73	2,457,648.83
TOTAL OTHER CHARGES	1,845,587.16	3,055,650.16
PROFIT BEFORE TAXES	3,874,191.98	9,432,009.31
Corporation Tax @ 30%	1,162,257.58	2,828,626.33
PROFIT AFTER TAXES	2,711,934.40	6,603,382.98
Dividends	4,560,000.00	4,180,000.00
RETAINED PROFIT to date	(1,848,065.60)	2,423,382.98

GRENADA ELECTRICITY SERVICES
Balance Sheet at 30/6/2011

	June 2011 EC \$	December 2010 EC \$
ASSETS		
Non Current Assets		
Property Plant and Equipment	84,160,386.14	89,541,954.81
Suspense Jobs in Progress	2,463,080.80	2,111,843.67
Capital Work in Progress	11,348,788.20	8,502,617.54
Deferred Exchange Loss	1,094,619.62	1,094,619.62
	<u>99,066,874.76</u>	<u>101,251,035.64</u>
CURRENT ASSETS		
Inventories	16,491,133.58	15,429,960.12
Accounts Receivable	32,855,389.30	28,918,589.09
Prepayments	4,053,171.87	854,045.91
Segregated Retirement Investments	16,863,246.24	16,510,227.03
Hurricane Fund	11,382,632.28	8,512,781.08
Other Investments	30,552.00	30,552.00
Cash and due from banks	5,104,483.57	15,091,048.40
	<u>86,780,608.84</u>	<u>85,347,203.63</u>
TOTAL ASSETS	<u>185,847,483.60</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	(1,848,065.60)	1,760,015.73
	<u>69,442,450.10</u>	<u>71,317,936.94</u>
Non Current Liabilities		
Consumers' Deposits	9,186,815.19	9,178,561.33
Borrowings	50,195,186.84	54,644,944.79
Provision for Retirement Benefits	22,702,806.30	21,769,930.92
Hurricane Reserve	11,000,000.02	10,000,000.00
	<u>93,084,808.35</u>	<u>95,593,437.04</u>
Current Liabilities		
Amount Due to Related Company	162,286.56	-
Accounts Payable and Accrued Expenses	19,669,703.00	15,958,013.62
Consumers' Advances for Construction	1,270,840.69	1,145,934.42
Provision for Profit Sharing	1,627,170.43	3,154,950.36
Provision for Income Tax	590,224.47	(572,033.11)
	<u>23,320,225.15</u>	<u>19,686,865.29</u>
TOTAL LIABILITIES	<u>116,405,033.50</u>	<u>115,280,302.33</u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	<u>185,847,483.60</u>	<u>186,598,239.27</u>

GRENADA ELECTRICITY SERVICES LIMITED

Statement of Cash Flows

For the year to 30th June, 2011

	June 2011	December 2010
Operating Activities		
Profit before Income Tax	3,874,191.98	14,633,067.91
Adjustments for:		
Depreciation	7,991,593.44	15,954,614.00
(Profit) / Loss on disposal of fixed assets	<u>(71,640.55)</u>	<u>(54,450.68)</u>
	11,794,144.87	30,533,231.23
 Changes in Operating Assets / Liabilities		
(Increase) / Decrease in receivables and prepayments	(7,135,926.17)	1,685,941.40
Increase / (Decrease) in accounts payable and accrued charges	3,844,849.51	(4,346,209.91)
Increase in provision for retirement benefits	932,875.38	2,276,350.48
(Increase) / Decrease in inventory	(1,061,173.46)	549,850.54
Increase / (Decrease) in related company balance	162,286.56	(86,702.59)
Payment of income tax	0.00	(4,627,043.88)
(Decrease) / Increase in provision for profit sharing	<u>(1,527,779.93)</u>	<u>74,545.18</u>
	7,009,276.76	26,059,962.45
 Investing Activities		
Disposal of fixed assets	71,640.55	83,888.00
Suspense jobs in progress (increase) / decrease	(351,237.13)	(529,565.62)
Increase in Capital Work in Progress	(2,846,170.66)	(4,991,456.44)
Hurricane Fund Increase	(2,869,851.20)	(1,307,021.27)
Increase in segregated investment	(353,019.21)	(2,174,492.43)
Decrease in consumer contribution to line extension	(87,485.38)	(354,575.58)
Purchase of fixed assets	<u>(2,549,960.63)</u>	<u>(3,020,831.00)</u>
	(8,986,083.66)	(12,294,054.34)
 Financing Activities		
Provision for hurricane insurance reserve	1,000,000.02	2,000,000.00
Loan proceeds	-	-
Repayment of Loan	(4,449,757.95)	(7,785,680.44)
Dividends paid	<u>(4,560,000.00)</u>	<u>(8,550,000.00)</u>
Cash provided by financing activities	<u>(8,009,757.93)</u>	<u>(14,335,680.44)</u>
 Net Increase /(Decrease) in cash and cash equivalents	(9,986,564.83)	(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>5,104,483.57</u>	<u>15,091,048.40</u>
 Represented by		
 Cash and due from banks	<u>5,104,483.57</u>	<u>15,091,048.40</u>