

**Schedule 2  
FORM ECSRC - Q**

**(Select One)**

Quarterly Report For the period ended June 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

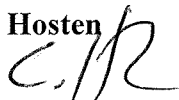
## SIGNATURES

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**



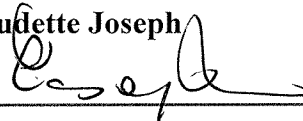
Signature

30/7/12

Date

Name of Director:

**Claudette Joseph**



Signature

30/7/2012

Date

Name of Chief Financial Officer:

**Benedict Brathwaite**



Signature

30.7.12

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 June 30, 2012.
2. Statement of Comprehensive Income for the six months to June 30, 2012.
3. Statement of Cash Flow for the six months to June 30, 2012.

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

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

The Company's liquidity position saw a marginal improvement in the second quarter of 2012 relative to the first. This was reflected in a current ratio of 3.99 compared to 3.60 as the company continues to be well above the benchmark 1.50 established by lender institutions.

In the second quarter the average electricity rate inclusive of taxes per kWh was \$1.18 compared to the \$1.14 of the previous quarter. This meant that our customers continued to be challenged by high energy bills in an already depressed economy. Despite this trade receivables increased by a lower percentage (7.05%) than the increase in sales of 9.86%. Statutory bodies, industrial and hotel sectors all saw decreases in their outstanding balances ranging from 3.32% to 11.26%. However, the domestic, commercial and government sectors experienced the reverse with increases in their outstanding balances ranging from 8.06% to 14.14%. Of the overall trade receivables 54.67% are current which indicates that the company's strategies aimed at controlling receivables are bearing fruit. These include engaging customers who are in arrears to set up payment arrangements which are closely monitored. Also, customers are constantly advised to practice conservation to ensure that they keep their bills within manageable limits.

During the second quarter cash provided by operating activities were \$3.94M which brought the total to June 30, 2012 to \$10.60M. Profit before income tax of \$9.45M and depreciation of \$6.91M were partially reversed by an increase in receivables and prepayments of \$3.65M along with the payment of income tax of \$3.84M. Noteworthy, is that \$0.96M of the income tax paid was a prepayment for the 2012 financial year. Investing activities of \$4.35M mainly in fixed assets and capital works in progress were also engaged in during the period. Additionally, principal of \$3.95M, in accordance with the loan agreements, and a dividend of \$4.56M or 12 cents per share were paid over the two quarters of 2012. This resulted in a net decrease in cash and cash equivalents of \$1.26M in the first six months of 2012 with a cash balance at the end of the period of \$10.77M.

The Company continued to meet all of its obligations in the second 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 does not require it to engage in external borrowing. The regular capital expenditure budgeted for the year of \$8.69M will be managed from internally generated funds which the company has over the years demonstrated the capacity to do. At June 30, 2012 \$3.6M had been expended relating to the capital budget for 2012. It is also planned as part of its renewable energy drive that along with the European Union (EU) and the Government of Grenada the company will start a project to install 1 to 2 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%. Given its cash balance, projected cash flow performance and financial position the company expects to finance its portion of the project from internally generated funds. As far as generation expansion is concerned the Company does not foresee that this will be required before 2013.

**(c) Changes in Financial Condition**

At June 30, 2012 most of the covenants in the table below showed improvement as compared to March 31, 2012. Importantly, they all continue to exceed the standards that have been set by the lending institutions. Overall there has been no significant change in what was already a healthy financial position. Total assets as of June 30, 2012 stood at \$186.92M with net assets of \$73.20M an increase of \$1.81M over that of March 31, 2012.

**Covenant Table**

	<b>Covenant Ratio</b>	<b>June 2012</b>	<b>March 2012</b>	<b>December 2011</b>
Current Ratio	$\geq 1.50:1$	3.99	3.60	3.76
Interest Coverage Ratio	$\geq 2:1$	10.88	9.69	8.06
Debt Service Coverage Ratio	$\geq 1.50$	3.47	3.59	2.86
Bank Borrowing to Equity Ratio	$\leq 1.25:1$	0.70	0.76	0.78
Capital to Total Assets	$\geq 30\%$	32.21	31.19%	31.62%

**(d) Results of Operation**

During the second quarter the company's financial performance saw significant improvement with profit after taxes increasing from \$2.53M at March 31, 2012 to \$6.62M by June 30, 2012. The comparative six months in 2011 had profit after taxes of \$2.71M which represents 41% of the 2012 return. The main factor driving the financial performance was the fuel cost recovery rate of 105.77%.

KWh sales in the second quarter of 2012 fell by 2.04% relative to that of the equivalent period in 2011. Overall, energy sales in 2012 has seen a decline of 1.10% over the first six months as against the same period in 2011. This contraction in kWh sales has continued from 2011 when there was a decline of 2.15%. All of the main sectors have experienced this decrease as follows: Industrial 7.17%, Domestic 1.54% and Commercial 0.52%. Street lights have seen growth of 1.94%. The continued economic downturn along with lower than usual ambient temperatures have been factors in the lower unit sales.

Non fuel revenue despite the lower unit sales grew by 0.97% in the first six months registering an improvement over the 0.16% of the first quarter. During the second quarter the growth was 1.78% as the full impact of the rate increase of 3.71% implemented on March 1, 2012 took full effect.

In the second quarter, world fuel prices averaged USD93.42 a barrel, a decline of 9.19% relative to the USD102.87 a barrel of the previous quarter. However, because of the lag effect, with the fuel charge calculated over a three month rolling average this did not impact fuel charge rates. In fact the average fuel charge in the second quarter was higher than that of the first by 5.21%. This meant a fuel cost recovery rate in the second quarter of 111.87% in comparison to that of 100.08% in the first. The gross benefit of a recovery rate of 105.77% on the financial performance in the first six months was \$4.01M.

The combination of the increased non fuel rates and a higher fuel charge due to world fuel prices meant that total revenues (\$98.29M) to June 30, 2012 were higher than that of the equivalent period in 2011 by 8.51%.

Operating and administrative expenses other than for fuel increased by 0.74% in the first half of the year 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 sustain expenses at 2011 levels.

System losses twelve months rolling average to June 30, 2012 improved from 7.75% at March 31, 2012 to 7.19%. This continues to be one of the key strategic drivers for the company and is even more important 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 19.12kWh's per imperial gallon in the first six months of 2012 exceeds the 19.08kWh's achieved in the same period last year and represents a 0.19% improvement. This is important as it is a key performance indicator for the company which has a significant impact on the financial performance of the company.

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

With each passing period the hurricane reserve improves and presently stands at \$13.00M 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 \$11.75M 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 June 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.

**6. Defaults Upon Senior Securities.**

- (a) Payments of principal and interest *to the* ECSE on the GRENLEC Bond and the EIB and NIS on their respective 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.**

- (a) None

**8. Other Information.**

None.

**GRENADA ELECTRICITY SERVICES**Balance Sheet at June 30<sup>th</sup>, 2012

	June 2012 EC \$	December 2011 EC \$
<b>ASSETS</b>		
<b>Non Current Assets</b>		
Property Plant and Equipment	84,326,832.12	90,628,361.63
Suspense Jobs in Progress	1,993,494.81	1,589,858.01
Capital Work in Progress	5,772,091.57	2,856,602.37
Deferred Exchange Loss	760,436.39	760,436.39
	<u>92,852,854.89</u>	<u>95,835,258.40</u>
<b>CURRENT ASSETS</b>		
Inventories	15,616,723.04	15,652,079.10
Accounts Receivable	34,055,283.77	32,255,373.02
Prepayments	2,455,599.62	609,944.68
Segregated Retirement Investments	19,392,851.99	19,060,844.38
Hurricane Fund	11,748,788.49	11,601,773.90
Other Investments	29,480.00	29,480.00
Cash and due from banks	10,768,498.61	12,026,081.62
	<u>94,067,225.52</u>	<u>91,235,576.70</u>
<b>TOTAL ASSETS</b>	<u>186,920,080.41</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 to Date after Dividends	2,052,792.02	(317,977.07)
	<u>73,201,130.50</u>	<u>71,146,419.39</u>
<b>Non Current Liabilities</b>		
Consumers' Deposits	9,655,592.66	9,639,028.88
Borrowings	42,311,393.32	46,256,908.99
Provision for Retirement Benefits	25,172,564.52	23,740,638.51
Hurricane Reserve	13,000,000.02	12,000,000.00
	<u>90,139,550.52</u>	<u>91,636,576.38</u>
<b>Current Liabilities</b>		
Amount Due to Related Company	42,616.93	189,969.46
Accounts Payable and Accrued Expenses	17,771,317.67	17,306,063.40
Consumers' Advances for Construction	757,327.60	724,379.81
Provision for Profit Sharing	3,035,005.53	3,086,921.25
Provision for Income Tax	1,973,131.66	2,980,505.41
	<u>23,579,399.39</u>	<u>24,287,839.33</u>
<b>TOTAL LIABILITIES</b>	<u>113,718,949.91</u>	<u>115,924,415.71</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<u>186,920,080.41</u>	<u>187,070,835.10</u>

**GRENADA ELECTRICITY SERVICES**  
**COMBINED TRADING SUMMARY AS OF June 30<sup>th</sup>, 2012**

	June 2012	June 2011	December 2011
<b><u>INCOME</u></b>			
Sales - Non Fuel Charge	38,571,951.03	38,201,393.67	77,346,776.13
- Fuel Charge	58,156,763.06	49,845,937.09	109,294,708.55
Unbilled Sales Adjustments	308,913.91	999,630.62	1,134,184.01
Net Sales	97,037,628.00	89,046,961.38	187,775,668.69
Sundry Revenue	1,252,391.60	1,535,972.73	3,120,874.82
<b>TOTAL INCOME</b>	<b>98,290,019.60</b>	<b>90,582,934.11</b>	<b>190,896,543.51</b>
<b><u>OPERATING COSTS</u></b>			
Production less Diesel Consumed	9,412,510.95	9,645,703.93	18,622,535.76
Diesel Consumed	54,983,183.73	54,200,557.96	110,971,540.09
Hurricane Provision	1,000,000.02	1,000,000.02	2,000,000.00
Planning & Engineering	1,168,921.56	1,187,092.09	2,296,748.22
Distribution	8,463,111.10	8,316,018.60	16,563,913.08
<b>TOTAL OPERATING COSTS</b>	<b>75,027,727.36</b>	<b>74,349,372.60</b>	<b>150,454,737.15</b>
<b><u>CORPORATE SERVICES</u></b>	<b>8,826,622.27</b>	<b>8,510,744.18</b>	<b>18,020,080.78</b>
<b>PROFIT BEFORE INTEREST</b>	<b>14,435,669.97</b>	<b>7,722,817.33</b>	<b>22,421,725.58</b>
<b><u>INTEREST</u></b>			
Bank Loan Interest	1,557,912.24	1,818,527.12	3,818,767.07
Other Bank Interest	10,508.21	8,709.92	19,711.15
Consumer Deposit Interest	187,564.88	175,801.15	370,801.34
<b>TOTAL INTEREST COSTS</b>	<b>1,755,985.33</b>	<b>2,003,038.19</b>	<b>4,209,279.56</b>
<b>PROFIT AFTER INTEREST</b>	<b>12,679,684.64</b>	<b>5,719,779.14</b>	<b>18,212,446.02</b>
<b><u>OTHER CHARGES</u></b>			
Disposal of Fixed Assets	(58,326.50)	(71,640.55)	(40,188.83)
Donations	636,996.50	289,570.98	912,631.74
Profit Sharing	2,653,346.45	1,627,656.73	4,414,014.64
<b>TOTAL OTHER CHARGES</b>	<b>3,232,016.45</b>	<b>1,845,587.16</b>	<b>5,286,457.55</b>
PROFIT BEFORE TAXES	9,447,668.19	3,874,191.98	12,925,988.47
Corporation Tax @ 30%	2,834,876.17	1,162,257.58	4,123,965.54
<b>PROFIT AFTER TAXES</b>	<b>6,612,792.02</b>	<b>2,711,934.40</b>	<b>8,802,022.93</b>
Dividends	4,560,000.00	4,560,000.00	9,120,000.00
<b>RETAINED PROFIT to date</b>	<b>2,052,792.02</b>	<b>(1,848,065.60)</b>	<b>(317,977.07)</b>



## GRENADA ELECTRICITY SERVICES LIMITED

### Statement of Cash Flows

For the year to June 30<sup>th</sup>, 2012

	June 2012	December 2011
<b>Operating Activities</b>		
Profit before Income Tax	9,447,668.19	12,925,988.47
Adjustments for:		
Depreciation	6,908,855.00	14,801,397.21
Profit on disposal of fixed assets	(58,326.50)	(40,188.83)
Prior Year Adjustment	1,919.09	147,531.52
	16,300,115.78	27,834,728.37
 <b>Changes in Operating Assets / Liabilities</b>		
Increase in receivables and prepayments	(3,645,565.69)	(3,092,682.70)
Increase in accounts payable and accrued charges	514,765.84	1,386,962.72
Increase in provision for retirement benefits	1,431,926.01	1,970,707.59
Decrease / (Increase) in inventory	35,356.06	(222,118.98)
(Decrease) / Increase in related company balance	(147,352.53)	189,969.46
Payment of income tax	(3,842,249.92)	(571,427.02)
Increase / (Decrease) in provision for profit sharing	(51,915.72)	(68,029.11)
	10,595,079.83	27,428,110.33
<b>Investing Activities</b>		
Disposal of fixed assets	58,330.41	1,035,722.08
Suspense jobs in progress (increase) / decrease	(403,636.80)	521,985.66
(Increase) / Decrease in Capital Work in Progress	(2,915,489.20)	5,646,015.17
Hurricane Fund Increase	(147,014.59)	(3,087,920.82)
Increase in segregated investment	(332,007.61)	(2,550,617.35)
Decrease in consumer contribution to line extension	81,538.14	38,818.72
Purchase of fixed assets	(688,867.54)	(16,922,156.00)
Decrease in other reserves	-	(1,072.00)
	(4,347,147.19)	(15,319,224.54)
<b>Financing Activities</b>		
Provision for hurricane insurance reserve	1,000,000.02	2,000,000.00
Repayment of Loan	(3,945,515.67)	(8,053,852.57)
Dividends paid	(4,560,000.00)	(9,120,000.00)
Cash provided by financing activities	(7,505,515.65)	(15,173,852.57)
 Net Increase / (Decrease) in cash and cash equivalents	(1,257,583.01)	(3,064,966.78)
Net cash - at the beginning of year	12,026,081.62	15,091,048.40
	10,768,498.61	12,026,081.62
<b>Represented by</b>		
Cash and due from banks	10,768,498.61	12,026,081.62