

**Schedule 3  
FORM ECSRC - Q**

**(Select One)**

Quarterly Report

For the period ended:

30<sup>th</sup> September, 2008

or

TRANSITION REPORT

\_\_\_\_\_  
N/A

**(Applicable where there is a change in reporting issuer's financial year)**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Issuer Registration Number: LUCELEC09091964SL

St. Lucia Electricity Services Limited

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

Saint Lucia  
(Territory or jurisdiction of incorporation)

John Compton Highway, Sans Soucis, Castries, Saint Lucia  
(Address of principal executive Offices)

Reporting issuer's:

Telephone number 1-758-457 4400

Fax number: 1-758-457-4409

Email address: lucelec@candw.lc

\_\_\_\_\_  
N/A  
(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	11,200,000
Non-voting Ordinary Shares	520,000

**SIGNATURES**

Name of Chief Executive Officer:

Name of Director:

Trevor Louisy

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## **INFORMATION TO BE INCLUDED IN THE REPORT**

### **1. Financial Statements**

Condensed Balance Sheet as at 30<sup>th</sup> September, 2008 is attached.

- (a) Condensed Statement of Income for the Nine Months Ended 30<sup>th</sup> September, 2008 and the corresponding period in the previous financial year are attached.
- (b) Condensed Statement of Cash Flows for the Nine Months Ended 30<sup>th</sup> September, 2008 and the corresponding period in the previous financial year.

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

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

There appears to be some relief in sight for customers and the economy as a whole, as the global fuel prices took a downward trend during the quarter. The average price of fuel purchased during the quarter under review, was EC\$11.38, which compared favourably to the previous quarter's average price of EC\$12.17. Despite this quarter's decrease the average price for the year to date of EC\$11.08 is approximately 65% higher when compared to the corresponding period in 2007 of EC\$6.72 per gallon.

As a result of the lower prices, the Fuel Surcharge Cost Adjustment Factor which was as high as EC\$0.346 per kWh in July, 2008 dropped to EC\$0.232 per kWh in September, 2008, a decrease of approximately 33%. The company has sought to capitalize on this favourable trend and has continued its public education campaign emphasising energy conservation.

A growth rate of 2.1% was recorded in energy unit sales over the corresponding period in 2007 and this was mainly attributed to growth of 8.2% and 21.8% in the Hotel and Industrial sectors, respectively.

The Company continues to monitor and manage the levels of customer debt. To date the quality of debt has improved over last year due to

ongoing arrangements with its largest customer, the Government, as well as managing the levels for other large customers.

There has been no material shift in the Company's liquidity.

#### **(b) Capital Resources**

The Rodney Bay Marina project - a dedicated 6MW power supply including 2MW at 60Hz to that facility - is proceeding in accordance with the implementation schedule.

The Government of St. Lucia has made additional requests for information and clarification with regard to the proposed amendment to the Insurance Act which will formally allow the commencement of the Company's Self Insurance Fund. This information will be submitted in time for the next sitting of Cabinet.

The Company is covenanted to its financiers to a 1:1 debt/equity gearing. As at 30<sup>th</sup> September, 2008 the position compared with 30<sup>th</sup> September, 2007 is as follows:-

	30 <sup>th</sup> September, 2008 EC\$ 000s	30 <sup>th</sup> September, 2007 EC\$ 000s
<b>Borrowings</b>		
Current	12,103	7,812
Long Term	107,288	120,523
<b>TOTAL</b>	<b>119,391</b>	<b>128,335</b>
<b>Shareholders' Equity</b>		
Share Capital	80,163	80,163
Retained Earnings	80,065	75,847
<b>TOTAL</b>	<b>160,228</b>	<b>156,010</b>

There are no potential violations of those covenants.

### **Results of Operations**

The Company continues its dialogue with the Government aimed at sourcing cheaper, more environmentally friendly energy sources such as wind, solar and geothermal. Use of cheaper fossil fuels has also been examined in an effort to reduce energy bills and put us in a position to hedge fuel sources. Some of these initiatives require support from the Government in addition to the substantial capital outlays from the company.

Total revenues were 36.6% higher than the comparative period last year attributed mainly to higher fuel surcharges.

Unit sales recorded a 2.1% growth compared to the corresponding period last year and are marginally short of this year's expectations. Year on year growth of 8.22% and 21.8% was recorded in the Hotel and Industrial sectors, respectively.

Gross profit of EC\$52.5M, recorded a marginal increase of 0.5% higher than the previous year (EC\$52.2M) reflecting higher unit sales offset by higher depreciation and maintenance costs

Profit before tax was EC\$28.9M, 4.6% lower than the corresponding period last year (\$30.3M) attributed to higher finance and depreciation costs.

The Company and the Inland Revenue Department arrived at an amicable conclusion with respect to disallowed expenses related to the application of withholding taxes, penalties and interest on insurance premiums to non-resident insurance companies during 2001 to 2005. The final settlement totalled EC\$1.8 million and has been included in tax expense for the period under review.

Overall, results are ahead of expectations and efforts will continue to achieve targets, in light of the uncertain regional and international economic environment.

System reliability deteriorated slightly during the month to 0.48 hours which is still quite satisfactory this quarter. The year to date SAIDI figure of 4.23 hours compares favourably with the same point in 2007 (7.12 hours, excluding the effects of Hurricane Dean) and the 2008 target of 9.5 hours.

A peak demand of 52.5 MW was recorded on September 15, 2008 at 1435 hours. The all time maximum demand of 54.1MW was recorded on May 26, 2008 at 1430 hours.

Fuel efficiency for the month increased to 19.59 kWh per gallon from 19.55 kWh per gallon in the previous month. The average for the year is 19.64 kWh per gallon against a target for 2008 of 19.52 kWh per gallon. The delay in completion of the overhaul of CDSPS #7 will however continue to adversely impact overall fuel efficiency figures to some extent.

System losses were recorded at 10.16% at the end of the quarter. System losses decreased to 10.16% from 10.42% in August on a moving annual total. An analysis of losses is already underway. The target for 2008 is 9.97%.

Operating and maintenance programmes continue to progress well apart from the 60,000 hours overhaul on Unit #7 which will be further delayed because of the unavailability of a specific spare part until early November.

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

- The recent upheavals in the world's financial markets continue to be monitored for the potential impact on the local economy and by extension the Company. While the regional banking sector appears to be sound, there may be potential negative effects on the vital tourism industry maybe as early as the first quarter of 2009. An upside of the market turmoil has been a reduction in the price of fuel, a welcome development for customers and the local economy.
- In light of the decline in fuel prices and corresponding lower Fuel Surcharge Cost Adjustment Factor, the numbers and severity of concerns expressed by consumers have decreased as the Company continues its education drive through the media.
- The Government of St. Lucia continued discussions with the Government of Venezuela and have indicated that they may be inclined to signing on to the "PetroCaribes" initiative as one of the short term efforts in providing some relief from high fuel prices to customers. Based on knowledge of the existing agreement, this initiative will not reduce electricity prices to consumers as the fuel will be sold at world market prices. This will be monitored so as to ascertain the implications for the Company if this agreement is concluded.

- After a hiatus, the efforts at examining some form of a Regional Regulatory Regime, has recommenced under the auspices of the World Bank. In addition there were calls locally for a review of the Electricity Supply Act during the period of high fuel prices. However, any such issues will most likely not take root until the medium to long-term and the Company will be fully engaged in order to put forward its views and positions.
- The Company has made a decision to convert some of its more efficient generating plants to utilize cheaper Heavy Fuel Oil (HFO) instead of the more expensive Light Fuel Oil (LFO) currently being used. Historically HFO has helped to diversify fuel sources, provide some relief against the escalating global fuel prices, reduce energy costs and has also been known to have a positive impact on inflation in the local economy. This is expected to be completed by 2011.
- The Hurricane Season is now in its fifth month and to date there has been no significant, adverse weather conditions. However, we are continuing to monitor developments should this trend discontinue in light of the more active forecast given for this year. The increase in the Company's funds in its offshore account and the available line of credit means that an immediate amount of EC\$15.1 million is available to restore T&D assets in the event of any damage.
- The company continues to monitor developments in the global financial markets in order to take any necessary action to cushion any adverse effects on its performance, though currently these appear to be minimal.

#### 4. **Legal Proceedings**

There are currently no legal proceedings that would have a material effect on the Company's financial position.

#### 5. **Changes in Securities and Use of Proceeds**

- (a) Where the rights of the holders of any class of registered securities have been materially modified, give the title of the class of

securities involved. State briefly the general effect of such modification upon the rights of holders of such securities.

NOT APPLICABLE

- (b) Where the use of proceeds of a security issue is different from that which is stated in the registration statement, provide the following:
- Offer opening date (provide explanation if different from date disclosed in the registration statement)
  - Offer closing date (provide explanation if different from date disclosed in the registration statement)
  - Name and address of underwriter(s)
  - Amount of expenses incurred in connection with the offer
  - Net proceeds of the issue and a schedule of its use
  - Payments to associated persons and the purpose for such payments

NOT APPLICABLE

- (c) Report any working capital restrictions and other limitations upon the payment of dividends.

NOT APPLICABLE

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

- (a) If there has been any material default in the payment of principal, interest, a sinking or purchase fund instalment, or any other material default not satisfied within 30 days, with respect to any indebtedness of the reporting issuer or any of its significant subsidiaries exceeding 5 percent of the total assets of the reporting issuer and its consolidated subsidiaries, identify the indebtedness. Indicate the nature of the default. In the case of default in the payment of principal, interest, or a sinking or purchase fund instalment, state the amount of the default and the total arrears on the date of filing this report.

NONE

- (b) If any material arrears in the payment of dividends has occurred or if there has been any other material delinquency not satisfied within 30 days, give the title of the class and state the amount and nature of the arrears or delinquency.

NONE

**ST LUCIA ELECTRICITY SERVICES LIMITED**  
**BALANCE SHEET**  
**AS AT SEPTEMBER 30, 2008**

	<b>Unaudited September 30, 2008</b>	<b>Audited December 31, 2007</b>
	EC\$ 000s	EC\$ 000s
<b>Assets</b>		
<b>Non-Current</b>		
Property, plant and equipment	294,644	302,549
Retirement benefit asset	3,274	3,274
Available-for-sale financial asset	5,115	3,452
<b>Total non-current assets</b>	<u>303,033</u>	<u>309,275</u>
<b>Current</b>		
Inventories	20,295	14,003
Income tax refundable	2,106	0
Trade and other receivables	57,006	46,267
Deferred expenses	1,861	575
Cash and cash equivalents	168	3,149
<b>Total current assets</b>	<u>81,436</u>	<u>63,994</u>
<b>TOTAL ASSETS</b>	<u><b>384,470</b></u>	<u><b>373,269</b></u>
<b>Equity and liabilities</b>		
<b>Shareholders' equity</b>		
Stated capital	80,163	80,163
Retained earnings	80,065	59,678
<b>Total equity attributable to equity holders</b>	<u>160,228</u>	<u>139,841</u>
Retirement benefit reserve	3,274	3,274
<b>Total shareholders' equity</b>	<u>163,502</u>	<u>143,115</u>
<b>Liabilities</b>		
<b>Non-Current</b>		
Borrowings	107,288	107,288
Consumer deposits	12,034	11,311
Deferred tax liabilities	29,232	29,232

Consumer contributions	25,956	24,547
<b>Total non-current liabilities</b>	<u>174,510</u>	<u>172,378</u>
<b>Current</b>		
Borrowings	12,103	22,083
Trade and other payables	34,198	25,277
Income tax payable	0	1,247
Dividends payable	157	9,169
<b>Total current liabilities</b>	<u>46,458</u>	<u>57,776</u>
<b>Total liabilities</b>	<u>220,968</u>	<u>230,154</u>
<b>TOTAL EQUITY &amp; LIABILITIES</b>	<b>384,470</b>	<b><u>373,269</u></b>

**ST LUCIA ELECTRICITY SERVICES LIMITED**  
**STATEMENT OF INCOME**  
**FOR THE 9 MONTHS ENDED SEPTEMBER 30, 2008**

	Unaudited September 30, 2008 EC\$000s	Unaudited September 30, 2007 EC\$000s
<b>Revenue</b>		
Energy Sales	187,212	172,592
Fuel Surcharge Recovered	52,064	2,467
Other Revenue	813	686
	<u>240,089</u>	<u>175,745</u>
<b>Operating Expenses</b>		
Diesel Generation	15,259	13,504
Transmission and Distribution	24,181	21,833
Fuel & Lubricants	148,166	88,207
	<u>187,606</u>	<u>123,544</u>
<b>Gross Income</b>	52,482	52,201
<b>Administrative Expenses</b>	<u>17,056</u>	<u>17,338</u>
<b>Operating Profit</b>	35,426	34,863
<b>Other Gains</b>	418	12
	<u>35,844</u>	<u>34,875</u>
<b>Profit Before Finance Costs and Taxation</b>	35,844	34,875
<b>Finance Costs</b>	<u>6,931</u>	<u>4,564</u>
<b>Profit Before Taxation</b>	28,913	30,311
<b>Taxation</b>	<u>9,000</u>	<u>7,578</u>
<b>Net Profit for the Period</b>	<b><u>19,913</u></b>	<b><u>22,733</u></b>

**ST LUCIA ELECTRICITY SERVICES LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

	Unaudited September 30, 2008 EC\$ 000s	Unaudited September 30, 2007 EC\$ 000s
<b>Cash flows from Operating Activities</b>		
Net Income Before Tax	28,913	30,311
Adjustments for		
Depreciation	21,933	19,754
Finance Charges	6,761	4,564
Gain on Disposal of Property, Plant and Equipment	(196)	(2)
Amortization of Consumer Contributions	(1,127)	(1,133)
Gain on Foreign Exchange	(9)	(9)
Operating Income before Working Capital Changes	<u>56,284</u>	<u>53,485</u>
Increase in Accounts Receivable and Prepayments	(10,739)	(7,848)
Increase in Deferred Expenses	(1,286)	0
Increase in Inventories	(6,292)	(1,160)
Increase/(Decrease) in Trade and Other Payables	<u>8,922</u>	<u>(6,305)</u>
Cash Generated from Operations	46,889	38,172
Interest Received	170	
Interest Paid	(5,604)	(4,555)
Income Tax Paid	<u>(12,354)</u>	<u>(5,715)</u>
Net Cash from Operating Activities	<u>29,101</u>	<u>27,902</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of Available for Sale Financial Asset	(1,663)	(643)
Purchase of Property, Plant and Equipment	(14,028)	(32,898)
Proceeds on Disposal of Property, Plant and Equipment	196	2
Net Cash from Investing Activities	<u>(15,495)</u>	<u>(33,540)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Borrowings	0	39,181
Repayment of Borrowings	(12,186)	(17,658)
Decrease in Tariff Reduction Reserve	474	(818)
Dividends Paid	(9,012)	(10,754)
Consumer Contributions Received	2,536	2,177
Consumer Deposits Received/(paid) net	<u>724</u>	<u>694</u>
Net Cash used in Financing Activities	<u>(17,464)</u>	<u>12,823</u>
<b>Increase in Cash and Cash Equivalents</b>	<b><u>(3,859)</u></b>	<b><u>7,185</u></b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b><u>767</u></b>	<b><u>2,132</u></b>
<b>Cash and Cash Equivalents, End of Period</b>	<b><u>(3,093)</u></b>	<b><u>9,317</u></b>