

**Schedule 2
FORM ECSRC - Q**

(Select One)

Quarterly Report For the period ended March 31, 2016

or

TRANSITION REPORT _____

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

For the transition period from _____ to _____

Issuer Registration Number: GRENLEC27091960GR

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

Name of Chief Executive Officer:

Name of Director:

Collin Cover

Collin Cover

Signature

26th April 2016

Date

Linda George-Francis

Linda George-Francis

Signature

25.4.16

Date

Name of Chief Financial Officer:

Benedict Brathwaite

B.A. Brathwaite

Signature

25.4.16

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 March 31, 2016.
2. Statement of Comprehensive Income for the three months to March 31, 2016.
3. Statement of Cash Flow for the three months to March 31, 2016.

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

(a) **Liquidity**

As at the end of the first quarter of 2016 the Company recorded a current ratio of 2.32:1 and was in position to meet its operational requirements at a level above lender institutions' benchmark of 1.50:1.

The average electricity rate over the first three months of 2016 was \$0.77/kWh, a decline of 20.62 percent (\$0.20kWh) as compared to the same period last year. This decrease was driven by two main factors; (i) the 40.6 percent reduction in average fuel charge (from \$0.4706/kWh to 0.2796/kWh) for the quarter as compared to this period last year, and (ii) the decline in average non-fuel charge in the first three months as compared to the same period in 2015 from \$0.4342/kWh to \$0.4243 (2.3 percent).

Cash provided by operating activities for the three months to March 31, 2016 of \$4.47M was below the \$17.08M for the same period in 2015. It represents 20.6 percent of that for the entire year of 2015 and 26.2 percent of the equivalent period of 2015. Adjusted profit was \$1M less than for the three months of 2015 while receivables and prepayments increased by \$7.17M due to a prepayment for the Grenlec/ECSE bond of \$8.34M that will be effected in the second quarter.

Cash provided by investing activities of \$1.90M to March 31, 2016 compared to that used in the first three months of 2015 of \$3.38M and for the year 2015 of \$2.52M. During this period there was an increase in loans and receivables of \$6.55M.

Financing activities had some significant movements in the first three months of 2016 and saw cash utilized of \$19.66M compared to the \$3.65M over the equivalent period of 2015. Proceeds from borrowings of \$48.05M was more than offset by repayments of borrowings of \$7.75M and dividends paid of \$59.47M. Dividends paid were a special dividend of \$3.00 per share and regular quarterly dividends of thirteen cents per share.

Overall, during the first three months of the year, the cash position fell by \$13.29M with a balance at the end of the quarter of \$3.33M. The Company met all of its obligations in the period, and, based on its current cash flow projections can be expected to continue to do so for the foreseeable future.

(b) Capital Resources

Non expansion capital expenditure of \$1.85M in the first quarter of 2016 was funded from internal operations. This is expected to be the same with the balance of the 2016 capital budget of \$6.34M, as it is not subject to any agreement that would require capital expenditures on a designated schedule. Over the years the Company has only utilized external funding for major capital projects.

The Company, as part of its strategic plan, has set a target of having 20 percent of its generation capacity from renewable energy by 2020. To achieve this goal will require the Company to make capital investments in solar photovoltaics and or wind turbine farms. Although progress has been slow the Company has begun to take small steps towards achieving the goal of the strategic plan.

An agreement for a 937kW PV project was executed in the final quarter of 2015. Materials for the project (which will utilise Company owned rooftops and lands for the placement of the PV panels) has arrived in Grenada. Installation is scheduled to begin during the second quarter and completion by the end of the third quarter of 2016. This \$6.4M project is the single largest renewable energy project in Grenada to date and will bring the total installed capacity owned by the Company to over 1MW. The project is internally financed and has a balance of \$0.5M to be paid.

In the second half of 2015 the Company was able to execute leases for over 33 acres of land for solar PV in Pearls St. Andrew. The Company is now in the design phase of a project to install approximately 3MW of ground mounted solar PV on the site by 2017. External funding would most likely be required for a project as this.

The Company has continued to explore the possibility of building a wind project in Carriacou and in this regard three of companies submitted bids at the end of March 2016. These bids are being reviewed and a decision on the viability of the project is likely to be made by the end of the second quarter. External funding would most likely be required for a project as this.

As far as major diesel generation expansion that will require external financing is concerned, there is very little likelihood of this happening in 2016.

c) Changes in Financial Condition

The following table provides information as at March 31, 2016 with comparatives at March 31, 2015 and December 31, 2015 of GRENLEC's compliance with various financial loan covenants. The ratios that are outside of the target were due to the new debt financing in

March 2016 and will be within the range once the repayment of the Grenlec/ECSE bond is finalized in the second quarter.

Covenant Table

	Covenant Ratio	March 2016	March 2015	December 2015
Current Ratio	$\geq 1.50:1$	2.32:1	2.37:1	3.71:1
Interest Coverage Ratio	$\geq 2:1$	11.07:1	22.69:1	21.86:1
Debt Service Coverage Ratio	$\geq 1.50:1$	1.39:1	5.93:1	4.49:1
Bank Borrowing to Equity Ratio	$\leq 1.25:1$	1.17:1	0.23:1	0.15:1

In the first three months of 2016 the Company's net assets decreased from \$101.96M to \$48.31M. Property plant and equipment decreased from \$75.78M to \$71.83M in this period, due primarily to depreciation expense of \$2.19M. Capital work in progress increased from \$2.76M to \$5.79M in the three months to March 2016 as the Company continued to make routine non expansion capital expenditures financed from internal operations.

Trade receivables decreased by \$0.42M, over the three months to March 2016, from \$15.28M. With the exception of hotels which increased by 30.8 percent all other categories decreased ranging from 2.5 percent for commercial and domestic to 55.8 percent for industrial. Attention will be given to the hotel sector as this is the period when they are usually best able to control their debt.

On February 29, 2016 the Company signed a Mortgage Debenture with CIBC FirstCaribbean International Bank (Barbados) Limited for a credit facility of up to XCD\$48.05M. The loan will bear interest at a rate of 4.75% per annum over the first five years and thereafter the interest will be the prime rate less 5.90% subject to a floor of 3.60% per annum. Presently the prime rate is 9.50% per annum. The loan is amortized over a twelve year period and repayable over 32 quarterly principal payments of XCD\$1,001,041.67 with a balloon payment of XCD\$16,016,666.56.

The Company's decision to restructure its financial position by refinancing its existing debt of \$16.05M at a lower interest rate and to pay a special dividend of \$3.00 per share was based on its low debt to equity ratio and dividend pay-out ratios, well below its established policy, over a number of years.

d) Results of Operation

The Company's financial performance for the first quarter of 2016, reflected by its profit before interest, showed a 0.4 percent decline as compared to the same period in 2015, a reduction of \$0.05M to \$11.81M.

KWh sales grew by 5.7 percent, over the same period in 2015 but this would only have partially offset a decrease in non-fuel rates of 2.35 percent implemented January 1, 2016. The resulting increase in non-fuel revenue was 2.7 percent. The growth in kWh sales occurred in the two major sectors with the commercial sector expanding by 5.2 percent and the domestic by 7.5 percent while the industrial sector contracted by 3.2 percent.

Total revenue to March 2016 declined by 16.2 percent, to \$33.15M as compared to the equivalent period of 2015. The 40.2 percent decline in average fuel prices to \$3.65 per imperial gallon, in comparison with that to March 2015, led to reduced fuel charge rates. As such, the fuel charge revenue declined by 37.2 percent from \$21.04M to \$13.21M, mainly accounting for the decreased revenue.

The fuel cost recovery rate over the first three months was 133 percent producing a net benefit of \$3.28M compared to the \$5.64M from a rate of 136.6 percent over the equivalent period of 2015. This recovery rate was driven by continued declining fuel prices in the first two months of 2016. However, in March fuel prices appeared to be climbing slowly which if it continues would mean that the fuel cost recovery rate and net benefit would be unlikely to match that of 2015.

Operating and administrative expenses other than fuel of \$11.42M decreased by 7.1 percent in the first quarter of 2016 relative to the \$12.29M in the comparative period of 2015. These decreases were due to lower depreciation of \$0.42M and an exchange gain on the repayment of the EIB borrowings of \$0.63M because of a favourable exchange rate. The Company continues to maintain tight controls over costs as it recognises that with the decrease in the non-fuel charge rate, sales growth in excess of 2.35 percent will be required to have an increase in non-fuel revenue. Over the first three months of 2016 operating expenses were lower than budget by 13.3 percent.

Interest costs of \$1.09M in the first three months of 2016 reflects an increase of 99.1 percent compared to the \$0.55M to March 2015. This was due to interest penalties that became applicable as a result of an early repayment of borrowings from the EIB in accordance with the agreement.

System losses twelve months rolling average of 8.28 percent at March 31, 2016 was marginally above the 8.26 percent for 2015. This would not have had a significant impact on the fuel cost recovery rate. This is a key strategic driver for the Company and its importance cannot be over emphasized in the context of the challenging economic conditions under which the Company is operating. Management will therefore monitor it closely to ensure that an upward trend is not established.

Fuel efficiency of 19.07kWh's per imperial gallon in the first three months of 2016 fell well below the 19.42kWh's achieved in the same period last year and represents a 1.8 percent decline. Fuel efficiency for 2015 was 19.24kWh's per imperial gallon. 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, increases and presently stands at \$20.50M 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 percent 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 \$20.60M is more than the pre Ivan level of \$14M.
- An amendment to the Electricity Supply Act No, 39 of 2013 was enacted as of December 31, 2013. This amendment adjusted the concessions of all customs and other import duties on the importation of all plant, machinery, equipment, meters, instruments, fuel, lubricants and materials to which the Company was entitled, from 100 percent to 50 percent. In 2015 the amendment meant additional duties paid by GRENLEC of \$0.59M following the \$0.35M of 2014. While these amounts are not excessive they can become significantly higher in a year in which capital expenditure is undertaken for additional generation capacity. The Company has the option to recover exogenous costs incurred by a change in the law but has chosen not to do so at this time.
- On February 25, 2015, the GOG held a public consultation on a draft Electricity Supply Bill. A second draft Electricity Supply Bill was issued by the Government in August 2015. The stated intention of the draft bills is to separate generation and transmission entities to allow competition in both the generation and distribution areas, and to increase generation by renewable energy. The Bills provide for the removal of the exclusive license that GRENLEC currently holds over the generation and transmission and distribution of electricity. A serious concern that has been voiced by many is the significant amount of power that would be vested in a single Government Minister.
- Presently discussions are ongoing between the Government of Grenada / GRENLEC / Grenada Private Power, who has a Share Purchase Agreement. These discussions are being facilitated by Rocky Mountain Institute (RMI), a highly respected energy authority, who was agreed to by the parties. The Company's intention is to collaborate with the Government to make mutually acceptable revisions to the existing ESA of 1994 that are more reflective of current realities and best practices. Despite these on-going discussions the Government of Grenada has called for public consultations on new regulations for the governance of the electricity sector.
- With the full repayment in March 2016 of borrowings from the EIB which was transacted in euros GRENLEC's primary foreign exchange risk was removed. Current borrowings are in EC\$ which limits exposure to foreign currency rates. Foreign exchange risk now relates to purchases most of which are transacted in United States dollars, which has a fixed exchange rate.
- 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, 2016 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 March 31, 2016.

6. Defaults Upon Senior Securities.

a) Payments of principal and interest to the Eastern Caribbean Securities Exchange (ECSE) for the Grenlec Bond and the National Insurance Board (NIB) and on their respective loans have been made during the quarter ended March 31, 2016 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.

None

8. Other Information.

None