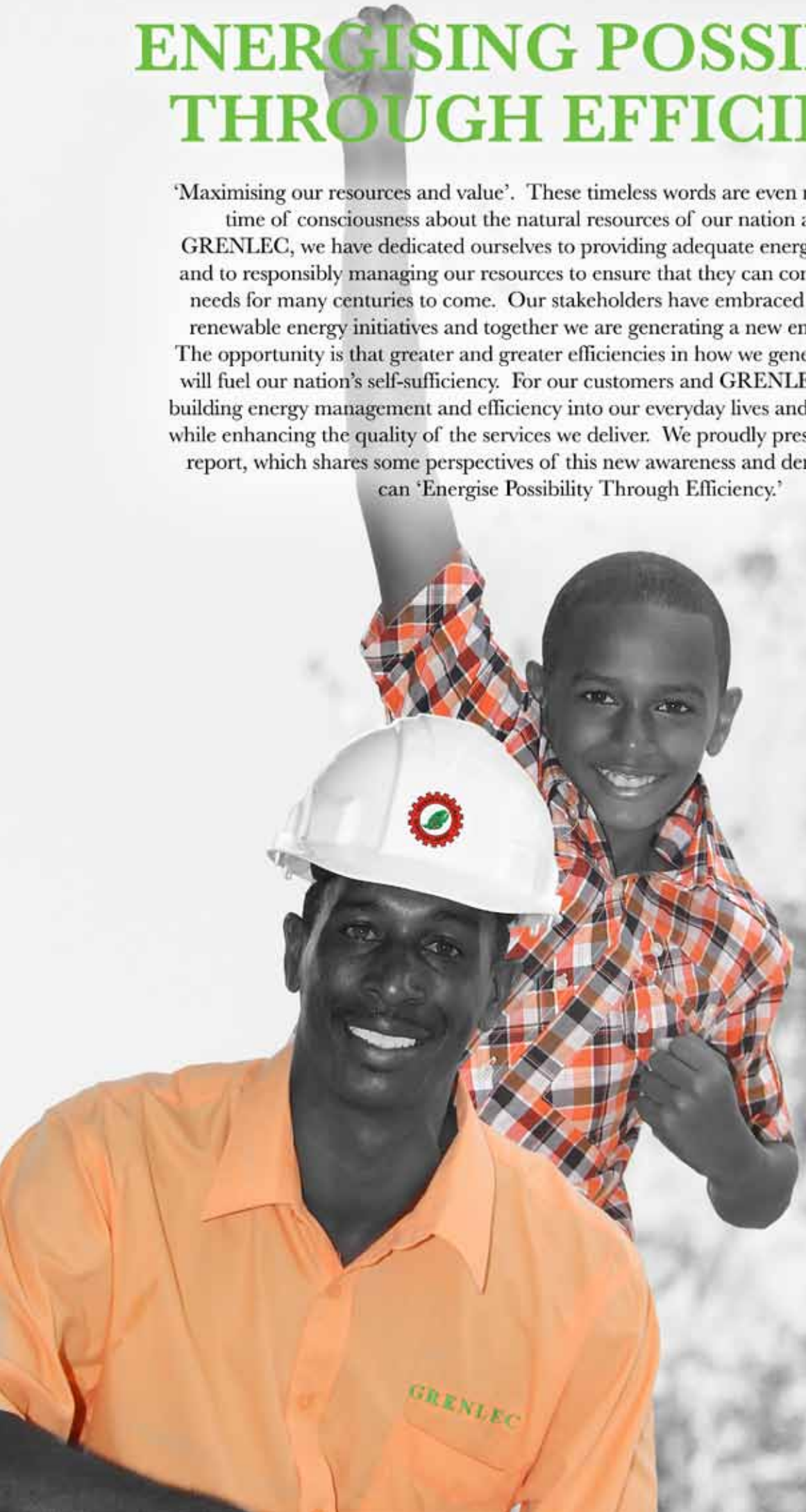
ENERGISING POSSIBILITY THROUGH EFFICIENCY

GRENADA ELECTRICITY SERVICES LIMITED ANNUAL REPORT 2012

ENERGISING POSSIBILITY THROUGH EFFICIENCY

'Maximising our resources and value'. These timeless words are even more relevant in this time of consciousness about the natural resources of our nation and planet. At GRENLEC, we have dedicated ourselves to providing adequate energy to fuel the nation and to responsibly managing our resources to ensure that they can continue satisfying our needs for many centuries to come. Our stakeholders have embraced our efficiency and renewable energy initiatives and together we are generating a new energy of possibility. The opportunity is that greater and greater efficiencies in how we generate and use energy will fuel our nation's self-sufficiency. For our customers and GRENLEC alike, this means building energy management and efficiency into our everyday lives and business operations, while enhancing the quality of the services we deliver. We proudly present our 2012 annual report, which shares some perspectives of this new awareness and demonstrates how we can 'Energise Possibility Through Efficiency.'



Vision Statement

To become a world-class energy service provider and to be the corporate leader in Grenada, Carriacou and Petit Martinique, exceeding the expectations of all stakeholders.

Mission Statement

To deliver excellent energy services in Grenada, Carriacou and Petit Martinique, at the least possible cost while maintaining the highest standards and values.

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Photo of Carriacou Maroon String Band Festival.

Corporate Information

Corporate Profile

The Grenada Electricity Services Ltd. (GRENLEC,) the sole provider of electricity in Grenada, Carriacou and Petit Martinique is publicly traded on the Eastern Caribbean Securities Exchange (ECSE). Since 1960, the Company's 228 employees have been providing integrated services of generation, transmission and distribution of electricity to 40,000 customers.

13 generating units ranging in size from 1200KW to 8000KW constitute the total installed capacity of 48.59MW with a peak demand of 30.2MW. A transmission network at 33kV and two new substations at Queen's Park and Grand Anse provide improved service quality to the south of the island to support commercial development and the island's tourism belt.

Since its privatisation in 1994, GRENLEC has risen to the challenge of providing safe and reliable service by investing in its employees, business and communities.

Directors

G. Robert Blanchard Jr. Chairman
Claudia Alexis
Robert Blenker
Wayne Burks
Robert Curtis
Linda George-Francis
Claudette Joseph
Royston La Hee
Alfred Logie
Ambrose Phillip
Ronald Roseman
Nigel Wardle

Interim Chief Executive Officer

Clive Hosten

Corporate Secretary

Benedict Brathwaite

Registered Office

Grand Anse, St. George, Grenada, West Indies.
Email: mail@grenlec.com
Website: www.grenlec.com

Bankers

Republic Bank (Grenada) Ltd.
Republic House, Grand Anse, St. George, Grenada, West Indies.

RBTT Bank Grenada Ltd.
Corner Cross & Halifax Streets, St. George, Grenada, West Indies.

Bank of Nova Scotia
Corner Granby & Halifax Streets, St. George's, Grenada, West Indies.

CIBC First Caribbean International Bank
Corner Church & Halifax Streets, St. George's, Grenada, West Indies.

Grenada Cooperative Bank Ltd.
Church Street, St. George's, Grenada, West Indies.

The Bank of Tampa
Florida, U.S.A.

Attorneys at Law

Grant, Joseph & Company
Lucas Street, St. George's, Grenada, West Indies.

Auditors

PKF – Accountants and Business Advisers
Pannell House, Grand Anse, St. George, Grenada, West Indies.

Registrar

Eastern Caribbean Securities Exchange (ECSE)
P.O. Box 94, Bird Rock, Basseterre, St. Kitts, West Indies.

Notice of Annual General Meeting

Notice is hereby given that the Fifty-fourth Annual Meeting of Shareholders of Grenada Electricity Services Limited will be held at the Hospitality Room, Grenada National Stadium, Queen's Park, St. George's, on Wednesday, 8 May 2013 at 4:30 p.m. to:

- Receive the Annual Report, the Audited Financial Statements for the year ended 31 December, 2012 together with the Auditors Report thereon.
- Re-appoint the Auditors and authorise the Directors to determine their remuneration
- Elect Directors

Close of business

Question and answer period to discuss any other business of the Company, which may properly be considered at an Annual Meeting.

Dated this 5th day of March 2013.

By order of the Board

Benedict Brathwaite
Company Secretary

Notes

- A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his or her stead. A proxy need not be a member. A proxy form is included in this report for your convenience. It must be completed and signed in accordance with the notes on the form.

- Only shareholders on record at the close of business on Tuesday, 16 April, 2013 are entitled to receive Notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Company's Registered Office during usual business hours and at the Annual Meeting.

BOARD OF DIRECTORS

G. Robert Blanchard Jr.
Chairman

CHAIRMAN'S REPORT

MUCH OF THE FOCUS IN 2012 WAS ON RENEWABLE ENERGY DEVELOPMENT AND WE WERE PLEASED TO JOIN THE GOVERNMENT OF GRENADA AND EUROPEAN UNION TO JOINTLY LAUNCH THE CARRIACOU WIND PROJECT

Going into 2012, we were well aware that the fragility of the global recovery, with the debt crisis in the Eurozone and slow upturn in most countries, would continue to have an unfavourable impact on our recovery. Operating in such a fragile economy meant that for the second year in succession GRENLEC experienced revenue contraction, with a decline in kWh sales of 1.35%. This followed a 2.15% decline in kWh sales in 2011. Despite this drop in sales, our Company's financial performance was very strong, with profit after taxes of $14.52M compared to $8.80M in 2011. However, it is critical to note that a fuel cost recovery rate of 104.46% drove this profit. This means that the decline in fuel prices during the year was largely responsible for our strong showing and cannot be seen as mitigating the very real challenges presented by contracting sales.

World fuel price was the element to watch and predictions were for it to remain high, at over USD120.00 per barrel. Thankfully, although high, the annual average was lower than expected at USD94.05. Nonetheless, it heightened the woes of our customers by further increasing already high electricity rates, at a time when they were already grappling with high prices generally.

Understanding the economic conditions that prevail, our Company had to make a difficult decision to apply a 3.71% non-fuel rate increase in March. Despite our best efforts, rising operational costs, driven by inflation made this necessary. This adjustment was based on CPI in 2010, so our Company had been operating with these increased expenses for two years. Since the introduction of the Price Cap Formulae in 1994 (CPI with the impact of fuel removed minus 2%) for the adjustment of non-fuel charges, the non-fuel charges have increased by a total 11.18% over 18 years, compared to cumulative inflation over the same period of more than 47%.

In June, in compliance with the Electricity Supply Act of 1994, the Company applied for a 1.22% non-fuel rate increase. This was based on the Consumer Price Index (CPI) at December 2011 of 3.52%.

Although the Company was entitled to implement this increase from January 1, 2013, a decision had not been taken to do so as at the end of 2012.

In our industry, the necessity of making extensive capital investments and maintaining and upgrade infrastructure on a continuous basis means that our financial position must be strong. This is what allows us to sustain operations, diversify supply away from diesel to stabilise electricity costs and improve reliability and power quality. While GRENLEC has foregone revenue by not implementing increases in 2008 and 2010, the Company cannot continuously absorb all the increased expenses and still maintain the quality of service that our customers require.

In 2012, the dividend payout was 56.19% of profits, after adding back hurricane expenses, as compared to the 84.43% of 2011. Despite this, ever cognisant of the declining kWh unit sales and the positive impact of the fuel cost recovery rate, your Company thought it prudent to maintain dividends at twelve cents per quarter throughout the year, as in 2011. Your Board's strategy is to gradually increase and sustain dividend payments, such that they are predictable to shareholders and with the significant economic challenges facing the country it calls for a conservative approach to cash management. Throughout 2012 your shares listed on the ECSE traded at a steady $11.00 per share.

I acknowledge the service of my fellow Directors and extend particular thanks to outgoing Directors, Messrs. Malcolm Harris, Vernon Lawrence and Arthur Campbell and welcome new Directors Mmes. Claudia Alexis, Linda George-Francis and Messrs. Robert Blenker and Wayne Burks. Mmes. Alexis and George-Francis were appointed to the Board during the May 2011 Annual Meeting of Shareholders, while Messrs Blenker and Burks were appointed by WRB to replace retiring Directors Malcolm Harris, who served with distinction as Vice Chairman up to his retirement and Vernon Lawrence, who was Managing Director and Chief Executive Officer of GRENLEC. We are pleased to serve you, the owners of our Company, and thank you for the continued confidence you place in us to manage your interests.

In June 2012, we bade farewell to Mr. Vernon Lawrence, who retired after providing ten years of sound leadership to the company. We thank him for his exemplary service and extend best wishes as he embarks on the next phase of his life's journey. Vernon's impact on the growth and success of your company must be recognized. We will miss him and his stewardship. As we began a recruitment process for a new Chief Executive Officer, Mr. Clive Hosten, Chief Engineer was appointed Interim Chief Executive Officer.

The 2012 Award from the Grenada Chamber of Industry and Commerce for Service Excellence and nomination for Corporate Social Responsibility speaks to the investment that your Company makes in satisfying customers and caring for our communities. These achievements are about people; our customers give us the opportunity to serve them; our team members are continuously striving to meet customers' needs; with our stakeholders we make a difference. We are grateful for our many collaborators and extend our appreciation to you. In particular, we thank our management and team members for your supreme effort to ensure value for our customers and shareholders.

Much of the focus in 2012 was on renewable energy development and we were pleased to join the Government of Grenada and European Union to jointly launch the Carriacou Wind Project. As we work with Government, the private sector and customers to find solutions to the challenges we face, we are ever mindful of the need for efficiency as a necessity in the short-term and beyond. For our Company, the impact of increasing efficiency cannot be overstated and we celebrate our accomplishments in reducing system losses, increasing fuel efficiency and keeping operational expenses flat compared to 2011. For our customers too, this is a valuable tool to secure maximum value from the investments that they make. As we prepare for what is projected to be yet another challenging year, we are again focused on the many opportunities presented by maximising efficiency in all areas of our operations and encourage our stakeholders to do likewise.

As always, I thank you for your support of GRENLEC and the dedicated team that works for you and the people of Grenada.

G. Robert Blanchard Jr.
Chairman

MANAGEMENT TEAM

Clive Hosten • *Interim Chief Executive Officer* | **Benedict Brathwaite** • *Financial Controller* | **Don Forsyth** • *Manager, Planning and Engineering* | **Prudence Greenidge** • *Manager, Corporate Communications* | **John McDonald** • *Manager, Carriacou and Petit Martinique* | **Jeffrey Neptune** • *Manager, Information Technology* | **Glenn Phillip** • *Coordinator, Loss Reduction* | **Tara Singh** • *Manager, Generation* | **Casandra Slocombe** • *Manager, Customer Services* | **Eric Williams** • *Manager, Transmission and Distribution* | **Jacquline Williams** • *Manager, Human Resources*

Management Review and Analysis

OVERVIEW

When our team hosted corporate customers for an energy forum in March, the dialogue reflected the tough realities of the economic climate and clearly forecasted the theme of our 2012 report, 'Energising Possibility Through Efficiency'.

The global recession lingered unabated in 2012 and Grenadians faced severe economic hardship and increasing unemployment, amid growing closures of businesses. This was the reality, despite growth in Grenada's real GDP of 1.1 percent in 2011 and an IMF estimate that it would reach 1½ percent in 2012, based on continued growth in agriculture and a gradual recovery in tourism stay-over arrivals. Private sector credit growth continued to be sluggish and the fiscal situation remained precarious leading to very little space for capital expenditure. Additionally, world fuel prices, which averaged USD94.05 in 2012, meant higher costs for business and lower disposable income for individuals.

The Company ended the year with profit after taxes of $14.52M compared to $8.80M in 2011. This performance was aided in large measure by a higher fuel cost recovery rate that resulted from fluctuating fuel prices. Other factors included an effective cost containment programme and improved efficiency, namely reduced system losses, as well as increases in non-fuel revenue and fuel efficiency.

Efficiency was a necessary message for GRENLEC and our customers, in a year characterised by falling electricity sales and the highest sustained fuel prices. This came at a time when our Company and customers were already adversely affected by the glum economic conditions. Our team was challenged throughout the year by customers' inability to pay and pay on-time and we ended the year with trade receivables and debtor days higher than 2011 by $4.15M and 5.78 respectively.

In GRENLEC's operations, as kWh sales were further depressed, efficiency was a focal point, as with service enhancement, reliability and safety. The common thread in all of these goals was a strong focus on the people we serve – our team members, our customers, our communities.

We present some highlights and an analysis of our Company's 2012 performance.

GCIC Service Excellence Award.

HIGHLIGHTS

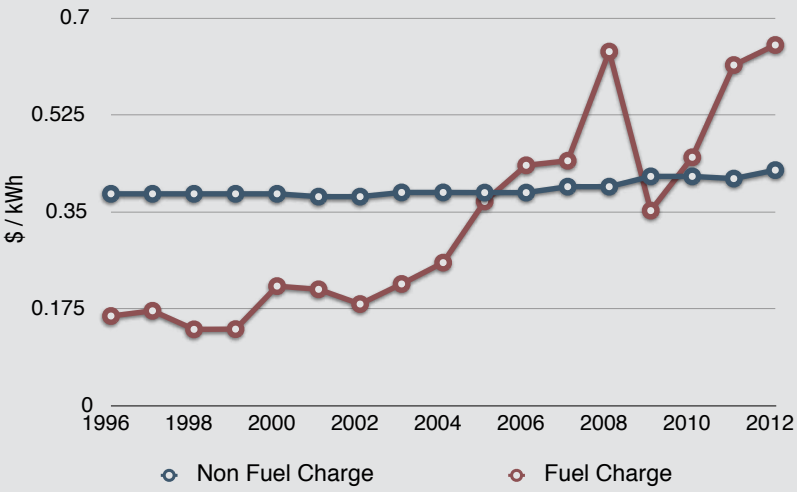
Financial

- KWh sales declined by 1.35%.
- Revenues were $197.48M.
- Pre-tax profits were $20.38M.
- System losses were 7.50%.
- Return on invested capital was 19.64%.

Other

- Launch of the Carriacou Wind Energy Project.
- Grenada Chamber of Industry and Commerce's Service Excellence Awardee.
- One of the top three companies nominated by Grenada Chamber of Industry and Commerce for Corporate Social Responsibility, having won in 2010 and 2011.
- Improved safety record, with Generation and Carriacou and Petit Martinique ending the year with zero days and Distribution with 131 consecutive days without loss time accidents.

Statistics at a Glance



ELECTRICITY CHARGES 1996 - 2012

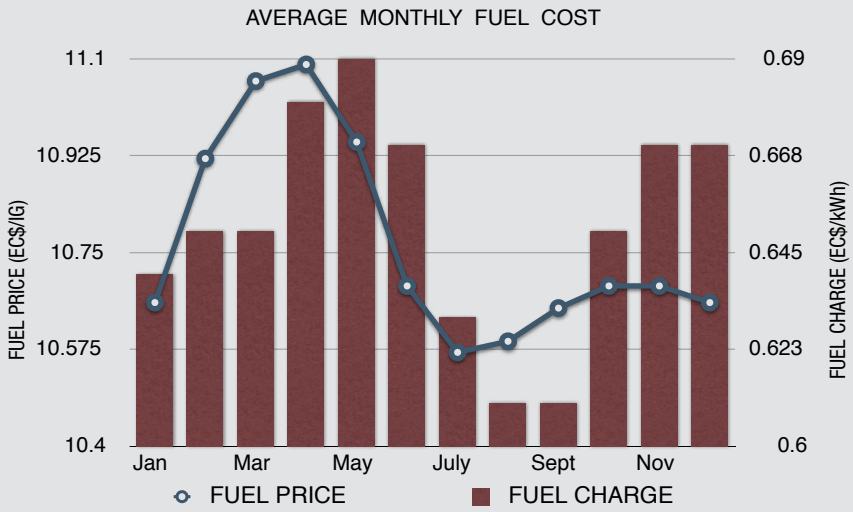
High world fuel prices resulted in an average fuel charge of $0.6519 / kWh, replacing the 2008 record high of $0.6402.

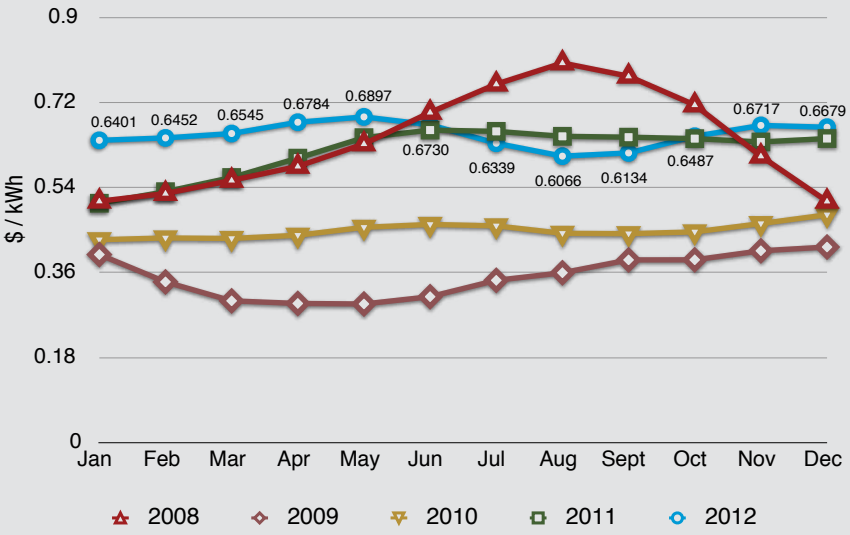
Despite a 3.71% increase in 2012, the non-fuel rate has remained relatively flat.

CHANGES IN FUEL PRICE & FUEL CHARGE

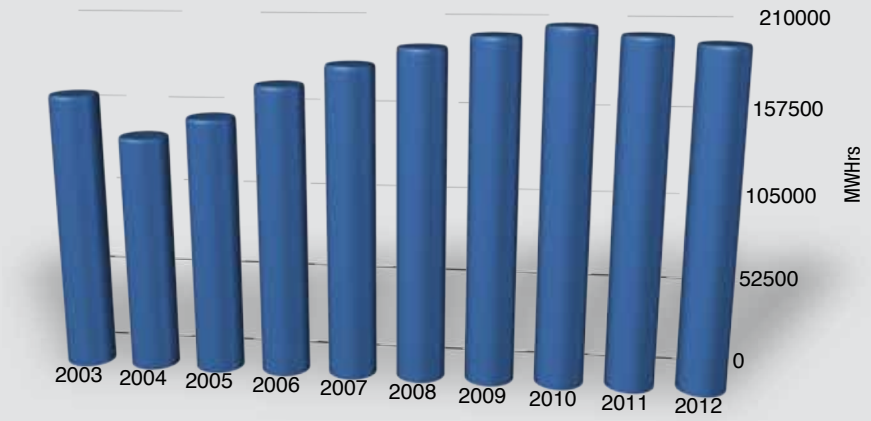
January - December 2012

The Electricity Supply Act provides for monthly adjustment of fuel rates, based on the average cost of fuel over the prior three months. This accounts for the lag between changes in the fuel charge customers pay compared to the price GRENLEC pays for fuel.





CHANGES IN FUEL CHARGE 2008-2012



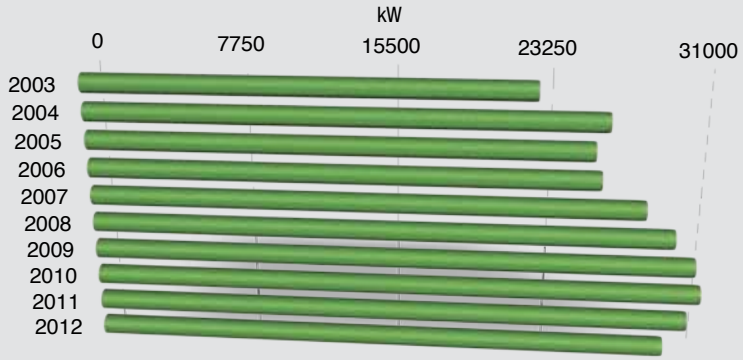
Hurricanes Ivan and Emily hit the country in 2004 and 2005.

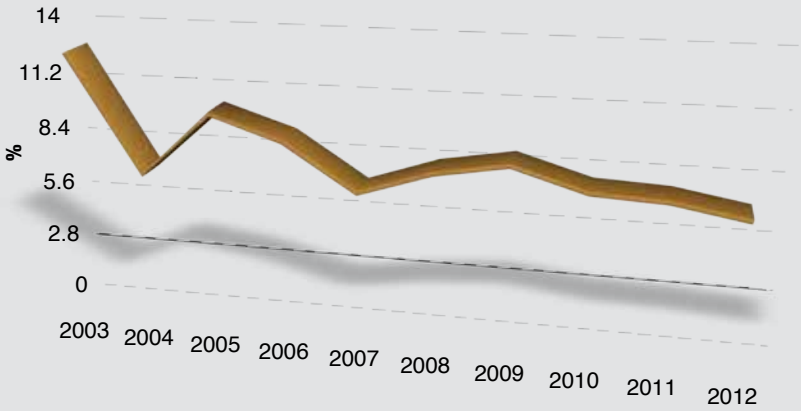
GROSS GENERATION 2003 - 2012

For the second consecutive year, energy demand decreased, while at 199.7GWHrs, gross generation also declined by a further 2.1% after a 2.27% decrease in 2011.

PEAK DEMAND 2003 - 2012

The 29,199kW peak demand, marginally lower than the peak set in 2008 (29,395kW), represented a 3.6% reduction from to 2011.



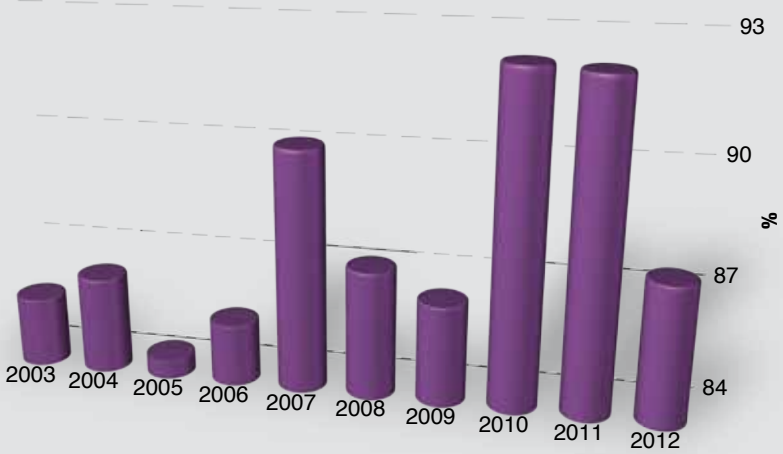


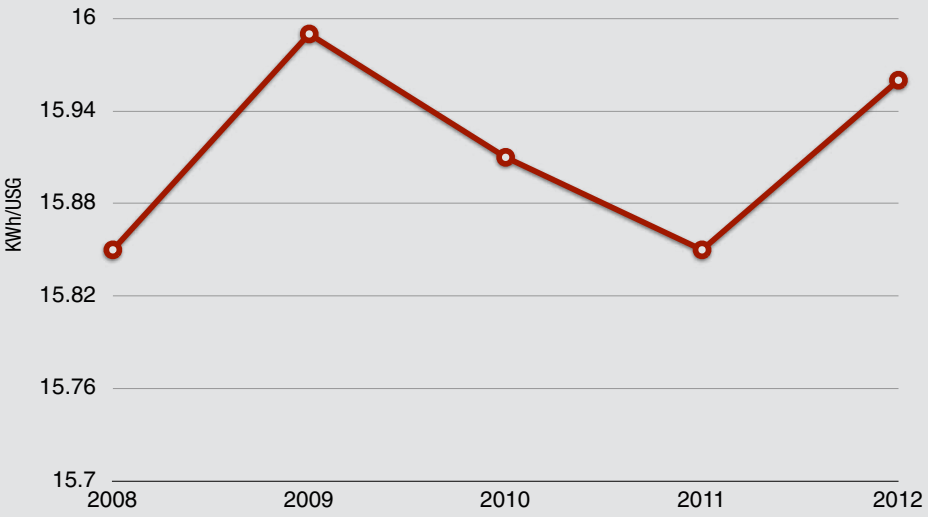
SYSTEM LOSSES 2003 - 2012

In Carriacou, losses fell from an average of 13% to under 9%.

PLANT AVAILABILITY 2003 - 2012

Major work on production engines contributed to a 3% shortfall in plant availability compared to a 90% target.





FUEL EFFICIENCY 2008 - 2012

FINANCIAL REVIEW

Sales

For the second time in GRENLEC's post privatisation history, we saw kWh sales decline in a year without any hurricanest. With the exception of street lights, which saw growth of 3.12%, all the major sectors experienced contraction.

CUSTOMER CATEGORY	DOMESTIC	COMMERCIAL	INDUSTRIAL	TOTAL (Including Street Lights)
Sales Gigawatt hours (GWh)	69.12 (38.74%)	98.78 (55.36%)	5.85 (3.28%)	178.43
Sales Decline (%)	1.90	1.03	3.62	2.69
Average Annual Consumption Decline %	3.76	1.97	0.94	1.35

The decrease in sales was consistent throughout the year, with a 1.08% reduction in units sold in the first six months and 1.61% in the second half.

The number of customers increased by just 1.02%, the smallest increase in the last seven years, with the 1.25% in 2011 the second lowest. Moreover, average annual consumption in all three major customer categories fell, further eroding any gain from the small increase in customers.

Total Revenues

Total income in 2012, of $197.48M, reflected an increase of $6.54M (3.43%) over the $190.94M of 2011. This was primarily due to the fuel charge being higher in 2012 by $6.70M, a result of consistently higher fuel prices. Non-fuel income also increased by 1.58%, despite lower kWh sales of 1.35% because of the rate increase of 3.71% implemented March 1, 2012. The combined effect meant our customers had to find an additional $7.92M to meet their reduced energy usage leading to understandable frustration, in particular among hoteliers. The Company continues to work assiduously towards a solution involving renewable energy. While that would stabilise the cost of electricity in the medium to long-term, the short-term forecast is for world fuel prices, which averaged USD94.05 in 2012, to continue to increase, which would negatively impact the Company and customers alike. Under the circumstances, efficiency will continue to be a relevant management tool for our Company and customers.

Net Fuel Cost Recovery

The fuel cost recovery rate resulted in net fuel revenue of $4.95M with an overall benefit of $6.63M, compared to 2011.

YEAR	2012	2011
Net Fuel Recovery (%)	104.46	98.49
System Losses (%)	7.50	8.07
Fuel Efficiency ($ kWh / USG)	15.96	15.85
Avg. price / IG Diesel ($)	10.66	10.36

This is the single most important factor in accounting for the difference in the financial performance between the two years, with an increase in profit after interest of $8.91M. Improved operational efficiencies impacted the fuel cost recovery rate favourably, as was the case in 2011, with decreases in system losses and increases in fuel efficiency, as shown in the table above.

The average price paid per Imperial Gallon (IG) of diesel in 2012 surpassed 2011, which was the previous highest average price in any year. This further emphasises the need for a collaborative approach from all stakeholders in the vigorous pursuit of renewable energy options such as wind, solar photovoltaic and geothermal to provide stable, if not lower rates than presently exist. A careful assessment of renewable energy options is vital to determine the right generation mix, where resources are intermittent, as with solar and wind. In the case of those that will provide base load power, there is a need to determine their viability within the context of the availability of the potential resource, the cost of exploration and the capacity to sustain the volume of waste and other potential impacts.

Non-Fuel Operating and Interest Expenses

Bearing in mind the challenges of reduced kWh unit sales, increased focus was placed on cost containment across all departments. In this regard, non-fuel operating expenses of $55.83M in 2012 were 2.92% less than the $57.50M of 2011. While lower depreciation expenses of $1.96M were a significant factor, attention was also placed on being more efficient in all areas of our operations. Management's clear plan was to keep costs low, without jeopardising either the reliability or safety of the operations. Additionally, interest costs of $3.39M in 2012 decreased from the $4.21M of 2011, consistent with the reduction in borrowed balances as the Company continued to make scheduled repayments.

Financial Condition

The return on invested capital (see table above) reflects the improved financial performance. All the other key indicators such as current ratio 2.68% and interest coverage 11.86% showed improvement over the corresponding year.

YEAR	2012	2011
Retained earnings ($M)	44.19	38.79
Debt to equity ratio (%)	41.74	54.95
Return on invested capital (%)	19.64	13.79

Trade receivables increased by $4.15M (14.74%), with debtor days outstanding also deteriorating from 54.71 in 2011 to 60.49. Increases in Government's receivables of $3.02M, along with hotels $0.49M, domestic $0.49M and commercial $0.45M were responsible for the overall increase. This is reflective of the challenging economic conditions that our customers face, resulting in payments being made at a slower pace than in previous years. An aging receivable portfolio means increased risk for bad debt and emphasises the need for specific focus on debt management in 2013.

GRENLEC ended the year with cash and cash equivalents of $4.07M and an excess over the hurricane fund in loans and receivables of $13.13M. Based on the Insurance Act Cap 150 of the continuous revised edition of the Laws of Grenada, the Company is required to set up a Trust to manage the retirement funds of its employees. This will require the related assets and liabilities to be removed from the Company's accounts to that of the Trust in 2013. Consequently, the existing underfunding of the retirement plan at December 31, 2012 of $4.91M will be funded. Given its current cash position and projected cash flows, the Company does not envisage any financial problem in funding the Trust.

Risk Management

The Hurricane Fund, established to mitigate the risk of natural disasters, increased to $14M by the end of 2012. While the fund is not yet up to the level of the expenses ($20M) that resulted after Hurricane Ivan, we have a much more robust distribution system and that gives a level of comfort that our risk is continually being minimised.

BUILDING THE TEAM

In March, Heads of Departments took a moment to say thank you, personally, to GRENLEC's 226 permanent team members for their roles in our Company's success. As Employee Appreciation Day began at midnight on 1st March, managers began informal visits with team members on shift at all GRENLEC locations. Another manifestation of the Company's ethos of 'Congratulating and Recognising Excellence' (CARE), Employee Appreciation Day was welcomed by team members.

Skills-Training

To help team members keep pace with changes in the external environment and the workplace, we hosted workshops and seminars on conflict management, first aid and change management, in addition to facilitating members' participation in specialised training to close skills-gaps and foster continuous learning, professional and personal growth. Training needs were advised by exercises such as a skills-gap review conducted by the Generation department.

Building National Capacity

Our scholarship and internship programmes provided direct opportunities for 21 secondary and tertiary students. These students received assistance through academic scholarships and others through valuable job experience.

SERVING THE NEEDS OF OUR CUSTOMERS

At the end of the year, our Company's continuing focus on enhancing customers' experience was acknowledged with the 2012 Service Excellence award, presented by Grenada Chamber of Industry and Commerce (GCIC). Our team was appreciative of the recognition of its ongoing service enhancement programme, including training, building a service environment, monitoring and measurement of service delivery standards.

Customer Engagement

As part of our ongoing engagement of customers, in March we invited corporate customers to attend a forum to discuss the energy issues affecting them. The forum, which we jointly hosted with the GCIC, included discussions about energy efficiency, rates, reliability and renewable energy. Similar talks with the Grenada Hotel and Tourism Association (GHTA) emphasised a commitment from GRENLEC to provide technical assistance for energy efficiency initiatives developed by the GHTA.

Lucky Customers win Get Away at Home Promotion.

Independent Meter Testing

A Memorandum of Understanding signed with the Grenada Bureau of Standards (GDBS) to provide independent verification of meters will provide another level of assurance for customers that their electric meters are functioning according to established standards. The GDBS is the national agency responsible for setting and monitoring standards for goods and services.

Signing MOU for meter testing.

RELIABILITY, COST CONTAINMENT AND EFFICIENCY IMPROVEMENT

As declining sales and the economic environment increased the uncertainty of growth, our team renewed its attention to containing costs and increasing efficiency, while improving reliability.

Maintaining and Upgrading Infrastructure

We continued a structured programme of system inspections, preventative maintenance and work planning on the transmission and distribution system, with special emphasis on the Carriacou high voltage (HV) network. This programme in Carriacou to increase reliability and the quality of supply resulted in the best system loss performance recorded by the Department of Carriacou and Petit Martinique, with a decrease from an average 13% to less than 8.63%. Similar extension work and the creation of alternative electrical feeds to a number of communities in St. Andrew, St. David, St. George, St. Patrick and St. John contributed to improved reliability, fewer forced outages and the reduction in overall system losses. At our production plant, exhaust valves were purged on the three MaK engines to prevent continued fatigue failures, due to aging of the valves. We also instituted a replacement interval that will supersede the previous maintenance procedure for inspection and qualification of the exhaust valves.

Installing Substation Transformer.

Grand Anse Substation Upgrade

Reliability was further enhanced with Grand Anse Substation upgrade, phase 2 of our Transmission and Distribution Development Plan. The project improved redundancy for maintenance and forced outages, with the installation of a second 15/20 MVA transformer. Internal cross-departmental teams collaborated to successfully complete the work in early December, allowing departments to build capacity and maximise efficiency.

Server Virtualisation

Leveraging technology, GRENLEC was able to complete the virtualisation of over 90% of its servers, converting physical servers into multiple virtual machines. This has resulted in higher data centre efficiency, increased availability of systems and reduced hardware maintenance costs.

Document Imaging

One application to have benefited from the server virtualisation programme was the Electronic Document and Records Management (EDRM) system. This project, a crucial part of GRENLEC's disaster recovery plan, has already captured several years' worth of customer records in electronic form. Future phases will allow other information, including human resource and financial records to be electronically documented, thereby improving access, as well as reducing paper consumption and the need for physical storage.

Purchasing Workflow

Similar benefits will result from an enterprise-wide purchasing workflow solution that enables the Company to simplify and better manage its procurement system.

Automatic Vehicle Location

We completed phase I of the implementation of Automatic Vehicle Location (AVL) technology for fleet management, a technology widely used for service applications and security. The first vehicles have been fitted with digital radios that are monitored by control operators for real-time location and speed. In combination with our Company's Geographic Information Systems (GIS), it will also improve efficiency and our ability to respond more effectively to service calls.

GIS Web Client Development

On the heels of the development of a strategic framework for GIS development in 2011, GRENLEC has made significant strides in expanding the penetration and reach of its GIS. Open source programmes for Web browser based deployment have been commissioned and all existing GIS layers, including primary and secondary poles, lines, other equipment, customer meters, cadastre register of land boundaries, roads, other national infrastructure and AVL have been added for Company-wide access.

ALTERNATIVE ENERGY

Significantly, technology is making greater advances in alternative energy exploration possible in our small-island context. Moreover, decreasing costs of relevant technology is making commercial solar, envisioned for Petit Martinique and rooftop application on mainland Grenada, more attractive. The Carriacou Wind Project, a collaborative venture between the Government of Grenada, The European Union and GRENLEC, provides a sound example of the substantial benefits of available alternative energy technology.

Carriacou Wind Energy Project

Sod-turning for Carriacou Wind Project.

The design incorporates technology that will manage the interface between the 2MW wind farm and the fossil fuel plant, allowing up to 60% wind energy penetration. The EU partial-financing agreement with the Government of Grenada was officially signed in September ahead of a sod-turning ceremony at Top Hill, Carriacou. A community consultation session is planned for the first quarter of 2013 to brief residents about the project, the findings of a 2012 transportation study and the preliminary findings of an Environmental Impact Assessment.

Fort Frederick Demonstration Project

An internal team worked together to install a hybrid wind-photovoltaic system at Fort Frederick, as part of GRENLEC's ongoing efforts to better understand how the technology works, introduce and encourage greater renewable energy penetration. 2kW of solar photovoltaic (PV) panels and 1 kW wind turbine were installed and interconnected to the grid, utilising the net billing arrangement offered to GRENLEC's customers under the current phase of our customer interconnection programme.

Vertical axis turbine and solar panels - Renewable Energy Demonstration Project at Fort Frederick.

CORPORATE SOCIAL RESPONSIBILITY

Caring for Bel Air Home, which GRENLEC contributed $1M to construct.

One of the top three nominees for the Grenada Chamber of Industry and Commerce's award for Corporate Social Responsibility, GRENLEC disbursed $1.19M and pledged another $2M for community development projects. Through its Community Partnership Initiatives and sponsorship, it fostered collaborations with organisations throughout Grenada.

Highlights

- Hillsborough Secondary School Computer Laboratory
- Grenada Community Development Agency and J. J. Robinson Foundation Student Assistance Programmes
- Grenada Carnival
- Petit Martinique Regatta
- Camerhogne Foundation
  - Juvenile Rehabilitation Programme
- Grand Anse Home for the Aged
- Mt. Airy Development Organisation's Cricket Competition
- Grenada Cricket Association's Women's Cricket Programme

Tanteen Playing Field Bleachers.

Carriacou Regatta.

Outlook

Small open economies, such as Grenada's are dependent upon external economic conditions for much of their prospects, either in the form of tourism or foreign direct investment. Although the IMF's outlook for the global economy is for growth in 2013 averaging 3.5%, much of this is expected in emerging markets and not in the USA and Eurozone, which traditionally have closer ties to our economy. With high public sector debt and little likelihood for GDP growth, the fiscal situation in Grenada with high current account deficits and net external liabilities is expected to persist. Added to this is high unemployment, which increases the possibility that the economic stagnation seen since the global recession began in 2007 will continue.

Over the past two years, the lowest average monthly price of a barrel of oil was USD82.30 in June 2012. There is no indication that the trend of high fuel prices will change in 2013. In fact, one-year forecasts suggest that they are likely to be around USD106.00 per barrel. While high world fuel prices make alternative sources of energy more viable in the short-term, it spells continued economic stress for our individual and business customers. It also means that when combined with the grim fiscal situation, the Company has had no choice, but to project for zero growth in kWh unit sales for 2013.

Given the economic difficulties and high fuel prices, increased focus can be expected on the Company's rates and renewable energy options. At the same time, the challenge of no growth or further contraction is one that GRENLEC must face, while continuing to provide a world-class energy product. To achieve this, we must empower our employees to provide excellent service and improve efficiencies, so that we are true to our vision of exceeding the expectations of all stakeholders.

COMMUNITY AND DEVELOPMENT PARTNERS

ON THIS PAGE: Grenlec Debates Champions, St. Andrew's Anglican Secondary School (SAASS) • Powering the Pride of Our Nation • Women Parliamentarians Mentor Youth Parliamentarians • Constructing a Language Lab for Bishop's College • Pans for the Carriacou & Petit Martinique Schools' Steel Orchestra • Celebrating Grenada's Independence. **ON FACING PAGE:** GRENLEC Joins Corporate Olympic Team • Hosting the 2012 CARILEC CEOs' Conference • Lighting Hermitage Playing Field • Carriacou, Maroon and String Band & Music Festival • Toasting the Lantern Floral Exposition • Team Beausejour Community Centre Renovations.


LANTERN
FLORAL
EXPOSITION

FAREWELL VERNON LAWRENCE

After a decade at the helm of Grenada Electricity Services Ltd. (GRENLEC), in July team members bade Vernon Lawrence goodbye as he retired from his post as Managing Director and Chief Executive Officer.

Lawrence, who came to GRENLEC with more than 30 years of experience in the electricity industry was a proponent of corporate social responsibility and service, he served as Chairman of the Board of Directors of the Caribbean Electric Utility Corporation (CARILEC), Vice President of the Grenada Chamber of Industry & Commerce and a Rotarian.

His top priority was people and under his leadership much attention was given to building the Company's human capital, improving customer service and enhancing community relations. Significantly, he provided the sound leadership needed to restore electricity to the island in record time after the severe damage caused by Hurricane Ivan. Simultaneously, decreases in losses, efficiency improvements and cost containment have helped GRENLEC to weather the turbulent financial times that marked the period of his leadership.

"I HAVE BEEN PRIVILEGED TO WORK WITH A WONDERFUL AND CAPABLE TEAM AND AS I DEPART, I AM PROUD THAT THE TEAM CAN CARRY THE MANTLE AND CONTINUE TO BUILD THE ORGANISATION."

PKF
Pannell House | P.O. Box 1798 | Grand Anse | St. George's
Grenada | West Indies

PKF
Accountants &
business advisers

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GRENADA ELECTRICITY SERVICES LIMITED

We have audited the accompanying financial statements of the company which comprise the statement of financial position at December 31st, 2012 and the related statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Responsibility for the Financial Statements

Those charged with governance are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

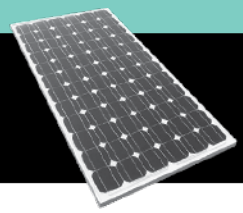
In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of the Company as of December 31st, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

GRENADA:

PKF

March 5, 2013

Accountants & business advisers:



STATEMENT OF FINANCIAL POSITION AT 31ST DECEMBER, 2012

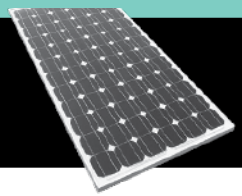
(expressed in Eastern Caribbean dollars)

ASSETS	Notes	2012 $	2011 $
Non-Current Assets			
Property, plant and equipment	4	86,042,932	90,628,362
Suspense jobs in progress	5	1,407,581	1,589,858
Capital work in progress	6	3,512,536	2,856,602
Deferred exchange loss	7	948,305	760,437
Available-for-sale financial assets	8 (a)	876,140	877,348
		92,787,494	96,712,607
Current Assets			
Inventories	9	15,507,888	15,650,992
Trade and other receivables	10	36,204,176	33,176,104
Segregated retirement investments	11	19,613,931	19,060,844
Income tax prepaid		195,102	-
Loans and receivables financial assets	8 (b)	26,375,717	25,581,778
Cash and cash equivalents	12	4,072,519	1,623,863
		101,969,333	95,093,581
TOTAL ASSETS		194,756,827	191,806,188
EQUITY AND LIABILITIES			
EQUITY			
Stated capital	13	32,339,840	32,339,840
Other reserves		12,060	13,400
Retained earnings		44,189,174	38,793,180
		76,541,074	71,146,420
Non-Current Liabilities			
Customers' deposits	14	10,171,095	9,639,029
Long-term borrowings	15	31,945,548	39,096,713
Provision for retirement benefits	16	24,033,554	22,240,639
Provision for hurricane insurance reserve	17	14,000,000	12,000,000
		80,150,197	82,976,381
Current Liabilities			
Amount due to related company	18	140,219	189,969
Short-term borrowings	15	14,403,726	11,785,534
Income tax payable		-	2,980,505
Trade and other payables	19	17,654,588	17,416,078
Customers' contribution to line extensions		1,085,814	724,380
Current portion of provision for retirement benefits		500,000	1,500,000
Provision for profit sharing		4,281,209	3,086,921
		38,065,556	37,683,387
TOTAL LIABILITIES		118,215,753	120,659,768
TOTAL EQUITY AND LIABILITIES		194,756,827	191,806,188

The notes on pages 28 to 54 form an integral part of these financial statements

: Director

: Director

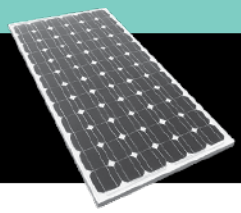


STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

	Notes	2012 $	2011 $
INCOME			
Sales - non fuel charge		78,574,699	77,346,776
- fuel charge		115,988,054	109,294,709
Unbilled sales adjustments		339,052	1,134,184
Gross Sales		194,901,805	187,775,669
Other income	20	2,578,690	3,161,064
Total income		197,480,495	190,936,733
LESS: OPERATING EXPENSES			
Production expenses		17,120,358	18,622,536
Diesel consumed		111,032,741	110,971,540
Administrative expenses		18,003,743	18,020,081
Distribution services		16,428,727	16,563,913
Planning and engineering		2,214,786	2,296,748
Provision for hurricane insurance reserve		2,000,000	2,000,000
Total operating expenses		166,800,355	168,474,818
Operating profit		30,680,140	22,461,915
Less: Finance cost	21	3,393,608	4,209,279
Profit for year before allocations and taxation		27,286,532	18,252,636
ALLOCATIONS			
Less: Donations		1,364,327	912,632
Profit sharing		5,546,071	4,414,015
		6,910,398	5,326,647
Profit for year before taxation		20,376,134	12,925,989
Less: Provision for taxation	22	5,860,140	4,123,966
Profit for year after taxation		14,515,994	8,802,023
Other comprehensive income			
Revaluation of available-for-sale financial assets		(1,340)	(1,072)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		14,514,654	8,800,951
EARNINGS PER SHARE		**0.76**	**0.46**

The notes on pages 28 to 54 form an integral part of these financial statements

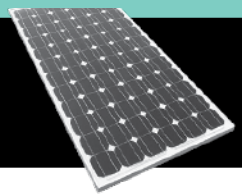


STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

	Stated Capital $	Other Reserve $	Retained Earning $	Total Equity $
Balance at 1st January, 2011	32,339,840	14,472	38,963,624	71,317,93
Amounts previously expensed now written back	-	-	147,533	147,53
Dividends paid	-	-	(9,120,000)	(9,120,00
Total comprehensive income for the year:				
Profit for the year after taxation	-	-	8,802,023	8,802,02
Revaluation of available-for-sale financial assets	-	(1,072)	-	(1,07
Balance at 31st December, 2011	32,339,840	13,400	38,793,180	71,146,42
Dividends paid	-	-	(9,120,000)	(9,120,00
Total comprehensive income for the year:				
Profit for the year after taxation	-	-	14,515,994	14,515,99
Revaluation of available-for-sale financial assets	-	(1,340)	-	(1,34
Balance at 31st December, 2012	32,339,840	12,060	44,189,174	76,541,07

The notes on pages 28 to 54 form an integral part of these financial statements

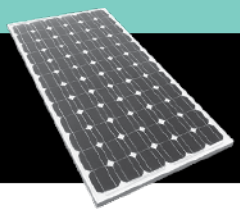


STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

	2012 $	2011 $
OPERATING ACTIVITIES		
Profit for the year before taxation	20,376,134	12,925,989
Adjustments for:		
Depreciation	12,837,194	14,801,396
Profit on disposal of fixed assets	(118,207)	(40,188)
Prior-year adjustment	-	147,533
Operating surplus before working capital changes	33,095,121	27,834,730
Increase in trade and other receivables	(3,028,072)	(3,235,585)
Increase in trade and other payables	1,132,011	1,387,437
Increase in provision for retirement benefits	792,918	1,970,708
Decrease /(increase) in inventories	143,106	(221,034)
(Decrease)/increase in amount due to related company	(49,748)	189,969
Increase/(decrease) in provision for profit sharing	1,194,290	(68,030)
	33,279,626	27,858,195
Income tax paid	(9,035,755)	(571,427)
Cash provided by operating activities	24,243,871	27,286,768
INVESTING ACTIVITIES		
Increase in available for sale financial assets	1,208	1,072
Disposal of property, plant and equipment	135,466	(19,981)
Decrease in suspense jobs in progress	182,277	521,986
(Increase)/decrease in capital work in progress	(655,934)	5,646,016
Increase in loans and receivables financial assets	(793,939)	(14,114,332)
Increase in segregated retirement investments	(553,088)	(524,343)
(Decrease)/increase in consumer contribution to line extensions	(554,153)	38,818
Purchase of property, plant and equipment	(7,714,871)	(15,866,451)
Increase in other reserves	(1,340)	(1,072)
Cash used in investing activities	(9,954,374)	(24,318,287)
FINANCING ACTIVITIES		
Dividends paid	(9,120,000)	(9,120,000)
Increase in provision for hurricane insurance reserve	2,000,000	2,000,000
Repayment of borrowings	(7,098,016)	(8,053,853)
Cash used in financing activities	(14,218,016)	(15,173,853)
Net increase/(decrease) in cash and cash equivalents	71,481	(12,205,372)
Cash and cash equivalents - at the beginning of year	(3,001,475)	9,203,897
- at the end of year	(2,929,994)	(3,001,475)
REPRESENTED BY		
Cash and cash equivalents	4,072,519	1,623,863
Bank overdraft	(7,002,513)	(4,625,338)
	(2,929,994)	(3,001,475)

The notes on pages 28 to 54 form an integral part of these financial statements



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

1. CORPORATE INFORMATION

The Company is public and is registered in Grenada. It is engaged in the generation and supply of electricity throughout Grenada, Carriacou and Petit Martinique. It is a subsidiary of Grenada Private Power Limited of which WRB Enterprises Inc. is the majority owner.

The Company was issued a certificate of continuance under Section 365 of the Companies Act on November 8th, 1996.

The Company operates under the Electricity Supply Act 18 of 1994 (as amended) and has an exclusive licence for the exercise and performance of functions relating to the supply of electricity in Grenada. The Company is listed on the Eastern Caribbean Securities Exchange.

The registered office is situated at Grand Anse, St. George's, Grenada.

The Company employed on average two hundred and thirty-two (232) persons during the year (2011- 231).

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of Preparation

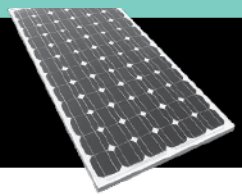
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention.

The preparation of financial statements in conformity with IFRS's requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Although those estimates are based on management's best knowledge of current events and conditions, actual results could differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) New accounting standards, amendments and interpretations

(i) There are no new standards, amendments or interpretations that are effective for the first time for the financial year beginning on or after 1st January 2012 that would be expected to have a material impact on the Company's financial statements.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1st January 2012 and not early adopted. These either do not apply to the activities of the Company or have no material impact on its financial statements.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) New accounting standards, amendments and interpretations (continued)

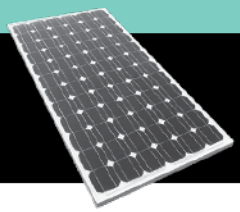
IAS 1	Presentation of items of other comprehensive income – Effective for annual periods beginning on or after 1st July, 2012
IAS 19	Employee benefits – Effective for annual periods beginning on or after 1st January, 2013
IAS 27	Separate financial statements – Effective for annual periods beginning on or after 1st January, 2013.
IAS 28	Investments in associates and joint ventures – Effective for annual periods beginning on or after 1st January, 2013
IFRS 9	Financial instruments – Classification and measurement – Effective for annual periods beginning on or after 1st January, 2013.
IFRS 10	Consolidated financial statements- Effective for annual periods beginning on or after 1st January, 2013.
IFRS 11	Joint arrangements- Effective for annual periods beginning on or after 1st January, 2013.
IFRS 12	Disclosure of interest in other entities- Effective for annual periods beginning on or after 1st January, 2013.
IFRS 13	Fair value measurement - Effective for annual periods beginning on or after 1st January, 2013.

(c) Property, Plant and Equipment

Recognition and Measurement

Property, plant and equipment consist of building, plant and machinery, motor vehicles, furniture and fittings and are stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Property, Plant and Equipment (continued)

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized as income in the statement of comprehensive income.

Subsequent Expenditure

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing and other repairs and maintenance of property, plant and equipment are recognized in the statement of comprehensive income during the financial period in which they are incurred.

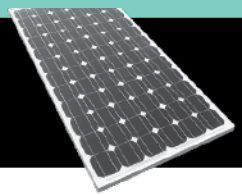
Depreciation

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land and rights are not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and available for use.

The annual rates of depreciation for the current and comparative periods are as follows:

	% Per Annum
Building and construction	2.5 - 10
Plant and machinery	5 - 12.5
Motor vehicles	33 1/3
Furniture, fittings and equipment	12.5 - 20

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign Currencies Translation

Foreign currency transactions during the year were converted into Eastern Caribbean Currency Dollars at the exchange rates prevailing at the dates of the transactions. Assets and liabilities at the statement of financial position date are expressed in EC$ at the following rates:

EC$2.7169 to US$1.00	-	(2011: EC$2.7169)
EC$3.7356 to €1.00	-	(2011: EC$3.6316)

Differences on exchange on current liabilities are reflected in the statement of comprehensive income in arriving at net income for the year, while differences on long term borrowings are deferred until realised.

(e) Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Recognition and measurement

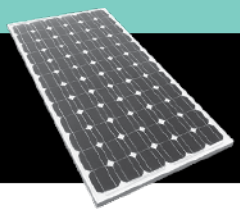
All regular way purchases and sales of financial assets are recognised or derecognised on the trade date that is the date on which the Company commits itself to purchase or sell an asset. A regular way purchase and sale of financial assets is a purchase or sale of an asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the market place concerned.

When financial assets are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the asset.

Financial assets are derecognised when the contractual rights to receive the cash flows expire or where the risks and rewards of ownership of the assets have been transferred.

Financial assets

The Company classifies its financial assets into the following categories: Loans and receivables and available-for-sale. Management determines the appropriate classification of its financial assets at the time of purchase and re-evaluates this designation at every reporting date.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Instruments (continued)

Loans and receivables

Investments classified as loans and receivable and non-derivative financial assets with fixed or determinable payments that are not quoted on the active market. They are included in current assets, except for maturities greater than twelve (12) months after the statement of financial position date. These are classified as non-current assets. The Company's loans and receivables comprise fixed deposits.

Available-for-sale

Investments are classified as available-for-sale as they are intended to be held for an indefinite period. These investments may be sold in response to needs for liquidity or changes in interest rates or equity prices. These investments are carried at fair value, based on quoted market prices where available. However, where a reliable measure is not available, cost is appropriate. Where available-for-sale investments are carried at fair value unrealized gains or losses are recognized directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss. Available-for-sale investments are included in non-current assets unless management intends to dispose of the investment within twelve (12) months of the statement of financial position date.

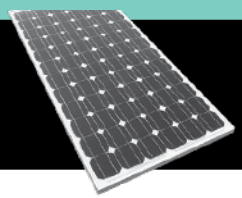
Fair Value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the statement of financial position date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred if and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that event (or events) has an impact on the estimated future cash flows of the financial asset or group or financial assets that can be reliably estimated.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Instruments (continued)

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

(i) Significant financial difficulty of the issuer or obligor.

(ii) A breach of contract, such as default or delinquency in interest or principal payments.

(iii) It is becoming probable that the borrower will enter bankruptcy or other financial re-organization.

(iv) The disappearance of an active market for that financial asset because of financial difficulties.

(v) Observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including adverse changes in the payment status of borrowers in the Company or national or economic conditions that correlate with defaults on assets in the Company.

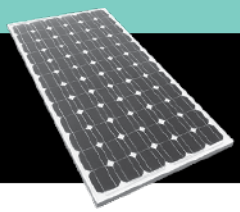
The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Impairment losses are recorded in an allowance account and are measured and recognised as follows:

(i) Financial assets measured at amortised cost

The difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate is recognised in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improvement in the debtor's credit rating), the previously recognised loss is reversed to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised at the date that the impairment is reversed. The amount of the reversal is recognised in the statement of comprehensive income.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial Instruments (continued)

(ii) Financial assets measured at cost

The difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current market's rate of return for similar financial assets is recognised in the statement of comprehensive income. These losses are not reversed.

Financial Liabilities

When financial liabilities are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the liability. Financial liabilities are re-measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished that is when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognised in the statement of comprehensive income.

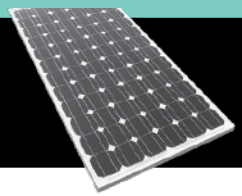
(f) Inventories

Inventories are stated at the lower of cost incurred in bringing each product to its present location and condition and net realizable value. Cost is determined on a first-in, first-out basis. Net realizable value is the price at which stock can be realized in the normal course of business.

(g) Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Trade receivables, being short-term, are not discounted. A provision for impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor and default or delinquency in payment are considered indicators that the trade receivable is impaired.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at bank and short-term demand deposits with original maturity of three (3) months or less. Bank overdraft is included as a component of cash and cash equivalents for the purpose of the cash flow statement. Bank overdraft is shown within borrowings in current liabilities on the statement of financial position.

(i) Stated capital

Ordinary shares are classified as equity.

(j) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(k) Borrowings

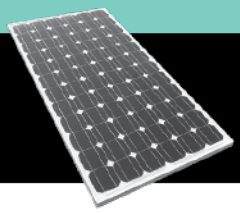
Borrowings are recognised at fair value net of transaction cost incurred. Borrowings are subsequently stated at amortized cost: any difference between the proceeds, net of transaction cost, and the redemption value is recognised in the statement of comprehensive income over the period of borrowings. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve (12) months after the date of the statement of financial position.

(l) Customers' deposits

Given the long-term nature of the customer relationship, customer deposits are shown in the statement of financial position as non-current liabilities (i.e. not likely to be repaid within twelve (12) months of the date of the statement of financial position).

(m) Customers' contribution to line extensions

In certain specified circumstances, customers requiring line extensions are required to contribute toward the estimated capital cost of the extensions. These contributions are amortised over the estimated useful lives of the relevant capital cost at an annual rate of 5%. The annual amortisation of customer contributions is deducted from the depreciation charge for Transmission and Distribution provided in respect of the capital cost of these line extensions.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Customers' contribution to line extensions (continued)

Contributions in excess of the applicable capital cost of line extensions are recorded as other revenue in the period in which they are completed. Contributions received in respect of jobs not yet started or completed at the year-end are grouped with creditors, accrued charges and provisions. The capital costs of customer line extensions are included in property, plant and equipment.

(n) Employee benefits

Profit sharing scheme

The Company operates a profit sharing scheme and the profit share to be distributed to Unionized employees each year is based on the terms outlined in the Union Agreement. Employees receive their profit share in cash. The Company accounts for profit sharing as an expense, through the statement of comprehensive income. The Company also has a Gainsharing plan for Non Unionized employees that are accounted for in the same manner as profit sharing.

(o) Income tax

The charge for the current year is based on the results for the year as adjusted for disallowed expenses and non-taxable income. It is calculated using the applicable tax rates for the period.

Deferred income tax is provided using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rate that is expected to apply to the period when the asset is realized or the liability is settled, based on the enacted tax rate at the statement of financial position date. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

(p) Provisions

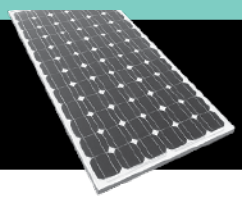
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

(q) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities.

(i) *Sale of energy*

Revenue from energy sales is based on meter readings, which are carried out on a rotational basis throughout each month. A provision of 50% of the current month's billings is made to record unbilled energy sales at the end of each month. This estimate is reviewed periodically to assess reasonableness and adjusted where required. The provision for unbilled sales is included in accrued income.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Revenue recognition (continued)

(ii) *Interest income*

Interest income is recognised on an accrual basis.

(iii) *Dividend income*

Dividend income is recognised on the cash basis consistent with International Accounting Standards (IAS)10.

(r) Dividends

Dividends that are proposed and declared during the period are accounted for as an appropriation of retained earnings in the statement of changes in equity.

Dividends that are proposed and declared after the statement of financial position date are not shown as a liability on the statement of financial position but are disclosed as a note to the financial statements.

(s) Related parties

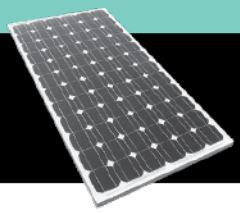
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions. Transactions entered into with related parties in the normal course of business are carried out on commercial terms and conditions during the year.

(t) Finance charges

Finance charges are recognised in the statement of comprehensive income as an expense in the period in which they are incurred.

(u) Provision for bad and doubtful debts

Provision is made based on 2% of annual gross sales. Accounts are written off against the provision when they are considered to be bad. The total provision at 31st December, 2012 amounted to EC$7,288,926 (2011 - EC$6,323,491). Included therein is a specific provision of $2,579,819 on customer accounts and $587,122 on other debtors.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provision for unbilled sales

Revenue from sales of electricity is based on meter readings which are done on a rotational basis each month. The Company, recognising that a number of customers would not be billed in the consumption month, has decided to include in its sales 50% of the month's billings to represent unbilled sales.

The provision and adjustment with comparatives at 31st December, 2012 are calculated as follows:

		2012 $	2011 $
Sales revenue for December after discounts		16,606,180	15,928,076
50% of above	= provision at 31/12/12	8,303,090	7,964,038
	= provision at 31/12/11	7,964,038	6,829,854
Increase in provision during the year		339,052	1,134,184

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The items which may have the most effect on these financial statements are set out below.

Impairment of financial assets

Management assesses at each statement of financial position date whether assets are impaired. An asset is impaired when the carrying value is greater than its recoverable amount and there is objective evidence of impairment. Recoverable amount is the present value of the future cash flows. Provisions are made for the excess of the carrying value over its recoverable amount.

Property, plant and equipment

Management exercises judgment in determining whether future economic benefits can be derived from expenditures to be capitalized and in estimating the useful lives and residual values of these assets.

Impairment of inventory and trade receivables

Provision is made for slow-moving and obsolete stock on an annual basis.

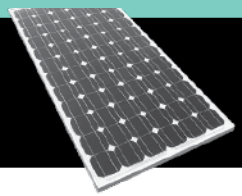
Provision is made for doubtful debts based on 2% of annual gross sales plus a specific provision for debts identified as doubtful.

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
Balance at 1st January, 2011						
Cost	1,467,468	23,786,116	202,549,297	9,284,571	9,372,376	246,459,828
Accumulated depreciation	-	(15,064,605)	(119,753,969)	(7,987,068)	(5,702,264)	(148,507,906)
NET BOOK VALUE	**$1,467,468**	**8,721,511**	**82,795,328**	**1,297,503**	**3,670,112**	**97,951,922**
For year ended 31st December, 2011						
Opening book value	1,467,468	8,721,511	82,795,328	1,297,503	3,670,112	97,951,922
Additions for the year	-	6,729,679	6,386,139	796,959	1,953,674	15,866,451
Disposals for the year	-	(58,886)	-	-	(28,254)	(87,140)
Adjustment to accumulated depreciation	-	-	147,310	-	-	147,310
Depreciation charge for year	-	(848,962)	(12,150,352)	(896,488)	(905,594)	(14,801,396)
NET BOOK VALUE	**$1,467,468**	**$14,543,342**	**$77,178,425**	**$1,197,974**	**$4,689,938**	**$99,077,147**
Balance at 31st December, 2011						
Cost	1,467,468	30,435,037	208,935,436	9,641,350	10,803,161	261,282,452
Accumulated depreciation	-	(15,891,695)	(131,757,011)	(8,443,376)	(6,113,223)	(162,205,305)
	1,467,468	14,543,342	77,178,425	1,197,974	4,689,938	99,077,147
Less: Customer contribution to line extensions	-	-	-	-	-	(8,448,785)
NET BOOK VALUE	**$1,467,468**	**$14,543,342**	**$77,178,425**	**$1,197,974**	**$4,689,938**	**$90,628,362**

4. PROPERTY, PLANT AND EQUIPMENT

	Land	Building and Construction	Plant and Machinery	Motor Vehicles	Furniture and equipment	Total
For year ended 31st December, 2012						
Opening book value	1,467,468	14,543,342	77,178,425	1,197,974	4,689,938	99,077,147
Additions for the year	-	17,511	6,108,957	485,117	1,103,286	7,714,871
Disposals for the year	-	-	-	(97)	(17,164)	(17,261)
Depreciation charge for year	-	(529,116)	(10,515,759)	(723,789)	(1,068,530)	(12,837,194)
NET BOOK VALUE	**$1,467,468**	**$14,031,737**	**$72,771,624**	**$959,205**	**$4,707,530**	**$93,937,564**
Balance at 31st December, 2012						
Cost	1,467,468	30,452,548	215,044,394	9,274,361	11,833,924	268,072,695
Accumulated depreciation	-	(16,420,811)	(142,272,770)	(8,315,156)	(7,126,394)	(174,135,131)
	1,467,468	14,031,737	72,771,624	959,205	4,707,530	93,937,564
Less: Customer contribution to line extensions	-	-	-	-	-	(7,894,632)
NET BOOK VALUE	**$1,467,468**	**$14,031,737**	**$72,771,624**	**$959,205**	**$4,707,530**	**$86,042,932**



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

5. SUSPENSE JOBS IN PROGRESS

This represents capital injections with respect to requested customers' suspense jobs not completed at year-end.

6. CAPITAL WORK IN PROGRESS

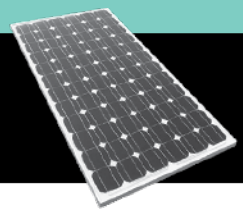
	2012 $	2011 $
Generation	1,228,744	1,091,581
Computers and software upgrades	1,016,847	1,132,346
Building and construction	8,275	-
Tools and equipment	65,781	-
Furniture and equipment	57,672	42,113
Motor Vehicle	-	40,596
Distribution	1,135,217	549,966
	3,512,536	2 ,856,602

7. DEFERRED EXCHANGE LOSS

This represents the difference arising on the revaluation of the balance of the European Investment Bank Grenlec 111 Loan at the exchange rate of ECC$3.7356 to one Euro at the statement of financial position date. The average rate existing on the dates the draw downs were received was ECC$3.3417 to one Euro.

8. FINANCIAL ASSETS

(a) Available for sale		
536 ordinary shares in the Republic Bank (Grenada) Limited	28,140	29,480
Government of Grenada - Treasury Bills	848,000	847,868
	876,140	877,348
(b) Loans and receivables		
Fixed deposit – Republic Bank (Grenada) Limited	9,289,006	9,054,813
Fixed deposit – Grenada Co-operative Bank Limited	8,650,790	8,299,241
Fixed deposit – Bank of Nova Scotia	1,093,775	1,067,693
Fixed deposit – RBTT Bank Grenada Limited	4,586,267	4,424,363
US$ certificate of deposit- Cayman National Bank	2,755,879	2,735,668
	26,375,717	25,581,778



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

8. FINANCIAL ASSETS (continued)

Included in the above is an amount of $14,005,229 for Hurricane Insurance Reserve invested in Treasury Bills and fixed deposits held with the Bank of Nova Scotia, Republic Bank (Grenada) Limited, RBTT Bank Grenada Limited, Cayman National Bank and the Grenada Co-operative Bank Limited.

9. INVENTORIES

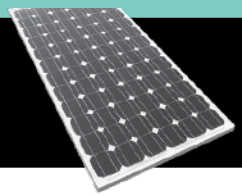
	2012 $	2011 $
The following is a breakdown of stock on hand:		
Motor vehicle spares	832,218	825,863
Distribution	5,650,889	5,893,527
Generation spares	7,083,101	7,100,803
Fuel and lubricating oil	861,128	694,344
General stores	2,136,663	2,105,828
Stationery	-	101,915
	16,563,999	16,722,280
Less: Obsolescence provision	1,056,111	1,071,288
	15,507,888	15,650,992

10. TRADE AND OTHER RECEIVABLES

Customers' accounts	32,302,020	28,147,282
Less: Provision for doubtful debts	6,701,804	5,687,769
	25,600,216	22,459,513
Other debtors	2,219,748	2,777,730
Less: Provision for doubtful debt	587,122	635,122
	1,632,626	2,142,608
Provision for unbilled sales	8,303,090	7,964,038
Prepayments	668,244	609,945
	36,204,176	33,176,104

As at December 31st, 2012 the ageing analysis of customers' accounts is as follows:

	30 days	31- 60 days	61-90 days	Over 90 days	Total
2012	$14,376,737	$5,786,091	$2,431,363	$9,707,829	$32,302,020
2011	$15,225,860	$4,007,076	$1,107,090	$7,807,256	$28,147,282



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

11. SEGREGATED RETIREMENT INVESTMENTS

To offset the liability created from the defined contribution plan the Company makes short-term investments in certificates of deposits at various commercial banks. In practice, these funds are not available to the company for normal operations but are not governed by a Trust deed.

A balance of $1.28 million Segregated Retirement Investment is held in a Government of Grenada/ Grenlec certificate of deposit at the Bank of Nova Scotia. This can only be drawn by the Company upon the retirement or resignation of employees who were employed prior to its privatization in 1994.

12. CASH AND CASH EQUIVALENTS

	2012 $	2011 $
Cash on hand	4,800	4,800
Bank of Tampa	793	22,225
Bank of Nova Scotia	252,773	208,504
Republic Bank (Grenada) Limited	45,889	45,347
FirstCaribbean International Bank Limited	530,465	219,490
Grenada Co-operative Bank Limited	3,237,799	1,123,497
	4,072,519	1,623,863
Bank overdraft (note 15)	(7,002,513)	(4,625,338)
Cash and cash equivalents in the statement of cash flows	(2,929,994)	(3,001,475)

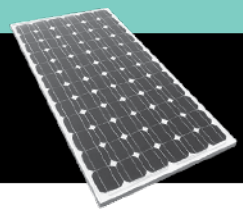
13. STATED CAPITAL

Authorised		
25,000,000 ordinary shares of no par value		
Issued and fully paid		
19,000,000 ordinary shares of no par value	32,339,840	32,339,840

14. CUSTOMERS' DEPOSITS

All customers are required in accordance with the Electricity Supply Act (ESA) Section 11 of 1994 to provide a security deposit which is normally equivalent to two (2) months consumption. Interest accrued is credited to customers' accounts in the first billing cycle of the year. The cash deposit is refunded with accumulated interest when the account is terminated.

Given the long term nature of the customer relationship, customer deposits are shown in the statement of financial position as non-current liabilities (i.e. not likely to be repaid within twelve (12) months of the statement of financial position).



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

15. BORROWINGS

	2012 $	2011 $
Long-term		
(i) European Investment Bank (EIB)	8,995,239	9,525,256
(ii) National Insurance Scheme	6,504,022	8,114,653
(ii) Grenlec ECSE Bonds	23,847,500	28,617,000
	39,346,761	46,256,909
Less: Current portion	7,401,213	7,160,196
Total long-term	31,945,548	39,096,713
Short-term		
Bank overdraft	7,002,513	4,625,338
Borrowings current portion	7,401,213	7,160,196
Total short-term	14,403,726	11,785,534
Total borrowings	46,349,274	50,882,247

(A) European Investment Bank (EIB)

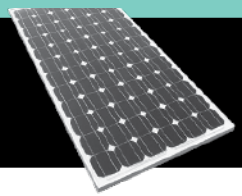
This loan bears an average interest rate of 5.75% per annum and is repayable over fifteen (15) years in annual instalments of Euro 376,450.44 inclusive of interest. The loan is secured by a first fixed charge on Wartsila generator set II.

(B) National Insurance Scheme

The loan bears interest at the rate of 7% per annum and is repayable over ten (10) years by quarterly instalments of $535,650.84 inclusive of interest. The loan is secured by a first fixed charge on Wartsila generator set I.

(C) Grenlec ECSE Bonds

On December 17, 2007, the company raised EC$47,695,000 in capital through a bond issue. The bond facility bears interest at a rate of 7% per annum and is repayable by quarterly instalments of $1,192,375 (exclusive of interest) over ten (10) years. Repayment commenced March 20th, 2008. This bond is secured under a Debenture Trust Deed which creates a fixed and floating charge on the Company's property, present and future, with the exception of those secured under other agreements and the Carriacou assets. The Debenture requires the Company to meet financial ratios; current, earnings coverage and equity /debt. The financial ratios were met by the Company for 2012.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

16. PROVISION FOR RETIREMENT BENEFITS

The Company operates a defined contribution plan for its employees. Payment of benefits accrued is made upon the resignation or retirement of employees.

17. PROVISION FOR HURRICANE INSURANCE RESERVE

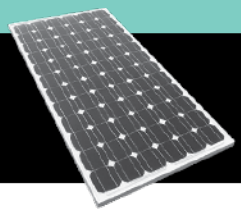
	2012 $	2011 $
Balance at 1st January, 2012	12,000,000	10,000,000
Add: Provision for the year	2,000,000	2,000,000
Balance at 31st December, 2012	14,000,000	12,000,000

18. AMOUNT DUE TO RELATED PARTIES

WRB Enterprises Inc.	140,219	189,969

i) The following transactions were carried out with WRB Enterprises, Grenada Private Power Limited and the National Insurance Scheme:

a) Sale of electricity - NIS	358,151	341,845
b) Management services- WRB Enterprises Inc.	600,000	600,000
c) Loan repayments- NIS	2,142,603	2,142,603
d) Payment of dividends:		
NIS	1,057,920	1,057,920
Grenada Private Power Limited	4,560,000	4,560,000



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

18. AMOUNT DUE TO RELATED PARTIES (continued)

Related Party Transactions

ii) Compensation of key management personnel of the Company:

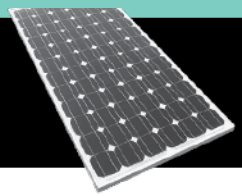
	2012 $	2011 $
Salaries and other benefits	2,709,750	3,368,762
Past employment benefit provisions	485,725	584,196
iii) Loans receivable from key management personnel	59,135	87,462

19. TRADE AND OTHER PAYABLES

Trade creditors	9,652,332	9,577,350
Sundry creditors	1,174,856	579,447
Accrued expenses	6,827,400	7,259,281
	17,654,588	17,416,078

20. OTHER INCOME

Sundry revenue	2,460,483	3,120,876
Gain on disposal of fixed assets	118,207	40,188
	2,578,690	3,161,064



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

(expressed in Eastern Caribbean dollars)

21. FINANCE COST

	2012 $	2011 $
Bank loans/Bond interest	2,931,067	3,818,767
Other bank interest	88,629	19,711
Other	373,912	370,801
	3,393,608	4,209,279

22. TAXATION

Current year

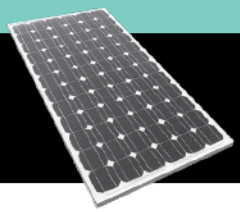
Income taxes in the statement of comprehensive income vary from amounts that would be computed by applying the statutory tax rate for the following reasons:

Profit before taxation	20,376,134	12,925,989
Tax at applicable statutory rate (30%)	6,112,840	3,877,797
Tax effect of items that are adjustable in determining taxable profit:		
Tax exempt income	(479,916)	(519,435)
Effect of allowances	(3,674,995)	(3,719,829)
Effect of expenses not deductible for tax purposes	3,902,211	4,485,433
Tax expense	5,860,140	4,123,966

Deferred Tax

Deferred tax (asset)/liability is due to the acceleration of (accounting depreciation)/tax depreciation.

There was a deferred tax asset of $1,015,827 at 31st December, 2012 which was not recognised as the asset will not be realized in the future.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

23. CONTINGENT LIABILITIES

At the statement of financial position date the Company was contingently liable to the Government of Grenada for customs bonds in the amount of $50,000.

24. DIVIDENDS

During the year ended December 31st, 2012, a dividend of 48 cents per ordinary share amounting to $9,120,000 was declared and paid.

25. FINANCIAL RISK MANAGMENT

The Company's activities expose it to a variety of financial risks: credit risk, operational risk, liquidity risk and market risk (including foreign exchange and interest rate risk). The Company's overall risk management policy is to minimise potential adverse effects on its financial performance and to optimise shareholders value within an acceptable level of risk. Risk management is carried out by the Company's Management under direction from the Board of Directors.

The Board of Directors has established committees which are responsible for developing and monitoring the Company's risk management policies in their specified areas. These committees report to the Board of Directors on their activities. The committees and their activities are as follows:

Audit Committee

The Audit Committee has oversight for the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and risk management procedures.

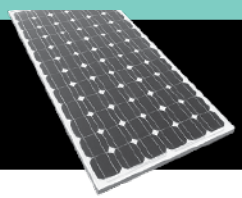
Loans Committee

The Loans Committee is comprised of members of management who are responsible for approving staff loan applications and ensuring that only those that meet the requirements set out in the Staff Loan and Procedure Policy are approved.

The Company's exposure and approach to its key risks are as follows:

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter-party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk arises principally from the Company's trade receivables and financial investments.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

25. FINANCIAL RISK MANAGEMENT (continued)

Credit risk with respect to trade receivables is substantially reduced due to the policies implemented by management. Deposits are required from all customers upon application for a new service and management performs periodic credit evaluations of its general customers' financial condition.

With respect to credit risk arising from other financial assets, that of cash and cash equivalents and financial investments, the Company places these funds with highly rated financial institutions to limit its exposure.

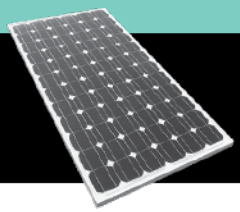
The Company's maximum exposure to credit risk equals the carrying amount of its financial assets. Based on the above, however, management does not believe significant credit risk exists at December 31st, 2012.

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards;
- Risk mitigation, including insurance as outlined below.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

25. FINANCIAL RISK MANAGEMENT (continued)

Insurance risk

Prudent management requires that a company protect its assets against catastrophe and other risks. In order to protect its customers and investors the Company has fully insured its plant and machinery, buildings, computer equipment and furniture against all perils. The Company's Transmission and Distribution systems are uninsured and to mitigate this risk the Company sets aside funds on an annual basis in a hurricane reserve.

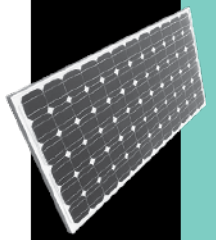
Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Management monitors the Company's liquidity reserve which comprises overdraft facilities and cash and cash equivalents on the basis of expected cash flows and is of the view that the Company holds adequate cash and credit facilities to meet its short term obligations.

25. FINANCIAL RISK MANAGEMENT (continued)

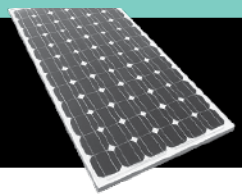
The table below summarises the Company's exposure to liquidity risk:

Balance at 31st December, 2012	Current	31-60 days	61-90 days	Over 90 days	Total
	$	$	$	$	$
Current Assets					
Cash and cash equivalents	4,072,519	-	-	-	4,072,519
Loans and receivable financial assets	-	-	-	26,375,717	26,375,717
Income tax prepaid	195,102	-	-	-	195,102
Segregated retirement investments	-	-	-	19,613,931	19,613,931
Prepayments	668,244	-	-	-	668,244
Trade and other receivables	24,312,453	5,786,091	2,431,363	3,006,025	35,535,932
Inventories	15,507,888	-	-	-	15,507,888
	44,756,206	5,786,091	2,431,363	48,995,673	101,969,333
Current liabilities					
Amount due to related company	140,219	-	-	-	140,219
Short-term borrowings	14,403,726	-	-	-	14,403,726
Trade payables and accrued expenses	13,604,797	912,203	311,328	2,826,260	17,654,588
Consumers' advances for construction	-	-	-	1,085,814	1,085,814
Current portion of provision for retirement benefits	-	-	-	500,000	500,000
Provision for profit sharing	-	-	-	4,281,209	4,281,209
	28,148,742	912,203	311,328	8,693,283	38,065,556
NET LIQUIDITY SURPLUS	16,607,464	4,873,888	2,120,035	40,302,390	63,903,777



25. FINANCIAL RISK MANAGEMENT (continued)

Balance at 31st December, 2011	Current	31-60 days	61-90 days	Over 90 days	Total
	$	$	$	$	$
Current Assets					
Cash and cash equivalents	1,623,863	-	-	-	1,623,863
Loans and receivable financial assets	-	-	-	27,608,052	27,608,052
Segregated retirement investments	-	-	-	17,034,570	17,034,570
Prepayments	609,945	-	-	-	609,945
Trade and other receivables	23,189,898	4,007,076	1,007,090	4,362,095	32,566,159
Inventories	15,650,992	-	-	-	15,650,992
	41,074,698	4,007,076	1,007,090	49,004,717	95,093,581
Current liabilities					
Amount due to related company	189,969	-	-	-	189,969
Short-term borrowings	11,785,534	-	-	-	11,785,534
Income tax payable	2,980,505	-	-	-	2,980,505
Trade payables and accrued expenses	12,259,254	591,666	310,748	4,254,410	17,416,078
Consumers' advances for construction	-	-	-	724,380	724,380
Current portion of provision for retirement benefits	-	-	-	1,500,000	1,500,000
Provision for profit sharing	-	-	-	3,086,921	3,086,921
	27,215,262	591,666	310,748	9,565,711	37,683,387
NET LIQUIDITY SURPLUS	13,859,436	3,415,410	696,342	39,439,006	57,410,194



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

25. FINANCIAL RISK MANAGEMENT (continued)

Market risk

(i) Foreign exchange risk

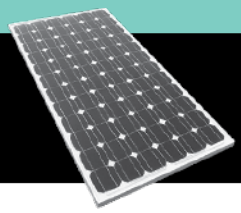
Foreign exchange risk is the potential adverse impact on the Company's earnings and economic value due to movements in exchange rates.

The Company has a limited exposure to foreign exchange risk arising primarily from a Euro loan and purchases of plant, equipment and spares from foreign suppliers.

Borrowings other than for the Euro loan have been transacted in EC$ or formally fixed to the United States Dollar (US$) to limit exposure to fluctuations in foreign currency rates, since there is a fixed exchange rate between the Eastern Caribbean dollar and the United States dollar. Additionally, most purchases are transacted in United States dollars.

The Company has not entered into forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates.

The following demonstrates the sensitivity to a reasonably possible change in exchange rates with all other variables held constant.



NOTES TO THE FINANCIAL STATEMENTS

AT 31ST DECEMBER, 2012

25. FINANCIAL RISK MANAGEMENT (continued)

FINANCIAL LIABILITIES

	2012		2011	
Reasonably possible change in currency rate	+2.5%	-2.5%	+2.5%	-2.5%
Loans payable	**EC $**	**EC $**	**EC $**	**EC $**
EIB (EURO loan)				
Principal repayments for the year	851,244.88	851,244.88	738,038.08	738,038.08
Effect on principal repayment of adjustment to EURO	872,526.00	829,963.76	756,489.03	719,587.13
CURRENCY EXPOSURE	$(21,281.12)	$21,281.12	$(18,450.95)	$18,450.95

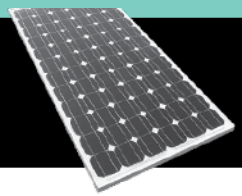
Reasonably possible change in currency rate	+2.5%	-2.5%	+2.5%	-2.5%
EIB Euro loan Interest payment	515,613.77	515,613.77	591,047.31	591,047.31
Effect on interest payment of adjustment to EURO	528,504.11	502,723.43	605,823.49	576,271.13
Effect on profit before tax/equity	$(12,890.34)	$12,890.34	$(14,776.18)	$14,776.18

Repayment for the year	**2012 EURO**	**2011 EURO**
Interest	138,026.29	162,758.65
Principal	227,872.45	203,226.70
	365,898.74	365,985.35

See note 2 (d) for exchange rates for the Euro at 31st December 2012 and 2011 respectively.

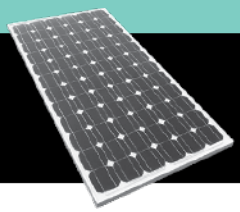
(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The company holds primarily fixed rate financial instruments and is therefore not significantly exposed to interest rate risk.



FIVE YEAR OPERATIONAL RECORD

	2012	2011	2010	2009	2008
PRODUCTION AND SALES					
Gross Generation (KWhs)	**199,703,882**	**203,973,893**	**208,728,350**	**202,992,241**	**196,957,226**
Auxillaries & Own Use	6,738,808	7,153,186	7,324,557	7,603,338	7,132,714
Net Generation	192,965,074	196,820,707	201,403,793	195,388,903	189,824,512
Sales (KWhs)					
Domestic	69,123,037	70,463,449	72,091,738	68,283,453	66,231,638
Commercial	98,783,002	99,808,187	101,966,291	99,060,565	96,600,009
Industrial	5,845,185	6,064,518	6,265,771	5,667,611	5,628,661
Street Lighting	4,680,483	4,539,063	4,459,272	4,317,176	4,040,522
Total Sales	178,431,707	180,875,217	184,783,072	177,328,805	172,500,830
Loss (% of Net Generation)	7.50%	8.07%	8.22%	9.20%	8.61%
Number of Customers at Year - End					
Domestic	39,132	38,394	37,932	37,256	35,856
Commercial	5,874	5,818	5,730	5,636	5,330
Industrial	36	37	37	36	36
Total Customers	**45,042**	**44,249**	**43,699**	**42,928**	**41,222**
Average Annual usage per Customer Class (KWhs)					
Domestic	1,766	1,835	1,901	1,833	1,847
Commercial	16,817	17,155	17,795	17,576	18,124
Industrial	162,366	163,906	169,345	157,434	156,352



FIVE YEAR FINANCIAL RECORD

	2012	2011	2010	2009	2008
	EC$	EC$	EC$	EC$	EC$
INCOME	**197,480,495**	**190,936,733**	**165,349,860**	**141,040,502**	**188,851,458**
PROFIT BEFORE TAXES	20,376,134	12,925,989	14,633,068	12,686,420	19,422,884
TAXATION	5,860,140	4,123,966	4,323,052	3,070,591	4,559,120
NET PROFIT	14,515,994	8,802,023	10,310,016	9,615,829	14,863,764
SHAREHOLDERS' EQUITY	**76,541,074**	**71,146,420**	**71,317,936**	**69,556,853**	**68,287,619**
REPRESENTED BY:					
TOTAL ASSETS	194,756,827	191,806,188	190,061,477	196,882,692	194,169,568
TOTAL LIABILITIES	118,215,753	120,659,768	118,743,541	127,325,839	125,881,949
HURRICANE RESERVE	14,000,000	12,000,000	10,000,000	8,000,000	6,000,000
NET ASSETS	**62,541,074**	**59,146,420**	**61,317,936**	**61,556,853**	**62,287,619**
FINANCIAL RATIOS					
No. of shares	19,000,000	19,000,000	19,000,000	19,000,000	19,000,000
Return on Shareholders Equity	18.96%	12.37%	14.46%	13.82%	21.77%
Earnings Per Share	0.76	0.46	0.54	0.51	0.78
Dividends Per Share	0.48	0.48	0.45	0.44	0.44
	US $	**US $**	**US $**	**US $**	**US $**
INCOME	**73,140,924**	**70,717,309**	**61,240,689**	**52,237,223**	**69,944,984**
PROFIT BEFORE TAXES	7,546,716	4,787,403	5,419,655	4,698,674	7,193,661
TAXATION	2,170,422	1,527,395	1,601,130	1,137,256	1,688,563
NET PROFIT	5,376,294	3,260,008	3,818,525	3,561,418	5,505,098
SHAREHOLDERS' EQUITY	**28,348,546**	**26,350,526**	**26,414,050**	**25,761,797**	**25,291,711**
REPRESENTED BY:					
TOTAL ASSETS	72,132,158	71,039,329	70,393,140	72,919,516	71,914,655
TOTAL LIABILITIES	43,783,612	44,688,803	43,979,089	47,157,718	46,622,944
HURRICANE RESERVE	5,185,185	4,444,444	3,703,704	2,962,963	2,222,222
NET ASSETS	**23,163,361**	**21,906,082**	**22,710,347**	**22,798,835**	**23,069,489**
FINANCIAL RATIOS					
No. of Shares	19,000,000	19,000,000	19,000,000	19,000,000	19,000,000
Return on Shareholders Equity	18.96%	12.37%	14.46%	13.82%	21.77%
Earnings Per Share	0.28	0.17	0.20	0.19	0.29
Dividends Per Share	0.18	0.18	0.17	0.16	0.16

GRENADA ELECTRICITY SERVICES LIMITED
ANNUAL REPORT 2012

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