

Director's Report to Shareholders for the Period Ended 31st March 2012

The Directors are pleased to report on the unaudited results for St. Lucia Electricity Services Limited for the 3 months ended March 31st, 2012.

Generally, the operating environment continued to present challenges in line with continued low levels of economic activity regionally and internationally.

Sales performance improved over the prior year's performance, mainly due to lower than normal demand for the same period in 2011, as the country recovered from the extensive damage caused by Hurricane Tomas in October, 2010.

Results of Operations

Total revenues of EC\$ 83.1M increased by 14.4% compared to the first quarter of 2011 which registered revenues of EC\$72.7M. This was attributable to the increase in unit sales of 1.9% and the increased fuel costs which were included in the base tariff.

Sales of 80.8 MWh for the quarter, were higher by 1.9% when compared to 79.3 MWh sold for the same period last year. Increases were recorded in all sectors, with significant increases recorded in the Commercial, Industrial and Street Lightning sectors of 3.6%, 4.7% and 2.8%, respectively. Marginal increases of 0.5% and 0.4% were recorded in the Domestic and Hotels sectors respectively.

Gross profit of EC\$16.1M, recorded an increase of 5.5% over last year's achievement of EC\$15.3M, a direct result of increased sales. Profit before tax was EC\$7.3M, an increase of 3.7% over the corresponding period last year (EC\$7.1M).

Profit after tax was EC\$5.3M, an increase of 3.7% over the previous year's achievement of EC\$5.1M.

Earnings per share for the quarter was EC\$0.23 per share, an increase of 4.5% over the previous year's achievement of EC\$0.22 per share.

Technical Operations

System reliability performance of 2.13 hours improved compared to the same period in 2011 (2.86 hours) but deteriorated against the target of 1.875 hours for the quarter.

Year to date fuel efficiency was 4.34 kWh per litre an improvement when compared to 4.31 kWh per litre over the same period last year and also compared favorably to the target of 4.29 kWh per litre.

System losses of 8.94% at the end of the period, compared favorably to the 9.76% recorded in the same period

last year and a target of 9.5% for the year.

Strategic Initiatives

Generation Expansion & Alternative Energy

The short term generation strategy was completed in December, 2011 with the commissioning of two high speed Caterpillar units (2.4MW).

By the end of 2012, the medium term strategy for the purchase of a new Wartsila 10.2MW generating unit to be installed at the Company's existing generating site will be completed. All relevant contracts and agreements have been concluded and works are in progress.

In relation to the funding of this strategy, the Company drew down the sum of EC\$10 Million during the quarter from the new long-term loan facility of EC\$100 million secured during 2011 .

Additional studies and works are being undertaken with respect to the long term solution for electricity generation, which the Company estimates will be required by 2016. The issue is a complex one and the Company is exploring all available options in order to establish the optimal generation solution.

In relation to the geothermal initiative, the Company continued discussions with the geothermal developer.

Fuel Price Hedging

As a result of its Fuel Price hedging programme the Company was able to meet its strategic objective of reduced price volatility against a backdrop of increasing uncertainties in the global fuel market. Activity is on-going in relation to market monitoring and the Company will continue to place hedges as and when opportunities arise.

Customer Information System

Work continued on the implementation of a new Customer Information System (CIS), the execution of which is being undertaken by a dedicated project team comprising staff and contracted external resources. The system has an expected 'Go Live' date of July, 2012.

Automatic Metering Infrastructure

Deployment of the electronic Automatic Meter-reading Infrastructure (AMI) meters continued during the first quarter of the year as part of the Company's strategic plans for delivery of leading technology to customers, realising cost reductions and obtaining operational efficiencies.

Regulatory Reform

The Company's Management continued its strategic review and preparation for the new regulatory framework scheduled to be in place by March, 2014. The World Bank confirmed funding for the creation of a new body called the Eastern Caribbean Energy Regulatory Authority (ECERA) that will regulate the energy sector in Saint Lucia and Grenada with the other Eastern Caribbean States expected to join in the future.

Outlook

Based on available information, the Company remains optimistic on meeting all major objectives set for the year; however the Board continues to monitor all macro and micro economic conditions that may impact current and future operations.

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