

1. Incorporation and Principal Activity

Light & Power Holdings Ltd. was incorporated on October 9, 1997 under the Laws of Barbados and is listed on the Barbados Stock Exchange Inc. The principal activity of the group is generation, distribution and supply of electricity. Its wholly owned subsidiary companies are:

- (i) The Barbados Light & Power Company Limited governed by the Electric Light and Power Act (1899) and regulated under the Fair Trading Commission Act, Cap. 2000-31 and the Utilities Regulation Act, Cap 2000-30, and
- (ii) and The Electric Power Insurance Company Limited, incorporated in the British Virgin Islands.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Significant accounting policies are as follows:

(a) Accounting convention

These financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of property, plant and equipment. (Note 2 (d)).

(b) Consolidation

These financial statements consolidate the financial statements of the Company and its subsidiaries, The Barbados Light & Power Company Limited and The Electric Power Insurance Company Limited.

(c) Estimates

Preparation of financial statements in conformity with International Financial Reporting Standards requires management to make assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

(d) Property, plant and equipment

Property, plant and equipment of the subsidiary company, The Barbados Light & Power Company Limited are stated at reproduction cost as of December 31, 2003. Reproduction cost was determined on the basis of an independent appraisal of the subsidiary's property, plant and equipment, made by Navigant Consulting Inc., as of January 1, 2002. The value of the assets at that date, together with the costs of subsequent additions, less retirements and contributions received from customers, was reappraised to December 31, 2003 using indices supplied by AMEC Engineering and Construction Services Ltd. The method of the appraisers was to determine reproduction cost new less observed depreciation at the appraisal date.

The group has adopted the accounting policy of transferring to retained earnings, from revaluation surplus, the revaluation element included in the annual depreciation charge. The transfer for 2003 is \$ 20.2 million, (2002 - \$12.4 million). Depreciation on the original cost basis for 2003 is \$ 32.2 million. (2002 - \$32.3 million).

Contributions received towards construction of electric plant are credited to the cost of construction or are shown as deferred credits in the case where construction has not yet started. Interest charges are accrued during the period of construction of property, plant and equipment and are capitalised. The group provides depreciation for financial reporting purposes on the straight line method using rates required to amortise the carrying value of the assets over the estimated service lives as follows:-

| | |
|-------------------------------|----------|
| Generation | 2 to 7% |
| Transmission and Distribution | 2 to 14% |
| Other | 2 to 37% |

When depreciable plant and equipment other than motor vehicles and property are retired, the gross book value less proceeds net of expense is charged to accumulated depreciation. For material disposals of motor vehicles and property, the asset cost and accumulated depreciation are removed with any gain or loss credited or charged to current operations.

(e) Inventories

Inventories of fuel, materials and supplies are valued at cost which is determined on an average cost basis. Provision is made where appropriate for obsolete inventories.

(f) Translation of foreign currency

The financial statements are expressed in Barbados dollars. Balances denominated in foreign currencies have been translated to Barbados dollars at the rates of exchange prevailing at year end. Unrealised exchange losses or gains on the translation of foreign currency denominated balances and differences in exchange which are realized at the time of discharging the balances, are recognised in the income statement.

(g) Income and corporation tax

The group follows the liability method of accounting for deferred tax whereby all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes are provided for at the current corporation tax rate.

(h) Investment tax credit

The tax credit from investment allowances associated with the acquisition of plant and equipment is being deferred and amortised to income over a period of twenty years.

(i) Manufacturing tax credit

The tax credit from manufacturing allowances associated with the acquisition of plant and equipment is being deferred and amortised to income over the lives of the respective plant and equipment.

(j) Revenue

The group records revenue, other than fuel clause revenue, as billed to its customers and does not recognise any unbilled portion which exists at the end of the accounting period. Fuel clause revenue is recognised on the basis of the amount actually recoverable for the accounting period. The unbilled revenue at year end is not material.

(k) Short term investments

These consist of Treasury Bills and short term deposits with commercial banks. Treasury bills are debt securities issued for a term of three (3) months and are categorized as 'available for sale investments' and carried at amortized cost which approximates their fair value.

(l) Cash and cash equivalents

These consist of cash held in hand and at bank and short-term investments which mature within three months of the year end.

(m) Pension scheme

The company operates a fully insured purchased annuity plan pension scheme. This scheme takes the form of a defined benefit scheme. Pension costs are accounted for on the basis of contributions payable in the year. (Note 15).

3. Property, Plant and Equipment

| | Generation \$ 000's | Transmission and Distribution \$ 000's | Other \$ 000's | Total \$ 000's |
|---|------------------------|---|-------------------|-------------------|
| Valuation | | | | |
| As of December 31, 2002 | 586,768 | 366,737 | 107,915 | 1,061,420 |
| Additions and transfers | 22,017 | 40,109 | 9,669 | 71,795 |
| Disposals and transfers | - | (3,673) | (682) | (4,355) |
| Revaluations | 16,102 | (18,112) | (16,577) | (18,587) |
| As of December 31, 2003 | 624,887 | 385,061 | 100,325 | 1,110,273 |
| Accumulated depreciation | | | | |
| As of December 31, 2002 | 305,721 | 136,374 | 54,237 | 496,332 |
| Charge for the year | 30,756 | 16,291 | 5,400 | 52,447 |
| Disposals and transfers | 0 | (3,856) | (682) | (4,538) |
| Revaluations | (27,561) | (22,654) | (16,947) | (67,162) |
| As of December 31, 2003 | 308,916 | 126,155 | 42,008 | 477,079 |
| Net book value | | | | |
| As of December 31, 2003 | 315,971 | 258,906 | 58,317 | 633,194 |
| As of December 31, 2002 | 281,047 | 230,363 | 53,678 | 565,088 |
| If property, plant and equipment were stated on the historical cost basis, the net book value would be as follows | | | | |
| As of December 31, 2003 | 203,400 | 230,678 | 36,964 | 471,042 |
| As of December 31, 2002 | 192,153 | 205,925 | 33,215 | 431,293 |

4. **Cash and cash equivalents**

| | 2003 \$000's | 2002 \$000's |
|--------------------------|-----------------|-----------------|
| Cash in hand and at bank | 31,186 | 9,869 |
| Short term investments | 3,846 | 804 |
| | 35,032 | 10,673 |

The short term investments bear interest at a rate of 2.5% (2002- 1.7%).

5. **Inventories**

| | 2003 \$000's | 2002 \$000's |
|----------------------|-----------------|-----------------|
| Fuel | 4,136 | 3,766 |
| Materials and spares | 16,180 | 15,592 |
| Goods in transit | 1,630 | 1,131 |
| | 21,946 | 20,489 |

6. **Other assets**

| | 2003 \$000's | 2002 \$000's |
|-----------------|-----------------|-----------------|
| Finance charges | 146 | 85 |
| Other | 22 | 6 |
| | 168 | 91 |

Finance charges associated with the financing of The Barbados Light & Power Company Limited's expansion programme are being amortised over the lives of the loans with which they are associated. Other deferred charges include the cost of work carried out for customers not yet billed.

7. Long term loans

| | 2003 \$000's | 2002 \$000's |
|---|-----------------|-----------------|
| FirstCaribbean International Bank (Bahamas) Ltd. U.S.\$2,550,000 (2002 - US \$ 3,400,000) Libor plus 1.25% repayable 2004/2005 | 5,199 | 6,933 |
| European Investment Bank - Protocol 11 US\$14,857,057 (2002 - U.S.\$16,478,452) 6.23 % repayable 2004/2011 | 30,289 | 33,595 |
| European Investment Bank - Protocol 111 US\$19,748,414 (Total facility 30 million Euros -US \$37,778,850) 4.27 % repayable 2004/2013 | 40,262 | - |
| National Insurance Board - Debenture Stock Certificates (Total facility Bds. \$20,000,000) 8.00% repayable 2005 | 20,000 | 20,000 |
| Total long term loans | 95,750 | 60,528 |
| Less current portion of long term loans | (8,068) | (5,039) |
| Total long term loans repayable after one year | 87,682 | 55,489 |

The long term loans with the exception of the European Investment Bank loan are secured under a Debenture Trust Deed which creates a first and floating charge on The Barbados Light & Power Company Limited's property, present and future. The Debenture Trust Deed restricts the subsidiary company from issuing debentures ranking pari passu with the floating charge created, unless the Company can meet the earnings coverage ratio and the equity/debt ratio set out in the Trust Deed. The subsidiary company may however issue a first security to manufacturers in respect of individual items of plant and machinery of up to 90% of the purchase price thereof and for a period not exceeding fifteen years. The financial ratios were met by the subsidiary company for 2003.

On December 22, 1999 the subsidiary company negotiated a further loan under protocol 111 with the European Investment Bank for a total facility of 30 million Euros (BDS \$76.8 million). During the year Bds\$ 43.1 million was drawn down. The European Investment Bank loans are guaranteed by the Government of Barbados.

8. Taxation

| | 2003 \$000's | 2002 \$000's |
|---|-----------------|-----------------|
| Current tax | 6,220 | 3,970 |
| Deferred tax | (278) | (756) |
| Deferred manufacturing tax credit | 1,785 | 1,178 |
| Deferred investment tax credit | 2,200 | 2,937 |
| | 9,927 | 7,329 |
| Deferred tax credit arising from change in tax rate | (2,057) | (3,479) |
| | 7,870 | 3,850 |

The tax on the income before taxation differs from the theoretical amount that would arise using the corporation tax rate for the following reasons:

| | 2003 \$000's | 2002 \$000's |
|--|-----------------|-----------------|
| Income before taxation | 18,606 | 19,158 |
| Corporation tax calculated at 36% (2002-37.5 %) | 6,698 | 7,184 |
| Depreciation on assets not qualifying for capital allowances | 7,407 | 4,737 |
| Tourism development fund allowance | (50) | (52) |
| Manufacturing allowance net of portion deferred | (1,791) | (2,448) |
| Investment tax credit net of portion deferred | (2,364) | (2,167) |
| Under provision of prior year's tax | 27 | 75 |
| Effect of reduction in tax rate | (2,057) | (3,479) |
| | 7,870 | 3,850 |

The net deferred tax liability is attributed to the following items:

| | 2003 \$000's | 2002 \$000's |
|----------------------------------|-----------------|-----------------|
| (i) Accelerated tax depreciation | 51,423 | 55,918 |
| (ii) Other temporary differences | (2,334) | (4,494) |
| | 49,089 | 51,424 |

9. Deferred credits

| | 2003 \$000's | 2002 \$000's |
|---|-----------------|-----------------|
| Accumulated manufacturing tax credit | 6,214 | 4,429 |
| Accumulated investment tax credit | 28,609 | 26,410 |
| Customer contributions for work not yet started | 816 | 715 |
| | 35,639 | 31,554 |

10. Share capital:

The share capital in the Company is represented by:

Authorised

- 100,000 - 5.5% Cumulative preference shares
- 500,000 - 10% Cumulative Redeemable Preference shares
- 100,000,000 - Common shares of no par value
- 10 - Class A Redeemable Preference shares

| Issued | 2003 | 2002 |
|---|-------------------|-------------------|
| | \$000's | \$000's |
| 100,000 - 5.5% Cumulative preference shares | 500 | 500 |
| 14,464,515 (2002- 14,437,248) Common shares | 89,150 | 88,904 |
| | <u>89,650</u> | <u>89,404</u> |
| Common shares | No. | No. |
| Shares outstanding at January 1 | 14,437,248 | 14,400,506 |
| Repurchased during the year | (34,301) | (16,492) |
| Issued during the year | 61,568 | 53,234 |
| Balance at December 31 | <u>14,464,515</u> | <u>14,437,248</u> |

The Directors have agreed to set aside 600,000 shares to be issued to the employees of the subsidiary company, The Barbados Light & Power Company Limited under General By-Law No 1, Section 12.1 of the Articles of Incorporation and General By-Law of the Company. In November 2003, 61,568 Common Shares at \$8.90 per share were issued under this Scheme. The Company also repurchased 34,301 shares at prices ranging between \$8.80 and \$8.90 per share, which were cancelled.

11. Special reserve

The Public Utilities Board in its decision of May 1983 granted tariffs to The Barbados Light & Power Company Limited which included an amount for depreciation expense based on asset lives which are different from those used by the Company as the economic useful lives of the assets for financial reporting purposes. The Directors consider it prudent to set aside in a special reserve the difference in the depreciation amounts arising therefrom.

| | 2003 | 2002 |
|-------------------------------|--------------|---------------|
| | \$000's | \$000's |
| Balance at January 1 | 58,714 | 62,678 |
| Transfer to retained earnings | (51,346) | (3,964) |
| Balance at December 31 | <u>7,368</u> | <u>58,714</u> |

12. Operating expenses - other

| | 2003 | 2002 |
|--------------|---------------|---------------|
| | \$000's | \$000's |
| Generation | 21,849 | 24,618 |
| Distribution | 9,557 | 9,076 |
| General | 26,098 | 24,727 |
| | <u>57,504</u> | <u>58,421</u> |

13. Staff costs

Staff costs are comprised of the following:

| | 2003 \$000's | 2002 \$000's |
|---|-----------------|-----------------|
| Wages and salaries | 30,132 | 29,379 |
| Social security cost | 1,648 | 1,608 |
| Pension costs | 2,890 | 2,712 |
| | <u>34,670</u> | <u>33,699</u> |
| Average number of persons employed by the group during the year | <u>485</u> | <u>488</u> |

14. Earnings per share

The earnings per share is calculated on the basis of the earnings applicable to common shareholders and the weighted average number of common shares in existence for the year.

15. Retirement benefits

The group operates a defined benefit pension plan for its employees. It pays a yearly insurance premium to fund the post employment benefit plan and will not have a legal or constructive obligation to either:

- (a) pay the employee benefits directly when they fall due; or
- (b) pay for the benefits if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods.

In light of the above, and due to the fact that benefits due to employees would have been secured by the prior payment of premiums, the group will be under no obligation to pay any benefits due and, as such, the plan has been accounted for as if it were a defined contribution plan as prescribed by IAS 19.

16. Bank overdraft facilities

On December 23, 1975 The Barbados Light & Power Company Limited issued a letter of undertaking to the Royal Bank of Canada to create upon demand a debenture for \$3 million to be issued in accordance with the provisions of the Debenture Trust Deed to secure overdraft facilities granted to the subsidiary company. (Note 7).

17. Capital commitments

The group has budgeted capital expenditure of \$114.3 million for the 2004 income year of which \$73.1 million was contracted for at December 31, 2003.

18. Insurance fund

During 1998, the subsidiary company, The Barbados Light & Power Company Limited established a Trust under the Insurance Act 1996-32 and regulations to effect self insurance cover on its transmission and distribution system. The Trust is being financed by annual charges to income. The charge for the year was \$7.3 million (2002-\$8.3 million) which is included in the insurance expense of \$12.4 million (2002-\$12.9 million). In addition to the funds held in trust, the subsidiary company's bankers have provided credit facilities of US\$5 million to support the expenditure requirements of the Company in the event of a loss exceeding the assets of the Trust.

19. Financial instruments

Financial assets of the group include cash, short term investments and accounts receivable. Financial liabilities of the group include borrowings, accounts payable, and customer deposits. The accounting policies for financial assets and liabilities are set out in Note 2 or the individual notes associated with each item.

(i) Interest Rate Risk

The interest rates and the terms of repayment of loans are disclosed in long term loans. (Note 7).

(ii) Credit Risk

Credit risk on accounts receivable is limited as accounts receivable are shown net of any required provision for bad and doubtful debts.

(iii) Fair Value

The fair values of cash, short term investments, accounts receivable, accounts payable and customer deposits are assumed to approximate fair value, due to the short-term nature of these financial instruments. The fair value of borrowings is assumed to approximate carrying value, as interest rates are considered to reflect current market rates.

