

directors' letter to the shareholders

While the Barbados economy expanded again in 2007, there are signs that the global economy is beginning to slow down. Light & Power Holdings continues to support the needs of the people of Barbados, and is also actively seeking ways to keep operating costs under control. As it has for the past 25 years, the Company's main subsidiary, The Barbados Light & Power Company Limited, continued to meet increases in demand for electricity and provided superior service for customers without an increase in the basic rate, a remarkable feat. Electricity prices in Barbados are the second lowest when compared with other islands in the Caribbean. Only in Trinidad & Tobago, where there is abundant and inexpensive natural gas, are electricity rates lower than in Barbados.

The Barbados Light & Power Company has worked hard and made efficiency gains with the aim of keeping customer electricity prices stable. It is worth noting that, over the years, the electricity prices, including fuel adjustment, have increased by much less than the increases in the retail price index. It is therefore very frustrating to see recent skyrocketing fuel costs negatively impacting customer bills by driving up fuel clause adjustments which are linked to changes in fuel oil prices.

In every area the utility has held the line on production and distribution costs. Almost all of the electricity is manufactured with generating plant that burns residual fuel in an efficient manner. The newest low speed generating plant installed at Spring Garden Power Station in 2005 has already saved Barbados some \$160 million in foreign exchange through December 2007.

During 2007, investment in electric utility property, plant and equipment increased to almost six hundred million dollars. In December, the Barbados Government reduced corporation taxes for all manufacturing companies, including The Barbados Light & Power Company. While this resulted in a reduction in deferred tax liabilities of twelve million dollars on the consolidated balance sheet and a corresponding one time increase in income on the consolidated statement of income, it had no impact on the cash flows of the company available for needed investment in plant, property and equipment.

In Barbados, where it is not possible to interconnect with other power systems, the utility's planning engineers cannot be complacent in the belief that when new capacity is needed new power plant will somehow be available just in time.

They know that when someone turns on a light or a television set, the electric system needs to have power generating capacity to satisfy this additional power requirement instantaneously on demand. Unlike telecommunications where a busy signal is the indicator of lack of capacity, the signal of the unavailability of electric capacity comes in the form of a blackout.

Construction costs and the cost of manufactured components common in electric utility infrastructure projects have increased significantly due to high global demand for commodities and manufactured goods, higher production and transportation costs, in part owing to high fuel prices, and a weakening of the U.S. dollar.

Large proposed transmission projects have undergone cost revisions, and distribution system equipment costs have been rising rapidly. In electricity generation, all technologies have experienced huge cost increases. As an example, the newest low speed generating plant at Spring Garden Power Station which was constructed for BDS\$140 million in 2005 would cost approximately fifty percent more for an identical plant, if ordered in 2008.

It is remarkable that, for many years, the electric utility has been able to add new plant and equipment without an increase in basic electricity rates. This has been possible because increases in electricity sales offset increases in operating costs. With increases in the cost of all inputs to producing electricity now escalating at a rate greatly exceeding increases in sales, we are confronting a different future.

For these reasons, the electric utility will find 2008 and beyond to be much more challenging than ever before.

Light & Power Holdings maintains its focus on improving the quality of life for individuals as well as the society at large. The new international telecom projects, TeleBarbados and the Antilles Crossing Group in which the Company invested, have

made a positive impact on telecommunications service and cost to all the consumers in Barbados.

Leadership in these telecom projects came from Light & Power Holdings' largest shareholder, Leucadia National Corporation. Leucadia's investment in these projects, with Light & Power Holdings' support, has created significant value for Barbados and considerable savings for customers.

For example, residential data customers have benefited from price reductions of about 30% representing savings of approximately \$9 million annually. Business long distance rates have declined by about 50% amounting to \$10 million annually to business customers. Business data prices have dropped 65% resulting in savings of \$23 million annually. Private line and professional services prices have also come down with savings in these areas amounting to about \$14 million annually. The market is growing and prices are continuing to come down.

A French business enterprise, Group Loret, based in Martinique, has also been building international telecom capacity in the Caribbean. Following discussions with Group Loret, it has been decided to combine the sub-sea fiber assets of the Antilles Crossing Group and Group Loret to form a joint venture, Global Caribbean Fiber. The primary business of Global Caribbean Fiber is the sale of telecommunication services to regional governments, carriers and other parties requiring large amounts of bandwidth.

Effective January 1, 2008, Leucadia and Light & Power Holdings together own forty percent of the shares in Global Caribbean Fiber through a newly formed entity Caribbean Fiber Holdings that is owned seventy-five percent by Leucadia and twenty-five percent by Light & Power Holdings.

Global Caribbean Fiber is serving a number of Eastern Caribbean islands including Martinique, Guadeloupe, St. Lucia and Barbados. An extension to St. Vincent, Grenada and Trinidad is currently under construction. Future expansions are planned north to Haiti and the Dominican Republic and south to Guyana, Suriname & French Guyana.

The Company continues to be interested in playing a pro-active role in helping to enhance the positive aspects of the Garrison and Bay Street neighbourhoods to demonstrate how all the elements of this unique heritage area can be improved for the common good.

For several years the sensitive restoration of the Old Eye Hospital and derelict Savoy Hotel property on Bay Street has been a project of interest to the Company. The desire is to help create a civic development with significant public view corridors and access to the beach and ocean. This project is currently being reviewed.

Since the last Annual Meeting of Shareholders in 2007 there have been some changes to the Board. We extend congratulations to Mr. Ian Carrington who was awarded a fellowship to pursue post graduate studies in Public Administration at Harvard University, and welcome Mr. Almroth Williams, Acting Director of the National Insurance Department, who was appointed as his alternate. We also welcomed Mr. Justin Wheeler, President of Leucadia's Asset Management Group who replaced Mr. H.E. 'Bud' Scruggs who resigned from Leucadia to take up a voluntary position with his church.

The Company's key objectives remain very clear. The focus is on continuing to provide superior customer service to meet increases in demand, to maintain a good working environment for exceptional employee performance and to earn a fair return on shareholder investment.

It is an honour for the Directors to serve. We thank customers, employees, and shareholders for their continued support as we look to the future with confidence.

On behalf of the Directors



On behalf of the Board of Directors
Light & Power Holdings Ltd.
February 28, 2008