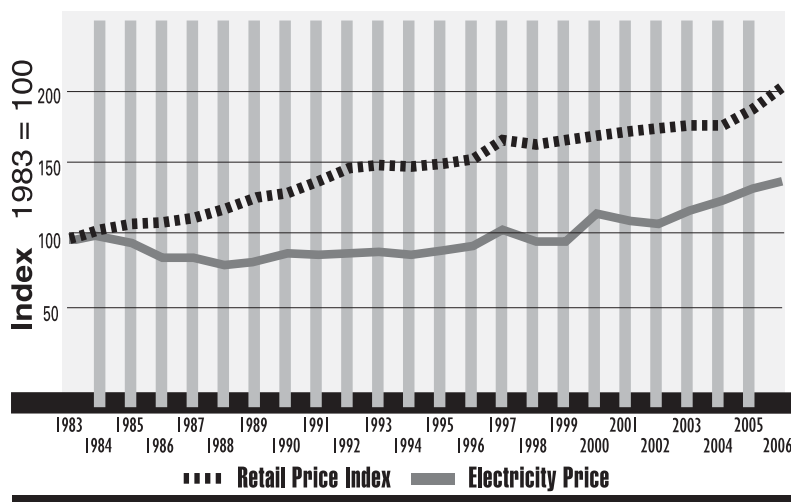


2006

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Meeting the Challenge of Rising Costs

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The new 60,000 kilowatt low speed diesel generating plant at Spring Garden, which was commissioned in May 2005, mitigated the impact of these high fuel prices. Customers benefited significantly from the use of these very efficient generating units which use the least expensive residual fuel oil. Indeed, 4.2% less fuel was required in 2006 to produce 2.8% more electricity than in 2005.

Despite these efficiency improvements, the Fuel Clause Adjustment reached an all time high of 22.9373 cents per kilowatt-hour in September 2006. However, demand for electricity still grew by 2.1% to 903,397,751 kilowatt-hours and the peak demand grew by 1.8% from 154.2 megawatts in 2005 to 157.0 megawatts in 2006.

While the Fuel Clause Adjustment fluctuates with the cost of fuel, basic rates for electricity have remained unchanged since 1983. The Company has maintained the basic electricity rates over the many years through continuous efficiency improvements.

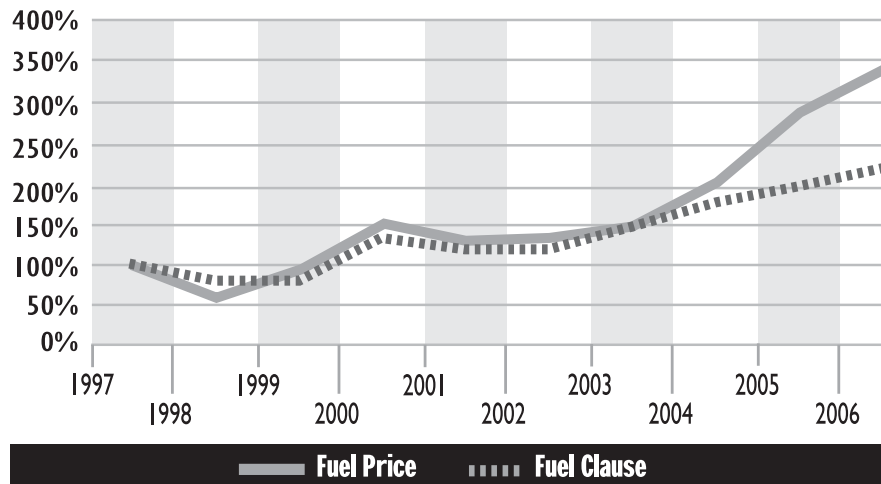
Substantial increases in the cost of non-fuel inputs have put pressure on the Company's ability to provide enough funds to meet its financial obligations and provide for investment in new plant and equipment while maintaining the present electricity rates.

Prices of copper and aluminium commodities that are required for the manufacture of transformers, overhead conductors and other items used by the Company in its transmission and distribution network, rose to record highs. Copper, which was quoted on London Metal Exchange at about US\$1,700 per tonne in 2001, skyrocketed to levels over US\$8,000 per tonne in 2006.

Improving Service Operations

The Barbados Light & Power continues to provide a safe and reliable electricity service to its customers. The Company continues to plan ahead to meet the increasing demand for electricity as well as to cater for the increasing requirement for better service and greater reliability.

New fuel supply arrangements came into operation during 2006. The Needham's Point fuel terminal was closed, and the Barbados National Terminal



Company Limited (BNTCL) opened its new fuel storage terminal at FairyValley to handle all distillate products imported into the island. BNTCL also reached agreement with ESSO to store residual fuel oil at ESSO's Holborn Terminal. Fuel is now transferred to the Spring Garden Generating Station via underground pipeline, replacing the steady stream of road tankers that previously transported fuel to the station.

Through careful attention to maintenance, overall generating plant availability remained at high levels. There was one disappointment during the year when on November 2nd a breakdown occurred on a 20,000 kilowatt gas turbine generator at the Seawell Generating Station. The repair is the subject of an insurance claim, and our insurers have been notified.

The Company continues to 'harden' its main generating and substation facilities against storm events and is placing all new transmission lines underground. A new 24,000 volt underground transmission circuit between Regency Park and Garrison Substations was commissioned during the year and provides a more secure and reliable connection to the south coast, including the Hilton Hotel and other major tourism developments.

It is uneconomic, however, to place all distribution lines underground. The cost of insurance against storm damage to the overhead distribution system remains prohibitive, and the Company, advised by its insurance broker, continues to build its self-insurance fund.

Service Standards Introduced

The Company is regulated by the Fair Trading Commission under the Utilities Regulation Act 2000. On June 1st 2006, the Commission, with the full cooperation of the Company, instituted standards of service which the Company is required to achieve. The Company has made information available to the public on the details of these standards. These include Guaranteed Standards, for which penalties apply if the Company fails to meet the required level of performance, and Overall Standards for which there are no direct penalties, but are monitored by the Commission to ensure that the Company provides an acceptable level of service. Up to year-end there were no claims by customers for failure to achieve the Guaranteed Standards.

Consultants engaged by the Commission also completed work on a review of the Fuel Clause

Adjustment. Subsequent to year-end, the Commission published its findings, accepting the consultant's recommendation for the continued use of the current method for calculating the Fuel Clause Adjustment. The Commission also indicated that it would intensify monitoring of the Company's efficiency.

In addition, the Commission concluded a regulatory audit of the Company during 2006 and has shared the report from this audit with the Company.

Expanding to Meet Customer Requirements

The economy of Barbados continues to expand. While still heavily dependent on tourism, the off-shore services sector is increasing in importance, with light manufacturing, and agriculture continuing to play important roles.

The estimated annual per capita income at US\$8,500 in 2005 is high when compared to several neighbouring Caribbean countries, and Barbados also ranks high at number 30 on the United Nations Human Development Index of "Most Liveable Countries". It is the only country in the Caribbean and Latin America ranked in the top 30. Increasingly, Barbados is in the international spotlight, hosting major events such as the World Cup of Golf in 2006 and the ICC World Cup Cricket tournament in 2007.

Commensurate with this trend in the development of the island, the Company is committed to continuous improvement in the service it provides.

Rapid development is now taking place in the north of the island, featuring new residential and tourism projects. New underground transmission circuits are being installed along Highway 2A to meet the projected increase in demand for electricity. Plans are also progressing well for a new generating station at Trents, St. Lucy. After careful review, the Company has decided to install a 20,000 kilowatt gas turbine, which it expects to be in service by 2009. The unit would be used for peaking duty, but would be suitable for base load duty on natural gas if the proposed undersea gas pipeline from Trinidad & Tobago becomes a reality.

After evaluation, SPL Worldgroup, now a division of Oracle, was selected to supply a new computerised Customer Information System. The existing system, which has served the Company well for the past fifteen years, will be retired.

A team is also hard at work on the implementation of a new integrated Quality Management System, which encompasses several standards established and certified under the International Standards Organization. These include the ISO 9001-2000 standard for Quality Management, ISO 14001-2004 covering Environmental Management, and OHSAS 18001-1999 which deals with Health & Safety. This project is scheduled to be completed in 2008.

Global Warming & Renewable Energy

During 2006, the Company carried out an environmental impact assessment as part of the planning approval process for a proposed 10,000 kilowatt wind farm at Lamberts in St. Lucy. It is anticipated that this wind farm would produce about 26 to 30 million kilowatt-hours of electricity per year, or about 2.5% of the island's overall demand. This would avoid burning about 45,000 barrels of oil in conventional generators. With oil prices high, and uncertainty regarding future price increases, wind energy, the fastest growing and most proven source of renewable energy, offers an alternative for a portion of our future electricity needs.

Another potential source of renewable energy is biomass, and the Government has appointed a committee to develop a project for restructuring the sugar industry, which includes a generating plant to burn bagasse as part of a new factory and production of ethanol for use in vehicles.

Environmental Responsibility

Being environmentally responsible is one of the Company's key objectives. The Company was faced with a challenge regarding the disposal of eight diesel generators that were retired in 2005. With the cooperation of the Coastal Zone Management Unit, the old engine blocks, each weighing several tonnes, have been earmarked for use as mooring

anchors and will be cleaned and placed in their locations offshore.

The Company has also installed additional equipment to assist in the clean up of our Garrison Hill compound, which has been contaminated with oil products over the many years. Clean up is also underway in a small area at the Spring Garden Generating Station following a leak in a diesel fuel pipeline.

National Energy Policy

Towards the end of the year, the Ministry of Energy and the Environment invited representatives of the Company to a presentation on plans for a proposed National Energy Policy. Subsequent to year-end the Government issued a draft policy document and the Company will be pursuing further discussions on the matter.

Management Changes

During 2006 there were several changes to the management team.

Mr. Tony Watkins, retired as Manager Information Systems, at the end of December 2005, having guided that department from its inception in 1971.

My predecessor, Mr. Andrew Gittens, retired as Managing Director at the end of June after 44 years of service to the Company. I wish to express my personal thanks to Mr. Gittens for his exemplary leadership.

I take this opportunity to thank these two gentlemen for their sterling contributions to the Company.

As a result of these changes, several new appointments were made to the management team: Mr. Mark King was appointed Chief Operating Officer, Mr. Stephen Worme, Chief Marketing Officer, Mr. Wayne Yearwood, Human Resources Manager, and Miss Sandra Franklyn, Manager Information Systems (designate).



Outgoing Managing Director, Andrew A. Gittens and new Managing Director, Peter Williams at a handing over ceremony

Engaging our Employees

A highly skilled and motivated team of people is at the core of service that the Company provides. During the period 2000 to 2006, 45 employees successfully completed diploma, bachelors and masters degrees in technical, business and human resource areas. The Company applauds these individuals for their commitment and continues to provide ongoing training and development for all its employees through a variety of training programmes.

I look forward to working with this group of people within our organisation who continue to strive to provide our customers with excellent service.

Peter W. B. Williams

Managing Director,
The Barbados Light & Power Co. Ltd.