

Electricity demand hit record levels in 2006 with customer consumption passing the 900 million kilowatt-hour mark. However, increases in the costs of production are having a material effect on the operations of Light & Power Holdings' main subsidiary, The Barbados Light & Power Company Limited. Another subsidiary, LPH Telecom, completed its investment in new telecommunications enterprises and began operations during the year. This initiative is a joint venture with Leucadia National Corporation which has long been a major investor in the Company.

As illustrated on page eight of this report, ninety-four per cent of the money collected from electricity customers in 2006, including Fuel Clause Adjustment, was used to purchase fuel and materials, pay wages, taxes and insurance, and contribute to investment in new and replacement plant.

The Fuel Clause Adjustment on electricity bills is linked to the cost of the fuel used to produce electricity. Increases in the total price of electricity, including Fuel Clause Adjustment, have been less than increases in the retail price index since 1983, the year in which the rates still being charged for electricity were set by the Public Utilities Board.

In 2006, the Fair Trading Commission reviewed the Fuel Clause Adjustment element of customer electricity bills and reported that the calculation used by The Barbados Light & Power Company is fair and equitable and that the revenue from the Fuel Clause Adjustment has not been contributing to the Company's profits.

The electric utility business is highly capital intensive. During the last three years, The Barbados Light & Power Company, invested \$205 million in new plant and equipment with assistance from the European Investment Bank, First Caribbean International Bank and Barbados National Insurance Board.

The Company, through the efforts of its employees and by careful management, has been able to achieve

a twenty-four year record of customer service without any increase in the basic rates for electricity. Additional new generation, transmission and other infrastructure needed to satisfy increasing customer demand for electricity are continuing to increase in cost. In addition, the prices of basic commodities, such as copper, steel, and aluminium, which are used in large quantities by the company have increased substantially.

Consequently, the electricity rates, which were set in 1983, are proving to be inadequate to enable the utility to continue maintaining the service standards that customers require. All the cost escalation trends indicate that a review of the electricity rates will be necessary.

Except for Trinidad & Tobago, electricity rates in Barbados are among the most competitive in the Caribbean and residential customers enjoy among the lowest average electric bills in the region.

As indicated previously, the LPH Telecom subsidiary, together with Leucadia National Corporation, invested in new telecommunications ventures, TeleBarbados and Antilles Crossing, which were busily engaged in start-up operations during the year. Through a Rights Offering, shareholders subscribed \$28.5 million, the majority of which was invested for a 25% interest in these new enterprises.

TeleBarbados is serviced by Antilles Crossing's new 940-kilometre, submarine fibre-optic cable which links Barbados to St. Lucia and the US Virgin Island of St. Croix, and then on to gateways in Miami and New York. TeleBarbados is constructing the land-based infrastructure and connecting other service providers, large data businesses and residential customers who require broadband access for high speed internet data transmission.

While the private line, commercial internet and voice termination business is doing well, regrettably a situation



has arisen with Cable & Wireless subsequent to year-end which is preventing other customers from benefiting from the lower international call charges that TeleBarbados is able to offer. This is a critical issue and TeleBarbados is taking steps to resolve the matter.

The LPH Real Estate subsidiary, together with Barbados Tourism Investment Inc. and Leucadia National Corporation, is seeking to restore two buildings on Bay Street to help rejuvenate this historic area of Bridgetown and help preserve its heritage, an increasingly important feature of the island's tourism product. Finalising agreements and the necessary governmental permits is proving to be much more complex and time-consuming than was expected. The delays will increase development costs and may result in cancellation of the project.

Instead of reporting financial results based on the replacement value of assets, as has been done in the past, the Directors have been advised and have decided to report on the historic cost basis as is now being done in electric utilities in the United States and elsewhere. Consolidation of financial results from the telecom operations are being reported on the same historic cost basis.

New accounting standards also require consolidation of the Self Insurance Trust Fund established by the subsidiary company, The Barbados Light & Power Company Limited. Under the Insurance Regulation 1998, the Self Insurance Fund can only be utilized for the purpose of replacing or reinstating self-insured assets which are damaged by catastrophe and compensating for any associated financial loss. As a result of these accounting changes, Net Income for 2006 is being reported as BDS\$30 million and for 2005 the Net Income is restated at approximately BDS\$39 million.

Mrs. Margaret Walcott, S.C.M. and Mr. Alfred Clarke, C.B.E., Q.C., who served as Directors of the Company

since 1976 and 1986 respectively, retired during the year. The Board acknowledges the valued contributions of Mrs. Walcott and Mr. Clarke to the Company. Their dedication and advice on Company matters are much appreciated.

In June, Mr. Andrew Gittens retired from the position of Managing Director of The Barbados Light & Power Company. Mr. Gittens is highly respected, in the Company and beyond, for his knowledge, experience and leadership in the electricity business and the Directors are pleased that he has consented to continue serving as a member of the Boards of Light & Power Holdings Limited and its subsidiary, The Barbados Light & Power Company Limited.

The Directors appointed Mr. Peter Williams to the Boards of Light & Power Holdings and The Barbados Light & Power Company and effective July 1, 2006, as Managing Director of The Barbados Light & Power Company. Mr. Williams who joined the Company in 1977, has a Bachelor of Science degree in Mechanical Engineering from Manchester University, a Master of Science degree in Power Systems from the University of the West Indies and a Master of Business Administration degree from the University of Western Ontario. The Board extends its best wishes to Mr. Williams in his new role and looks forward to the continued success of the Company under his leadership.

Management and staff have performed well over the years. The Directors appreciate their continued efficient operation of the Company's complex technical systems that are used to serve customers in an increasingly competitive, global marketplace.



On behalf of the Board of Directors  
Light & Power Holdings Ltd.  
March 12, 2007