



1. General Information

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 the generation, distribution and supply of electricity. Its wholly owned subsidiary company, The Barbados Light & Power Company Limited, is 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. The registered office of the company is located at Garrison Hill, St. Michael.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of preparation

a) Accounting convention

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of property, plant and equipment. (Note 2 (d)).

b) Consolidation

Subsidiaries are entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred and de-consolidated from the date that control ceases.

These financial statements consolidate the financial statements of the company and its subsidiary, The Barbados Light & Power Company Limited.

c) Estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Actual results could differ from these estimates.

d) Property, plant and equipment

Property, plant and equipment of the subsidiary company are stated at reproduction cost as of December 31, 2005. Reproduction cost was determined on the basis of an independent appraisal of the assets made by KEMA Inc., as of January 1, 2005. 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, 2005 using indices supplied by AMEC Engineering and Construction Services Ltd. The method of the appraisers was to determine reproduction cost net less observed depreciation at the appraisal date.

The group has adopted the accounting policy of transferring to retained earnings, from revaluation surplus, the appraisal element included in the annual depreciation charge. The transfer for 2005 is \$ 13.9 million (2004 - \$17.9 million). Depreciation on the original cost basis for 2005 is \$39.6 million (2004 - \$30.7 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.

Land is not depreciated. No depreciation is provided on work-in-progress until the assets involved have been completed and are available for use. For financial reporting purposes depreciation on other assets is calculated by the straight line method using rates required to amortise the carrying value of the assets over their estimated service life as follows:

Generation	4%	-	7%
Transmission and Distribution	3%	-	14%
Other	2%	-	37%

When depreciable property, plant and equipment other than motor vehicles and property are retired, the gross book value less proceeds net of retiral 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) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

f) Cash and cash equivalents

These consist of cash held in hand and at bank, deposits held at call with banks and other short-term highly liquid investments with original maturities of three (3) months or less.

g) Accounts receivable

Accounts receivable are recognised initially at fair value less provision for discounts. A provision for impairment of accounts receivable is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. In addition a provision for discounts is created in anticipation of accounts that will be settled prior to the scheduled due date. The amount of the provisions is recognised in the income statement.

**h) 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.

i) Deferred income tax

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted by the balance sheet date and are expected to apply when the asset is realised or the liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

j) 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 twenty (20) years.

k) Manufacturers' 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.

l) Customer deposits

Commercial and all other customers except Barbadian residents categorised under the Domestic Service tariff are normally required to provide security for payment; however, Barbadian residents under this tariff may be asked to provide security if they are delinquent in paying their bills. The cash deposit is refunded with accumulated interest when the account is terminated or arrangements made to provide alternative security (e.g. a banker's guarantee).

Given the long term nature of the customer relationship, customer deposits are shown in the balance sheet as non-current liabilities (i.e. not likely to be repaid within twelve months of the balance sheet date). Interest accrues on deposits at 8% per annum.

m) Revenue

The group records revenue, other than fuel clause revenue, as billed to its customers, net of value-added tax 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.

n) Pension scheme

The group operates a fully insured purchased annuity plan pension scheme. This scheme takes the form of a defined benefit scheme in that it defines the amount of pension benefit that an employee will receive upon retirement. Pension costs are accounted for on the basis of contributions payable



in the year, as the group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employees service in the current and prior period. (Note 16)

o) Share option scheme

The employees of the subsidiary company have the option to receive their annual bonus in cash and/or common shares of the parent company under General By-Law No. 1, Section 12.1 of the parent company's Articles of Incorporation and General By-Laws. The shares are issued at 80% of market value. The 20% discount is recognised as an expense which is included in employee benefits. (Note 20).

p) Foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Barbados dollars which is the group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into Barbados currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates are recognised in the income statement.

q) Comparatives

Where necessary, comparative figures have been reclassified to conform to the current year's presentation.

3. Financial risk management

Financial instruments

Financial assets of the group include cash resources and accounts receivable. Financial liabilities 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.

Fair values

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



Financial risk factors

The group's activities expose it to a variety of financial risks:

Foreign currency risk

All foreign borrowings have formally been fixed to the United States dollar (US\$) to manage exposure to fluctuations in foreign currency exchange rates.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and ensuring the availability of funding through adequate credit facilities to meet its current demands. Management is of the view that the company holds adequate cash and credit facilities to meet its funding requirements.

Credit risk

Financial assets, which potentially subject the group to concentrations of credit risk, consist principally of bank deposits and accounts receivable. Bank deposits are placed with highly rated financial institutions to limit exposure to risk. Credit risk with respect to trade receivables is substantially reduced due to the policies implemented by management. Deposits are required from commercial customers upon application for a new service and management performs periodic credit evaluations of its general customers' financial condition. The group does not believe significant credit risk exists at December 31, 2005.

Underinsurance risk

The group is exposed to underinsurance risk on its assets as indicated in note 17. The subsidiary company has established a "Self Insurance Trust Fund" and will continue to set aside funds on an annual basis to manage this risk. In addition to the fund credit facilities have been established with the group's bankers to support expenditure requirements in the event of a loss exceeding the assets of the trust.

Interest rate risk

Exposure to interest rates and the terms of loan repayments are disclosed in notes 6 & 11.



4. Property, Plant & Equipment

	Generation \$ 000's	Transmission & Distribution \$ 000's	Other \$ 000's	Work in Progress \$ 000's	Total \$ 000's
Year ended December 31, 2004					
Valuation					
At December 31, 2003	563,208	340,673	100,172	106,220	1,110,273
Additions & Transfers	14	60,321	2,133	42,096	104,564
Disposals	-	(4,504)	(2,415)	-	(6,919)
Revaluations	12,563	25,179	139	-	37,881
At December 31, 2004	575,785	421,669	100,029	148,316	1,245,799
Accumulated Depreciation					
At December 31, 2003	308,916	126,155	42,008	-	477,079
Charge for the year	22,571	22,694	3,297	-	48,562
Disposals	-	(4,645)	(2,385)	-	(7,030)
Revaluations	8,111	8,238	191	-	16,540
At December 31, 2004	339,598	152,442	43,111	-	535,151
Net book value					
At December 31, 2004	236,187	269,227	56,918	148,316	710,648
Year ended December 31, 2005					
Valuation					
At December 31, 2004	575,785	421,669	100,029	148,316	1,245,799
Additions & Transfers	145,534	20,185	4,737	(129,678)	40,778
Disposals	(27,227)	(8,563)	(4,562)	-	(40,352)
Revaluations	(136,063)	65,804	710	-	(69,549)
At December 31, 2005	558,029	499,095	100,914	18,638	1,176,676
Accumulated Depreciation					
At December 31, 2004	339,598	152,442	43,111	-	535,151
Charge for the year	23,223	24,468	5,849	-	53,540
Disposals	(27,227)	(8,563)	(4,542)	-	(40,332)
Revaluations	(71,207)	16,815	(18,127)	-	(72,519)
At December 31, 2005	264,387	185,162	26,291	-	475,840
Net book value					
At December 31, 2005	293,642	313,933	74,623	18,638	700,836



If property, plant and equipment were stated on the historical cost basis, the net book value would be as follows:

	Generation \$000's	Transmission & Distribution \$000's	Other \$000's	Work in Progress \$000's	Total \$000's
At December 31, 2004					
Cost	319,972	329,152	65,414	148,316	862,854
Accumulated depreciation	(188,962)	(100,230)	(28,636)	-	(317,828)
Net book value	131,010	228,922	36,778	148,316	545,026
At December 31, 2005					
Cost	462,211	343,210	67,489	18,638	891,548
Accumulated depreciation	(201,623)	(112,672)	(31,053)	-	(345,348)
Net book value	260,588	230,538	36,436	18,638	546,200

5. Other assets

	2005 \$000's	2004 \$000's
Finance charges	249	318
Other	-	240
	<u>249</u>	<u>558</u>

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.



6. Cash resources

This category includes cash and cash equivalents and term deposits.

	2005 \$000's	2004 \$000's
Cash in hand and at bank	10,331	10,109
Short term bank deposits	17,804	17,887
Cash and cash equivalents	28,135	27,996
Fixed term bank deposits	6,900	-
Cash resources	35,035	27,996

The effective interest rate on short-term bank deposits was 4 % (2004 – 2.8 %) per annum. These deposits have an average maturity of 90 days. The fixed term deposits bear interest at rates between (5.75% & 6.00 %) per annum and are expected to mature within 12 months of the balance sheet date.

7. Accounts receivable & prepaid expenses

	2005 \$000's	2004 \$000's
Trade receivables	22,840	21,512
Less provision for impairment and discounts	(260)	(210)
Trade receivables, net	22,580	21,302
Other receivables	3,777	2,007
Prepayments	5,547	3,741
	31,904	27,050

8. Inventories

	2005 \$000's	2004 \$000's
Fuel	5,109	3,601
Materials and spares	22,684	17,533
Goods in transit	3,183	2,158
	30,976	23,292



9. Share capital

Authorised

- 100,000 - 5.5% Cumulative preference shares
- 500,000 - 10% Cumulative redeemable preference shares
- 100,000,000 - Common shares
- 10 - Class A redeemable preference shares

Issued

	2005 \$000's	2004 \$000's
100,000 - 5.5% Cumulative preference shares	500	500
14,488,457 (2004 – 14,509,559) Common shares	89,340	89,554
	89,840	90,054
	2005	2004
Common Shares	No.	No.
Shares outstanding at January 1	14,509,559	14,464,515
Repurchased during the year	(98,394)	(27,607)
Issued during the year	77,292	72,651
Balance at December 31	14,488,457	14,509,559

The Directors have agreed to set aside 600,000 shares to be issued to the employees of the subsidiary company, under General By-Law No 1, Section 12.1 of the Articles of Incorporation and General By-Law of the Company. In November 2005, 77,292 common shares at \$11.25 per share were issued under this Scheme. The company also repurchased 98,394 shares at prices ranging between \$9.50 and \$11.25 per share, which were cancelled.

10. **Other reserves**

a) **Special reserve**

The Public Utilities Board now established as The Fair Trading Commission 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 life 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.

	2005 \$000's	2004 \$000's
Balance at January 1	-	7,368
Transfer to retained earnings	-	(7,368)
Balance at December 31	-	-

b) **Capital reserve**

This represents an amount of retained earnings that was capitalised in the subsidiary company in 2004 and is no longer available for distribution by that company.

11. Long term loans

	2005 \$000's	2004 \$000's
FirstCaribbean International Bank (Bahamas) Limited U.S.\$ 850,000 (2004 - U.S.\$1,700,000) Libor plus 1.25% repayable 2006	1,733	3,466
European Investment Bank – Protocol 11 U.S.\$ 11,469,999 (2004 - U.S.\$13,188,799) 6.23% repayable 2006/2011	23,384	26,888
European Investment Bank – Protocol 111 U.S. \$28,178,750 (2004 – U.S. \$31,252,113) 4.27% repayable 2006/2013	57,450	63,715
National Insurance Board - Debenture Stock Certificates (Total facility BDS.\$20,000,000) 5% repayable 2020	20,000	20,000
FirstCaribbean International Bank (Cayman) Ltd U.S. \$10,000,000 5.98% repayable 2006/2015	20,388	20,388
Total long term loans	122,955	134,457
Less current portion	(13,842)	(12,522)
Total long term loans repayable after one year	109,113	121,935

The long term loans, with the exception of the European Investment Bank loans, are secured under a Debenture Trust Deed, which creates a first and floating charge on the Company'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 2005.

The European Investment Bank loans are guaranteed by the Government of Barbados.

The maturity of long term loans is as follows:

	2005 \$000's	2004 \$000's
Less than 1 year	13,842	12,522
Between 1 & 5 years	66,319	65,411
Over 5 years	42,794	56,524
Total	122,955	134,457



12. Deferred credits

	2005 \$000's	2004 \$000's
Accumulated investment tax credit	32,102	32,816
Accumulated manufacturing tax credit	9,928	7,438
Customer contributions for work not yet started	904	676
	<hr/>	<hr/>
	42,934	40,930
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13. Taxation

a) Corporation tax expense

	2005 \$000's	2004 \$000's
Current tax	31	3,030
Deferred tax	972	(995)
Deferred investment tax credit	(714)	4,207
Deferred manufacturing tax credit	2,490	1,225
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	2,779	7,467
Deferred tax credit arising from change in tax rate	-	(14,759)
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	2,779	(7,292)
	<hr/>	<hr/>

The tax on income before taxation differs from the theoretical amount that would arise using the corporation tax rate of 25% (2004 - 33%) for the following reasons:

	2005 \$000's	2004 \$000's
Income before taxation	18,168	19,524
	<hr/>	<hr/>
Corporation tax at 25% (2004 – 33%)	4,542	6,443
Depreciation on assets not qualifying for capital allowances	3,582	6,084
Tourism development fund allowance	(36)	(45)
Expenses not allowable for tax purposes	13	31
Manufacturing allowance net of deferred portion	(2,875)	(2,368)
Investment tax credit net of deferred portion	(2,711)	(2,668)
Unrecognised tax loss	245	-
Effect of reduction in tax rate	-	(14,759)
Over/(Under) provision of prior year's tax	19	(10)
	<hr/>	<hr/>
	2,779	(7,292)
	<hr/>	<hr/>

b) Deferred tax liability

The net deferred tax liability is calculated in full on temporary differences under the liability method using a tax rate of 25% (2004-25%). The movement on the account is as follows:

	2005 \$000's	2004 \$000's
Balance at January 1	33,336	49,090
Charged (credited) to the income statement	972	(15,754)
Balance at December 31	34,308	33,336

The deferred tax liability on the balance sheet consists of the following components:

	2005 \$000's	2004 \$000's
Accelerated tax depreciation	156,511	145,993
Taxed provisions	(12,678)	(12,650)
Unutilised tax losses	(6,601)	-
	137,232	133,343
Deferred tax liability at corporation tax rate of 25% (2004-25%)	34,308	33,336

Accelerated tax depreciation and taxed provisions have no expiry dates. The expiry dates of the unutilised tax losses are disclosed in note 13 (c).

c) Tax losses

The group has tax losses available for set off against future taxable income as follows:

Income Year	Balance b/fwd. \$000's	Loss incurred \$000's	Balance c/fwd \$000's	Expiry date
1999	28	-	28	2008
2000	15	-	15	2009
2001	11	-	11	2010
2002	9	-	9	2011
2003	9	-	9	2012
2004	13	-	13	2013
2005	-	7,582	7,582	2014
	85	7,582	7,667	



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 of 14,469,427 (2004 14,452,742). The company has no dilutive potential ordinary shares, therefore diluted earnings per share is the same as basic earnings per share.

15. Accounts payable

	2005 \$000's	2004 \$000's
Trade payables	16,987	10,211
Accrued expenses	1,954	4,900
Other payables	5,586	5,099
Provision for other liabilities & charges	7,152	7,863
	31,679	28,073

16. Retirement benefits

The group operates a defined benefit pension plan for its employees. It pays an annual 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 owing to the fact that benefits due to employees would have been secured by the prior payment of premiums, and the insurer has sole responsibility for paying the benefits, the plan has been accounted for as if it were a defined contribution plan as prescribed by IAS 19. Pension cost for the year was \$4.2 million (2004 - \$3.5 million)

17. Insurance fund

During 1998, the subsidiary company established a Trust under the Insurance Act 1996-32 and Regulations to effect self insurance cover on its transmission and distribution system, and also to cover the deductible on its general insurance policies.

The Trust is being financed by annual charges to income. The charge for the year was \$ 7.5 million (2004 - \$7.7 million) which is included in the insurance expense of \$ 11.4 million (2004 - \$12.1 million).

In addition to the funds held in trust, the subsidiary company's bankers have provided credit facilities of U.S. \$5 million to support the expenditure requirements of the Company in the event of a loss exceeding the assets of the Trust.

**18. 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 \$3,000,000 to be issued in accordance with the provisions of the Debenture Trust Deed to secure overdraft facilities granted to the Company. (Note 11).

19. Capital commitments

The group has budgeted capital expenditure of \$105.8 million for the 2006 income year of which \$41.0 million was contracted for at December 31, 2005 but not incurred.

20. Employee benefits

	2005 \$000's	2004 \$000's
Wages and salaries	35,615	33,518
Social security costs	1,870	1,755
Pension (note 16)	4,244	3,474
Other benefits and share discount	1,454	1,174
	43,183	39,921
 Average number of persons employed by the group during the year	 500	 490

21. Related party transactions**Key management compensation**

	2005 \$000's	2004 \$000's
Salaries & other short term benefits	3,407	3,216
Pension (Note 16)	609	886
Share discount	39	33
	4,055	4,135

22. Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The revenue collection of the subsidiary company, The Barbados Light & Power Company, is organised into domestic, commercial, street lighting and miscellaneous revenue segments.



A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. The company has one geographical segment.

Costs and assets cannot be readily allocated to revenue segments, as common property, plant and equipment, other assets, labour and overheads are used to generate electricity for all revenue segments.

An analysis of revenue by business segment is detailed as follows:

Revenue segments	2005 \$000's	2004 \$000's
Domestic service	106,168	93,987
Commercial service	227,500	202,407
Street lights	3,871	3,581
Miscellaneous	1,692	1,618
Total revenue	339,231	301,593

23.

Contingent liabilities

The group is contingently liable in respect of various claims brought during the normal course of business. The amounts are considered negligible and are usually covered by insurance.