## 1 General information

Light & Power Holdings Ltd. ("the Company") was incorporated on October 9, 1997 under the Companies Act, Chapter 308 of the Laws of Barbados and is listed on the Barbados Stock Exchange. The principal activities of the Company and its subsidiaries (including special purpose entities) ("the Group") include the generation, distribution and supply of electricity, the provision of telecommunication services and the operation of a self insurance fund to manage certain of the Group's insurance risks.

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.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of available-for-sale financial investments.

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 Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

*a) Standards, interpretations and amendments to published standards effective in financial year 2007*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group in the current financial year. The Group has assessed the relevance of all such new standards, amendments and interpretations and has concluded that only IFRS 7- Financial Instruments: Disclosures, and the complementary amendment to IAS1 - Presentation of financial statements - Capital disclosure will have any impact on the Group's financial statements. The 2006 comparative figures have been amended as required, in accordance with the relevant requirements.

- IFRS 7 - 'Financial instruments: Disclosures' and the complimentary amendment to IAS 1, 'Presentation of financial statements - Capital disclosures', introduces new disclosures relating to financial assets and liabilities and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation, trade and other payables.

*b) Standards, interpretations and amendments to published standards effective in financial year 2007 but not relevant.*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2007 but they are not relevant to the Group's operations:

- IFRS 4 - Insurance contracts
- IFRIC 7 - Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies
- IFRIC 8 - Scope of IFRS 2
- IFRIC 9 - Re-assessment of embedded derivatives
- IFRIC 10 - Interim Financial reporting and impairment

*c) Standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Group.*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods, but the Group has not early adopted them. Management is currently reviewing these for implementation.

- IAS 23 (Amendment), 'Borrowing costs' (effective January 1, 2009). This requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed.

- IFRS 8, Operating segments. This new standard requires that segment information be presented on the same basis as that used for internal reporting purposes.

In addition the following have been issued but are not relevant to the Group's operations.

- IFRIC 12 - Service concession arrangements
- IFRIC 13 - Customer loyalty programmes
- IFRIC 14 - The limit on a defined benefit asset, minimum funding requirements

### 2.2 Principles of consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the parent company and its subsidiaries (including special purpose entities) ("the Group") as disclosed in Note 29. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All inter-company balances and transactions have been eliminated in full.

#### a) Subsidiary Companies

Subsidiary companies are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% of the voting rights and is able to exercise control over the operations.

Subsidiaries are fully consolidated from the date on which control is transferred and continue to be consolidated until the date that such control ceases. The purchase method of accounting is used to account for acquisition of subsidiaries. The cost of acquisition is measured at the fair value of shares issued, assets given up, or liabilities undertaken at the date of acquisition, plus costs directly attributable to the acquisition.

#### b) Associated Companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on the behalf of the associate.

### 2.3 Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Barbados dollars which is also the Group's functional 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 of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### 2.4 Segment 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.

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 Group operates in one geographical segment.

### 2.5 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and impairment losses. Cost represents expenditure that is directly attributable to the acquisition of the items and includes cost of materials, direct labour, supervision and engineering charges and interest incurred during construction which is directly attributable to the acquisition or construction of a qualifying asset.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Contributions received towards construction of electric plant are credited to the cost of work in progress or are shown as deferred credits in the case where construction has not yet started.

Interest cost on property, plant and equipment is capitalised and included in the appropriate capital asset account until the asset is made available for service. During the year, the Group capitalised interest of $1.2 million (2006: $0.9 million)

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 property, plant and equipment is calculated by the straight line method using rates required to allocate the cost of the assets less salvage over their estimated service lives as follows:

| | |
|---|---|
| Generation equipment | 2% - 5% |
| Transmission and Distribution | 3% - 6% |
| Other | 2% - 33% |

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.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. (Note 2.7)

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of income.

### 2.6 Financial investments

The Group has classified its financial investments as available-for-sale. Management determines the classification at initial recognition and reviews the designation at every reporting date. The classification depends on the purpose for which the financial investments are acquired.

Available-for-sale financial assets are intended to be held for an indefinite period of time, and may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. They are included in non-current assets unless management intends to dispose within 12 months. Available-for-sale financial assets are carried at fair value based on current bid prices on the market. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial investments are recognised directly in equity until the financial investment is sold, or otherwise disposed of, or until the financial investment is determined to be impaired at which time the cumulative gain or loss will be included in net income or loss for the period.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase and sell the asset. Cost of purchase includes transaction costs.

### 2.7 Impairment of non-financial assets

Assets that have an indefinite life, e.g. land, are not subject to amortisation and are reviewed for impairment annually.

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.

### 2.8 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.

### 2.9 Trade receivables

Trade receivables are recognised initially at fair value less provision for discounts. A provision for impairment of trade receivables 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 based on historical experience, 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. When a trade receivable is uncollectible it is written off against the impairment provision for trade receivables. Subsequent recoveries of amounts previously written off are credited to the statement of income.

### 2.10 Inventories

Inventories of fuel, materials and supplies are valued at cost, which is determined on an average cost basis. Engine spares are carried at cost less provision for obsolescence.

### 2.11 Share capital

Common shares are classified as equity. Redeemable preference shares are treated as equity because they cannot be converted by the holders thereof at any time nor is the Company mandatorily required to redeem them on a specific date.

Where the Company repurchases its own shares, the consideration paid is deducted from equity, until such shares are reissued or cancelled.

Incremental costs directly attributable to the issue of new shares are shown as a deduction from equity in accordance with IAS 32 and included in other reserves in the statement of changes in equity.

### 2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and the redemption value is recognised in the statement of income over the period of the borrowings using the effective interest method.

### 2.13 Taxation

#### a) Deferred income tax

Taxation expense in the statement of income comprises current and deferred tax. Taxation expense is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date.

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 unused tax assets can be utilised.

b) 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 the useful lives of the respective assets. In the prior years, the Group amortised the tax credit to income over a period of 20 years. This change resulted to an adjustment to net income of $2.8 million and a corresponding decrease in deferred investment tax credit.

c) 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 items of plant and equipment.

2.14 Customers' 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.

2.15 Revenue recognition

Revenue comprises the value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

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

Interest income is recognised on an accrual basis using the effective interest rate method.

Dividend income is recognised when the Group's right to receive payment is established.

2.16 Employee benefits

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 periods. (Note 25)

2.17 Share purchase scheme

The employees of the subsidiary company, The Barbados Light & Power 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.

### 2.18 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the period in which the dividend is declared by the directors.

### 2.19 Related parties

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Individuals, associates or companies that directly or indirectly control or are controlled by or are under common control with the Group are also considered related parties.

### 2.20 Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

## 3 Financial risk management

### 3.1 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets of the Group include cash resources, trade receivables and available-for-sale financial investments initially measured at fair value.

Financial liabilities of the Group include borrowings, trade payables and customer deposits initially measured at fair value.

The accounting policies for financial assets and liabilities are set out in note 2 or the individual notes associated with each item.

### 3.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange, price risk and cash flow and interest rate risk), liquidity, credit and underinsurance risks. The Group's overall risk management policy is to minimise potential adverse effects on its' financial performance and to optimise shareholders' value within an acceptable level of risk.

The Group's exposure and approach to its key risks are as follows:

#### a) Market risk

#### I. Foreign currency risk

This is the potential adverse impact on the Group's earnings and economic value due to movements in exchange rates.

The Group is exposed to foreign exchange risk arising primarily from foreign currency borrowings and purchases of plant, equipment and spares from foreign suppliers.

All borrowings have been formally fixed to the United States dollar (US$) to mitigate exposure to fluctuations in foreign currency exchange rates, since there is a fixed exchange rate between the Barbados dollar and

United States dollar. Additionally, most foreign currency purchases are denominated in United States dollars. The Group has not entered into forward exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates.

II. Price risk

The Group is exposed to equity securities price risk because of financial investments held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

III. Cash flow and fair value interest rate risk

Interest rate risk is the potential adverse impact on the earnings and economic value of the Group caused by movements in interest rates.

The Group's interest bearing assets expose it to cash flow interest rate risk. Interest margins may increase or decrease as a result of such changes, and may reduce or increase losses in the event that unexpected movements arise.

The Group's interest rate risk also arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's policy is to maintain its borrowings in fixed rate instruments thereby minimising cash flow interest rate risk. Exposure to fair value interest rate risk on its borrowings results from fluctuations in the fair value of borrowings in response to changes in market interest rates.

The Group's exposure to interest rates and the terms of borrowings are disclosed in notes 9 & 14.

b) Liquidity risk

Liquidity risk refers to the risk that the Group cannot generate adequate cash and cash equivalents to satisfy commitments as they become due.

Management monitors the Group's liquidity reserve (comprises undrawn borrowing facility (note 26) and cash and cash equivalents (note 9)) on the basis of expected cash flow and is of the view that the Group holds adequate cash and credit facilities to meet its short-term obligations.

The below table is an analyses of the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying balances.

| | Less than 1 year $000's | Between 1 & 2 years $000's | Between 2 & 5 years $000's | Over 5 years $000's |
|---|---|---|---|---|
| At December 31, 2007 | | | | |
| Borrowings | 12,727 | 28,352 | 41,158 | 39,462 |
| Trade and other payables | 48,890 | - | - | - |
| At December 31, 2006 | | | | |
| Borrowings | 12,414 | 25,777 | 36,866 | 34,056 |
| Trade and other payables | 25,629 | - | - | - |

c) Credit risk

Credit risk is the inherent risk that counterparties may experience business failure or otherwise avoid their contractual obligations.

The Group's financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of bank deposits and trade receivables. The Group's bank deposits are placed with highly rated financial institutions to limit its exposure. 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. Management does not believe significant credit risk exists at December 31, 2007.

d) Underinsurance risk

The subsidiary company, The Barbados Light & Power Company has established a “Self Insurance Fund” to set aside funds on an annual basis to mitigate this risk.

The Fund is periodically reviewed by a risk consultant who makes recommendations to ensure the continued security and solvency of the Fund.

3.3 Capital risk management

The Group’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders, benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2007 and 2006 were as follows:

| | 2007<br>$000's | 2006<br>$000's |
|---|---|---|
| Total borrowings (note 14) | 121,699 | 109,113 |
| Less: cash and cash equivalent (note 9) | (37,778) | (26,135) |
| Net debt | 83,921 | 82,978 |
| Total equity | 579,386 | 528,102 |
| Total capital | 663,307 | 611,080 |
| Gearing ratio | 13% | 14% |

### 3.4 Fair value estimation

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no obligation to act and is best evidenced by a quoted market price, if one exists.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price.

The carrying values of trade payables and receivables less impairment provision are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 Critical accounting estimates and judgements

### 4.1 Critical accounting estimates and assumptions

The development of estimates and the exercise of judgement in applying accounting policies may have a material impact on reported assets, liabilities, revenues and expenses.

Other than in the establishment of routine provisions against trade receivables, inventories and provisions for liabilities and other charges no significant estimates or judgements have been required in applying accounting policies which may have a material impact on the Group's reported assets, liabilities, revenues and expenses.

### 4.2 Critical judgements in applying the entity's accounting policies

Special Purpose Entity/(SPE) - Self Insurance Fund

The Group has established a special purpose entity (SPE) primarily for the purpose of building an insurance fund to cover risk against damage and consequential loss to transmission and distribution systems as a result of catastrophe as well as certain machinery breakdowns. In making a judgement that the Group controls the SPE, management considered that in substance the activities of the SPE are being conducted on behalf of the Group according to a specific business need so that the Group obtains benefits of the SPE's objectives. Additionally, because the Group has rights to all benefits of the SPE, it is therefore exposed to the risk incident to the activities of the SPE and in this case the SPE is consolidated.

5 Property, plant and equipment

| | Generation $000s | Transmission & distribution $000s | Other $000s | Work in progress $000s | Total $000s |
|---|---|---|---|---|---|
| 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 amount | 260,588 | 230,538 | 36,436 | 18,638 | 546,200 |
| Year ended December 31, 2006 | | | | | |
| Opening net book amount | 260,588 | 230,538 | 36,436 | 18,638 | 546,200 |
| Additions and transfers | 3,360 | 16,464 | 2,734 | 36,671 | 59,229 |
| Disposals | - | - | (14) | - | (14) |
| Depreciation charge | (15,948) | (19,211) | (2,471) | - | (37,630) |
| Closing net book amount | 248,000 | 227,791 | 36,685 | 55,309 | 567,785 |
| At December 31, 2006 | | | | | |
| Cost | 459,786 | 356,998 | 68,312 | 55,309 | 940,405 |
| Accumulated Depreciation | (211,786) | (129,207) | (31,627) | - | (372,620) |
| Net book amount | 248,000 | 227,791 | 36,685 | 55,309 | 567,785 |
| Year ended December 31, 2007 | | | | | |
| Opening net book amount | 248,000 | 227,791 | 36,685 | 55,309 | 567,785 |
| Additions and transfers | 7,592 | 27,741 | 8,325 | 14,549 | 58,207 |
| Disposals | - | - | (41) | - | (41) |
| Depreciation charge | (15,283) | (15,851) | (2,526) | - | (33,660) |
| Closing net book amount | 240,309 | 239,681 | 42,443 | 69,858 | 592,291 |
| At December 31, 2007 | | | | | |
| Cost | 461,684 | 382,427 | 76,203 | 69,858 | 990,172 |
| Accumulated depreciation | (221,375) | (142,746) | (33,760) | - | (397,881) |
| Net book amount | 240,309 | 239,681 | 42,443 | 69,858 | 592,291 |

## 6 Investment in associates

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Balance - beginning of year | 15,965 | - |
| Investment in associates | 400 | 18,765 |
| Share of loss for year | (2,195) | (2,800) |
| Balance - end of year | 14,170 | 15,965 |

The Group has a 100% ownership in LPH Telecom Limited, a telecommunications company incorporated in Barbados. LPH Telecom Limited has a 25% ownership in the companies listed in the table below and effectively the Group owns 25% of these companies.

The Group's share of the results of its principal associates and its share of the assets and liabilities are as follows:

| Name | Assets $000's | Liabilities $000's | Revenues $000's | Loss $000's |
|---|---|---|---|---|
| 2006 | | | | |
| Antilles Crossing International, LP | 10,940 | 11,338 | 57 | (398) |
| Tele (Barbados) Inc.via Antilles Crossing Holding Co. St.Lucia Ltd. | 3,190 | 5,141 | 219 | (1,870) |
| Antilles Crossing, LP via Antilles Crossing Int'l., LP | 2,391 | 2,624 | - | (96) |
| Antilles Crossing – St. Croix Inc. | 1,454 | 1,802 | - | (348) |
| Antilles Crossing (St. Lucia) Ltd. Via AC (Barbados) IBC, Inc | 1,312 | 1,403 | - | (88) |
| | 19,287 | 22,308 | 276 | (2,800) |
| 2007 | | | | |
| Antilles Crossing International, LP | 8,617 | 893 | 693 | (183) |
| Tele (Barbados) Inc.via Antilles Crossing Holding Co. St.Lucia Ltd. | 4,184 | 2,947 | 1,862 | (1,546) |
| Antilles Crossing, LP via Antilles Crossing Int'l., LP | (2,851) | 2,288 | - | (122) |
| Antilles Crossing - St. Croix Inc. | 1,391 | 236 | - | (157) |
| Antilles Crossing (St. Lucia) Ltd. Via AC (Barbados) IBC, Inc | 2,788 | - | 48 | (187) |
| | 19,831 | 6,364 | 2,603 | (2,195) |

## 7 Financial investments

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Balance at beginning of year | 70,863 | 61,766 |
| Additions | 8,743 | 8,700 |
| Unrealised foreign exchange loss | (82) | (135) |
| Change in fair value | 294 | 532 |
| | 79,818 | 70,863 |

There were no disposals or impairment provisions for financial investments in 2007 or 2006.
Financial investments include the following:

| | 2007 $000's | 2006 $000's |
|---|---|---|
| **Listed securities** | | |
| US Common Shares | 3,217 | 2,597 |
| US Mutual funds | 862 | - |
| US Corporate Bonds, Debentures, Short & Medium term notes | 59,529 | 54,429 |
| US Government Bonds | 16,210 | 13,837 |
| | 79,818 | 70,863 |

These available-for-sale financial investments include assets held in trust on behalf of the Self Insurance Fund that are not available to the Group for use in its operations.

Financial investments are denominated in US dollars.

The maximum exposure to credit risk at the reporting date is the fair value of the debt securities classified as financial investments. None of the financial investments are either past due or impaired.

## 8 Other assets

| | 2007<br>$000's | 2006<br>$000's |
|---|---|---|
| Deferred finance charges | 604 | 208 |
| Other | 11 | 12 |
| | 615 | 220 |

Deferred 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.

## 9 Cash resources

| | 2007<br>$000's | 2006<br>$000's |
|---|---|---|
| Cash in hand and at bank | 15,745 | 11,562 |
| Short term bank deposits | 22,033 | 14,573 |
| Cash and cash equivalents | 37,778 | 26,135 |
| Fixed term bank deposits - Self Insurance Fund | 20,186 | 13,670 |
| Cash at bank - Self Insurance Fund | 1,943 | 189 |
| Cash resources | 59,907 | 39,994 |

The interest rates on short-term bank deposits ranges between 4.85% and 6.50% (2006 - 4% and 5.75%) per annum. These deposits have an average maturity of 90 days.

The interest rates on the fixed term bank deposits ranges between 4% and 7.4% (2006 - 3% and 7.5%).

The cash and term deposits of the Self Insurance Fund are not available for use in the Group's operations.

## 10 Trade and other receivables

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Trade receivables | 39,031 | 28,279 |
| Less provision for impairment and discounts | (380) | (300) |
| Trade receivables, net | 38,651 | 27,979 |
| Other receivables | 11,188 | 5,013 |
| Prepayments | 6,793 | 6,386 |
| | 56,632 | 39,378 |

The fair values of trade and other receivables equals their carrying values due to the short term nature of these assets.

The movement in the provision for impairment was as follows:

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Balance - beginning of year | 300 | 260 |
| Increase in provision - general | 80 | 40 |
| Balance - end of year | 380 | 300 |

The increase in provision for impairment of receivables of $0.08 million is included in general operating expenses in the statement of income. Direct write offs for impaired receivables to the statement of income were $0.3 million (2006 - $0.2 million).

## 11 Inventories

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Fuel | 10,153 | 6,878 |
| Materials and spares | 21,716 | 18,489 |
| Goods in transit | 2,439 | 4,726 |
| | 34,308 | 30,093 |

The cost of inventories written down and recognised as an expense is included in operating expenses in the amount of $1.1 million, (2006 - $0.5 million).

12 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

| | 2007 $000's | 2006 $000's |
|---|---|---|
| 100,000 - 5.5% Cumulative preference shares | 500 | 500 |
| 17,412,611 (2006 - 17,447,157) Common shares of no par value | 118,574 | 118,933 |
| | 119,074 | 119,433 |

| | 2007 No. | 2006 No. |
|---|---|---|
| Common Shares | | |
| Shares outstanding beginning of year | 17,447,157 | 14,488,457 |
| Repurchased during the year | (89,974) | (5,646) |
| Issued during the year | 55,428 | 2,964,346 |
| Balance at end of year | 17,412,611 | 17,447,157 |

The Directors of the Company have agreed to set aside 600,000 common shares to be issued to the employees of Light & Power Holdings Ltd. and 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 2007, 55,428 common shares at $10.55 per share were issued under this Scheme. The Company also repurchased 89,974 shares (2006 - 5,646) at prices ranging from $10.30 to $10.55 per share (2006 - $10.50), which were cancelled.

13 Other reserves

| | | 2007 $000's | 2006 $000's |
|---|---|---|---|
| i) | Capital Reserve | | |
| | Balance - beginning and end of year | 109,522 | 109,522 |
| ii) | Self Insurance Fund | | |
| | Balance - beginning of year | 91,282 | 79,342 |
| | Transfer from retained earnings | 7,335 | 11,408 |
| | Change in fair value of investments | 294 | 532 |
| | Balance - end of year | 98,911 | 91,282 |
| iii) | Share issue costs | | |
| | Balance - beginning and end of year | (494) | (494) |
| | Total other reserves | 207,939 | 200,310 |

i) This represents an amount of retained earnings that was capitalised in the subsidiary company, The Barbados Light & Power Company Limited and is no longer available for distribution.

ii) Funds set aside by the subsidiary company, The Barbados Light & Power Company Limited to build an insurance reserve to cover risk against damage and consequential loss to its transmission and distribution system as a result of a catastrophe.

Under the Insurance Regulation 1998, the Self Insurance Fund shall only be utilized by the subsidiary company, The Barbados Light & Power Company Limited, for the purpose of replacing or reinstating the self insured assets which are damaged by catastrophe and compensating for any financial loss suffered as a result of such damage. Where the Fund is utilized for any other purpose any monies withdrawn shall be subject to corporation tax.

The total funds set aside plus investment income accrued less related expenses is consolidated with the group's accounts in accordance with IAS 27 - SIC 12.

iii) This represents the incremental costs directly attributable to the Offering of Rights issue in 2006. In accordance with IAS 32, these costs are shown as a deduction from equity.

## 14 Borrowings

| | 2007<br>$000's | 2006<br>$000's |
|---|---|---|
| Royal Bank of Canada<br>BDS $25,000<br>7% repayable 2021 | 25,000 | - |
| European Investment Bank - Protocol 11<br>US$ 7,872 (2006 - US $9,697)<br>6.23% repayable 2011 | 16,049 | 19,771 |
| European Investment Bank - Protocol 111<br>US $ 21,749 (2006 - US $25,012)<br>4.27% repayable 2013 | 44,340 | 50,993 |
| National Insurance Board - Debenture Stock Certificates<br>(Total facility BDS $20,000)<br>5% repayable 2020 | 20,000 | 20,000 |
| First Caribbean International Bank (Cayman) Ltd<br>US $8,000 (2006 - US $9,000)<br>5.98% repayable 2015 | 16,310 | 18,349 |
| Total long term borrowings | 121,699 | 109,113 |
| Less current portion | (12,727) | (12,414) |
| Non-current portion | 108,972 | 96,699 |

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, The Barbados Light & Power Company Limited, 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 2007.

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

The maturity of borrowings is as follows:

| | 2007<br>$000's | 2006<br>$000's |
|---|---|---|
| Less than 1 year | 12,727 | 12,414 |
| Between 1 and 2 years | 28,352 | 25,777 |
| Between 2 and 5 years | 41,158 | 36,866 |
| Over 5 years | 39,462 | 34,056 |
| Total | 121,699 | 109,113 |

The carrying amounts and fair value of the non-current borrowings are as follows:

| | Carrying amount | | Fair values | |
|---|---|---|---|---|
| | 2007<br>$000's | 2006<br>$000's | 2007<br>$000's | 2006<br>$000's |
| Borrowings | 108,972 | 96,699 | 106,970 | 89,590 |

The fair value of current borrowings equals their carrying amount as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 7.00% (2006 -7.40%).

## 15 Customers' deposits

Commercial and non-resident customers are required to pay security deposits for energy connections that are refundable when service is no longer required. Interest accrues on these deposits at a rate of 8% per annum (2006 - 8% p.a.).

| | 2007<br>$000's | 2006<br>$000's |
|---|---|---|
| Balance - beginning of year | 19,819 | 17,646 |
| New deposits | 1,800 | 1,773 |
| Deposits refunded | (2,711) | (885) |
| Net interest | 1,293 | 1,285 |
| Balance - end of year | 20,201 | 19,819 |

## 16 Deferred credits

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Accumulated investment tax credit | 27,957 | 32,240 |
| Accumulated manufacturing tax credit | 13,692 | 12,412 |
| Customer contributions for work not yet started | 888 | 787 |
| | 42,537 | 45,439 |

## 17 Taxation

### a) Corporation tax expense

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Current tax | (2) | - |
| Deferred tax charge/(credit) | 969 | (2,111) |
| Deferred investment tax credit | (4,283) | 138 |
| Deferred manufacturing tax credit | 1,280 | 2,485 |
| | (2,036) | 512 |
| Deferred tax arising from change in tax rate in subsidiary | (12,879) | - |
| Taxation (credit)/expense | (14,915) | 512 |

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

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Income before taxation | 43,435 | 30,878 |
| Corporation tax at 25% (2006- 25%) | 10,858 | 7,719 |
| Effect of different tax rate in subsidiary 15% (2006 -25%) | (3,486) | - |
| Depreciation on assets not qualifying for capital allowances | 74 | 97 |
| Tourism development fund allowance | (21) | (34) |
| Environmental allowance | (7) | - |
| Tax loss of which no deferred tax asset is recognised | 641 | 929 |
| Income not subject to tax | (2,784) | (2,851) |
| Manufacturing allowance net of deferred portion | (1,657) | (2,611) |
| Investment tax credit net of deferred portion | (5,654) | (2,753) |
| Tax effect of the different tax rate on deferred tax liability | (12,879) | - |
| Over-provision of prior year's tax | - | 16 |
| | (14,915) | 512 |

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 15% (2006 - 25%). The movement on the account is as follows:

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Balance - beginning of year | 32,197 | 34,308 |
| Transfer to the income statement - current year charge/(credit) | 969 | (2,111) |
| - adjustment for change in rate | (12,879) | - |
| Balance - end of year | 20,287 | 32,197 |

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

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Accelerated tax depreciation | 178,668 | 166,600 |
| Taxed provisions | (12,435) | (11,214) |
| Unutilised tax losses | (30,984) | (26,596) |
| | 135,249 | 128,790 |
| Deferred tax liability at corporation tax rate of 15% (2006 - 25%) | 20,287 | 32,197 |

The Group has a deferred tax asset of $0.6 million arising from losses in the parent company (2006 - $0.6 million) that has not been recognised due to the uncertainty of its recovery in future periods.

Accelerated tax depreciation and taxed provisions have no expiry dates. The expiry dates of the unutilised tax losses are disclosed in note 17 (c).

c) Tax losses

The Group has tax losses of $33.3 million (2006 $28.6 million) available to be carried forward and applied against future taxable income. The losses are as computed by the Group in its tax returns and have not been confirmed nor disputed by the Commissioner of Inland Revenue. The losses and their expiry dates are as follows:

| Income Year | Amount $000's | Expiry date |
|---|---|---|
| 1999 | 28 | 2008 |
| 2000 | 15 | 2009 |
| 2001 | 11 | 2010 |
| 2002 | 9 | 2011 |
| 2003 | 9 | 2012 |
| 2004 | 13 | 2013 |
| 2005 | 7,582 | 2014 |
| 2006 | 20,912 | 2015 |
| 2007 | 4,755 | 2016 |
| | 33,334 | |

## 18 Trade and other payables

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Trade payables | 35,980 | 18,702 |
| Accrued expenses | 8,703 | 2,302 |
| Other payables | 4,207 | 4,625 |
| | 48,890 | 25,629 |

## 19 Provisions for other liabilities and charges

| | Environmental restoration $000's | Bonuses $000's | Regulatory fees $000's | Total $000's |
|---|---|---|---|---|
| At beginning of year | 2,973 | 584 | 544 | 4,101 |
| Charged to income | | | | |
| - Additional provisions | - | 2,641 | 464 | 3,105 |
| - Unused amounts reversed | - | - | (72) | (72) |
| Used during year | - | (1,835) | (476) | (2,311) |
| At end of year | 2,973 | 1,390 | 460 | 4,823 |

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Analysis of total provisions | | |
| Non-current (environmental restoration) | 2,973 | 2,973 |
| Current | 1,850 | 1,128 |
| | 4,823 | 4,101 |

### a) Environmental restoration

The subsidiary company, The Barbados Light & Power Company Limited commenced investigations to identify and assess potential remedial work to be done at the Garrison Generating Plant site which was tested for free hydrocarbons (mixture of diesel fuel and bunker C) in the subsurface. A provision is recognised for the present value of costs to be incurred for the recovery of the hydocarbons and for restoration of the site.

### b) Performance and other bonuses

The provision for profit-sharing is payable within three (3) months of finalisation of the audited financial statements. The provision for other bonuses is payable before December 31, 2008.

### c) Regulatory fees

The subsidiary company, The Barbados Light & Power Company Limited, is regulated by the Fair Trading Commission (FTC) which determines amounts to be levied upon utility service providers annually. The Company is also currently involved in reviewing the rate structure which was fixed in 1983. The provision for regulatory fees represents the estimate for annual FTC fees as well as professional fees for consultants contracted to assist with the rate process.

## 20 Segmental reporting

The revenue collection of the subsidiary company, The Barbados Light & Power Company, is organised into domestic, commercial, street lighting and miscellaneous revenue segments.

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:

| | 2007 $000's | 2006 $000's |
|---|---|---|
| **Business segments** | | |
| Domestic service | 119,699 | 111,318 |
| Commercial service | 271,740 | 244,382 |
| Street lights | 4,396 | 4,109 |
| Miscellaneous | 1,801 | 1,844 |
| Total operating revenue | 397,636 | 361,653 |

## 21 Finance income

Finance income is comprised as follows

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Investment income - Self Insurance Fund | 3,659 | 4,027 |
| Interest income | 1,303 | 1,001 |
| | 4,962 | 5,028 |

## 22 Expenses by nature

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Fuel | 225,299 | 195,447 |
| Maintenance of plant | 22,142 | 26,040 |
| Employee benefits (excluding amounts charged to capital projects) | 39,133 | 38,501 |
| Depreciation | 33,660 | 37,630 |
| Insurance | 4,715 | 4,271 |
| Other expenses | 25,696 | 24,306 |
| Total operating expenses | 350,645 | 326,195 |

Employee benefits comprise:

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Wages and salaries | 38,152 | 38,057 |
| Social security costs | 2,217 | 2,139 |
| Pension (note 25) | 3,858 | 3,669 |
| Other benefits and share discount | 1,194 | 1,408 |
| | 45,421 | 45,273 |

Alloocated as follows:

| | | |
|---|---|---|
| Operating expenses | 39,133 | 38,501 |
| Capitalised | 6,288 | 6,772 |
| | 45,421 | 45,273 |
| Average number of persons employed by the Group during the year | 512 | 506 |

## 23 Related party transactions

### Key management compensation

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Salaries & other short term benefits | 3,072 | 3,267 |
| Directors' fees | 89 | 97 |
| Pension | 774 | 584 |
| Share discount | 30 | 35 |
| | 3,965 | 3,983 |

24 Earnings per share

The earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of common shares in issue during the year.

| | 2007 $000's | 2006 $000's |
|---|---|---|
| Net income for the year | 58,350 | 30,366 |
| Less: Loss/(income) from restricted funds (Self Insurance Fund) | (3,524) | (3,838) |
| Profit attributable to equity holders of the Company | 54,826 | 26,528 |
| Weighted average number of common shares | 17,422,113 | 15,217,493 |
| Basic earnings per share (cents) | 314.7 | 174.3 |

The Company has no dilutive potential ordinary shares, therefore, diluted earnings per share is the same as basic earnings per share.

25 Retirement benefits

The Group operates a defined benefit pension plan for its employees. It pays a pension 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, 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 allowed by IAS 19. Pension cost for the year was $3.9 million (2006 - $3.7 million)

26 Bank overdraft facilities

The subsidiary company, The Barbados Light & Power Company Limited, entered into an agreement with Royal Bank of Canada on September 28, 2007 to create a debenture for $15,000,000. This was issued in accordance with the provisions of the Debenture Trust Deed (note 14) to secure overdraft facilities granted to the Company.

27 Capital commitments

The Group has budgeted capital expenditure of $86.2 million for the 2008 income year of which $30.0 million was contracted for at December 31, 2007.

28 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.

## 29 Subsidiaries and associated companies

| | Country of Incorporation | Equity % |
|---|---|---|
| **Subsidiaries** | | |
| The Barbados Light & Power Company Limited (Generation, Supply & Distribution of Electricity) | Barbados | 100% |
| LPH Telecom Ltd. (Telecommunications) | Barbados | 100% |
| The Barbados Light & Power Company Limited Self Insurance Fund (Special Purpose Entity) | Barbados | 100% |
| **Associated Companies** | | |
| LPH Telecom Ltd. has investments in the below entities: | | |
| Antilles Crossing International, LP | Delaware, USA | 25% |
| Antilles Crossing - St. Croix Inc. | St. Croix - USVI | 25% |
| Antilles Crossing LP via Antilles Crossing Int'l LP | Barbados | 25% |
| Antilles Crossing (St. Lucia) via AC (Barbados) IBC, Inc. | St. Lucia | 25% |
| TeleBarbados Inc. via Antilles Crossing Co. St. Lucia Ltd. | Barbados | 25% |