



**THE NATIONAL GAS COMPANY
OF TRINIDAD AND TOBAGO LIMITED**

ANNUAL REPORT 2007





Mission

To maximize value from our business transactions for the benefit of Trinidad and Tobago, by leveraging our competencies and unleashing our entrepreneurial spirit.

Vision

To establish Trinidad and Tobago as a major player in the global natural gas business.



Established in August 1975 as a state-owned enterprise, NGC's first mandate was to be the sole supplier of natural gas and to develop, construct and operate a transmission and distribution gas pipeline network for gas-based industrialization.

In 1981, this mandate was expanded with NGC undertaking the Flare Gas Conservation Project, which involved the procurement, installation and operation of two offshore compression platforms in the Teak and Poui fields to capture the natural gas that would otherwise have been flared during offshore oil recovery.

In 1992, in recognition of its earlier successes, NGC was named by the Government of Trinidad and Tobago as the prime mover in gas-based development, which meant the Company would engage in investment promotion, the facilitation of gas-based projects and the construction of industrial sites and marine infrastructure.

Today, NGC is a conglomerate with group operations that span the entire local gas value chain from natural gas compression, transmission, sale and distribution to strategic investments in industrial sites, port and marine infrastructure, as well as upstream gas and oil production in the Teak, Samaan and Poui (TSP) offshore fields, NGLs and LNG production and shipping.

Through its ownership and operation of the country's 795km/4.4 Bcf/d transmission and distribution pipeline network, which comprises both offshore and onshore segments, NGC continues to ensure that the precious resource of natural gas is monetized in the best interest of the country. It is on this basis that Tobago will also be brought on to the natural gas pipeline network with the construction of a Tobago marine gas pipeline.

After 32 years in the business, NGC's asset base is TT\$18.5 billion, with major customer segments that comprise power generation, petrochemicals and metals, and a growing light industrial and commercial sector.

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Successful organizations begin with successful employees. NGC is committed to providing a rewarding and challenging environment that supports individual growth and success.



Frank Look Kin (President)



Board of Directors

From left to right:

Wilson Lalla

Errol McLeod

Dr. Cheryl A. Bennett

Lisle Ranyad

Carol Pilgrim-Bristol

Clarence L. Mitchell

Maria Thorne (Company Secretary)

David Small



Year Ended 2007 December 31

The Directors are pleased to submit their Report to the Members together with the Financial Statements for the year ended 2007 December 31.

BUSINESS ACTIVITIES

During 2007 the Company actively pursued its core business of the acquisition, transportation, distribution and sale of natural gas to industrial and commercial users. The year 2007 was the first full year of operations using the integrated software package, SAP, for the Parent Company NGC.

FINANCIAL RESULTS

The Parent Company, The National Gas Company of Trinidad and Tobago Limited (NGC), recorded gross sales of TT\$11.482 billion, an increase of approximately 12.6% above the previous year's figure of TT\$10.200 billion, due mainly to higher gas prices to customers in the petrochemical sector and income earned from the Teak, Samaan and Poui joint venture.

The Company recorded a Net After Tax Profit of TT\$2.955 billion representing an increase of TT\$780 million or 35.9% above the previous year's figure of TT\$2.175 billion. This profit position represents the highest ever recorded by the Company in its history and is the fifth consecutive year in which profits after tax have exceeded TT\$1 billion and second consecutive year in which profits after tax have exceeded TT\$2 billion.

Dividends paid during the year 2007 were TT\$200 million, compared to the figure of TT\$300 million paid in 2006. Retained Earnings at the end of the year amounted to TT\$8.524 billion on Issued Share Capital of TT\$1,752.8 million, which remained the same after an increase of TT\$832.082 million in bonus shares issued to the Shareholder in 2006 through the capitalization of Retained Earnings in accordance with the Company's Policy.

Directors' Report (continued)

TT\$	2007 TT\$	2006
Sales	11,481,727	10,199,594
Cost of sales	(8,047,088)	(7,361,845)
Gross profit	<u>3,434,639</u>	<u>2,837,749</u>
Other operating income	63,250	113,596
Interest and other investment income	1,346,944	1,197,798
Administrative, maintenance & general expenses	(209,362)	(539,674)
Impairment expense	(190,000)	–
Depreciation	(57,045)	(43,332)
Other Expense	(21,636)	(25,153)
Finance Cost	(217,982)	(232,945)
Loss on Foreign Exchange Transaction	(2,318)	(10,071)
Profit before tax	<u>4,146,490</u>	<u>3,297,968</u>
Income tax expense	(1,191,484)	(1,122,930)
Profit for the year	<u>2,955,006</u>	<u>2,175,038</u>
Retained earnings – At beginning of year	5,545,252	4,769,716
Transfer of depreciation for offshore plant and equipment and pipelines	24,147	24,104
Profit for the year	2,955,006	2,175,038
Total income/expense for the year	<u>2,979,153</u>	<u>2,199,142</u>
Dividends paid/proposed	–	(300,000)
Increase in reserve funds	–	(291,524)
Increase in Share Capital	–	(832,082)
Retained earnings – at end of year	<u>8,524,405</u>	<u>5,545,252</u>

PROPOSED DIVIDENDS

In accordance with the Company's Dividends Policy and based on its audited financial statements for the year ended 2007 December 31, the Board proposes that the amount of TT\$650 million be declared as Dividends for the financial year 2007.

DIRECTORS

During the year the membership of the Board comprised Mr. Chiang Keith Awong (Chairman) (up to 2007 September 26), Dr. Cheryl A. Bennett, Mrs. Carol Pilgrim-Bristol and Messrs. Wilson Lalla, Errol Mc Leod, Clarence L. Mitchell, Lisle Ramyad and David Small.

In addition, five (5) Board Sub-Committees continued to assist in formulating and guiding the business and policies of the Company:

- (a) **The Audit Committee** was chaired by Mr. David Small and included Messrs. Chiang Keith Awong (up to 2007 September 26), Wilson Lalla and Mrs. Carol Pilgrim-Bristol. The Committee held one (1) meeting for the year.
- (b) **The Finance Committee** was chaired by Mr. David Small and included Messrs. Chiang Keith Awong (up to 2007 September 26), and Wilson Lalla and Mrs. Carol Pilgrim-Bristol. The Committee did not meet for the year.
- (c) **The Human Resources Committee** was chaired by Dr. Cheryl A. Bennett and included Messrs. Chiang Keith Awong (up to 2007 September 26), Errol Mc Leod and Clarence L. Mitchell. The Committee held eight (8) meetings for the year.
- (d) **The Tenders Committee** was chaired by Mr. Clarence L. Mitchell and included Messrs. Chiang Keith Awong (up to 2007 September 26), Errol Mc Leod, Frank Look Kin, Lisle Ramyad and Dr. Cheryl A. Bennett. The Committee held eight (8) meetings for the year.
- (e) **The Operations Committee** was chaired by Mr. Chiang Keith Awong (up to 2007 September 26), after which Mr. Clarence L. Mitchell was appointed as Chairman. The Committee included Messrs. Wilson Lalla, Frank Look Kin, Lisle Ramyad, David Small, Andrew Jupiter, Prakash Saith and Arnold De Four. The Committee held ten (10) meetings for the year.

SIGNIFICANT EVENTS

NGC completed some of its extended pipeline networks and facilities in 2007 at a cost of TT\$4.69 million to supply natural gas service to downstream users as follows:

1. Pipeline to Trincity Commercial Centre Ltd – TT\$0.62 million
2. Pipeline to Trinbago Commercial Development Co. – TT\$0.37 million
3. Pipeline and Metering Facility to Great Foods Ltd – TT\$1.44 million
4. Pipeline and Metering Facility to Carib Glassworks – TT\$0.13 million
5. NGC's BUD Slug Catcher Paving, Slope Protection – TT\$1.57 million
6. Additional Pipeline and Metering Facility at T&TEC/Powergen – TT\$0.56 million

AUDITORS

The Auditors, Ernst & Young, retire and being eligible, have expressed their willingness to be re-elected.

Dated this 10th day of December, 2008

By ORDER OF THE BOARD



Maria Thorne
Company Secretary





We conduct our business operations with the highest global standards for safety and preservation of the environment, supported by promoting healthy lifestyles among our employees.



Frank Look Kin
NGC President

President's Report

OVERVIEW

The year 2007 was a year of outstanding performance for The National Gas Company of Trinidad and Tobago Limited (NGC). In an environment of buoyant commodity prices, our sales revenue, after tax profits and contribution to the Shareholder soared to record levels, making 2007 the most spectacular year in the history of the Company.

Mindful of the imperative to manage our performance in good and bad times, we adopted the Balanced Scorecard approach to Strategic Management and the 2007 Business Plan. This approach provided greater clarity to our corporate divisional and individual accountability and fashioned a more effective framework for defining the specifics of performance measurement.

FINANCIAL PERFORMANCE

In 2007, our consolidated financial statement showed a new record After-Tax Profit of TT\$3.6 billion. This was 32% higher than the previous record of TT\$2.8 billion achieved in 2006. The Parent, Subsidiary and Investee Companies all contributed to the overall outturn. This profit was derived from total sales revenue of TT\$12.9 billion, of which the Parent accounted for 89% or TT\$11.5 billion and the Subsidiaries, 11% or TT\$1.4 billion. From the contribution of the Subsidiaries, income from LNG sales revenue accounted for over 61%.

The major contributory factor to this impressive revenue performance was the continued robustness of international commodity prices, particularly ammonia and methanol, which attained record levels in 2007. As a result, the gas sales revenue of TT\$10.8 billion was 14% higher than in 2006 and accounted for 84% of total Group sales. Crude oil and condensate sales accounted for 4.6% of total sales. The Group's asset base now stands at an all-time high of TT\$22 billion, 19% above the TT\$18.5 billion base in 2006.

Our outstanding financial performance also translated into significant benefits for our Shareholder. In 2007, the Group's tax contribution surpassed TT\$1 billion once again. This overall performance enabled the company to maintain its regional and international investment grade ratings with CariCRIS, Moody and Standard and Poor's.

OPERATIONS

• Gas Sales

The domestic (non-LNG) gas market grew only marginally in 2007. Gas sales averaged 1,578 MMscf/d, an increase of 4.9% over 2006. The highest ever average sales of 1,611 MMscf/d were achieved in December 2007. The majority of sales, approximately 70%, was made to the petrochemicals sub-sector, mainly to ammonia and methanol facilities. Overall demand was affected somewhat by unexpectedly longer downtime experienced by a number of plants for different reasons during the year.

• Gas Supply

NGC continues to meet its gas sales requirements through long-term purchase contracts with five major suppliers. In 2007, the supply situation was challenged by the delay experienced by one of the

In 2007, our consolidated financial statement showed a new record After-Tax Profit of TT\$3.6 billion. This was 32% higher than the previous record of TT\$2.8 billion achieved in 2006.

major suppliers in bringing new gas on stream. Nevertheless, we managed to keep the system substantially in balance throughout the year without having to resort to rationing. Moreover, we managed to avoid potential "take or pay" obligations from our suppliers.

• Pipeline Operations

We continue to reap the benefits of our carefully planned and executed maintenance strategy for all pipeline and related facilities. For the second successive year we achieved a pipeline mechanical system availability of 100%. This success would not have been possible without the support from all areas of the Company's operations as well as from external stakeholders.

• Gas Compression

A total of 74 MMscf/d of compressed natural gas was collected in 2007. This represented 20% less than the targeted volume of 93 MMscf/d. Operations were constrained by the relatively low on-stream time of 69% and the unavailability of spares.

• Liquids Collection

There was a 37.5% decrease in the amount of liquids collected in 2007 against 2006. 178,210 bbls were collected in 2007 against 285,226 bbls in 2006 at lower liquids to gas (bbls/MMscf/d) ratio of 0.3 as against 0.5 in 2006.

• LNG Sales

LNG sales from ALNG Train 4 continued their steady increase in 2007. Total sales were 23,875,267 mmbtu, which represented an increase of 23% over 2006.

INFRASTRUCTURE DEVELOPMENT AND EXPANSION

In 2007 the Company maintained the aggressive development, expansion and upgrade of its infrastructure to ensure its continued reliable delivery of natural gas to the host of gas-based companies throughout Trinidad and Tobago. Total capital expenditure in 2007 climbed to TT\$717 million, 100%

of which was self-financed. The major capital works included:

- **BUD Pipeline**

Construction of the Beachfield Upstream Development (BUD) pipeline was almost 98% completed at year-end. This constituted over four million person-hours worked, the most for any infrastructure project undertaken by NGC. Commissioning of this significant addition to our asset base is scheduled to commence in March 2008, with first commercial delivery in the 2nd quarter of 2008.

- **Upgrade of Phoenix Park Valve Station**

This project entails the installation of a new slug catcher that will have the capacity to handle 3.0 bcf/d of natural gas and 4,000 bbls of liquids in new pressurized vessels. At year-end, civil works in the form of site preparation were about 25% complete. Total project completion is scheduled for the 2nd quarter of 2008. This project is being funded with internal financing.

- **NEO/Tobago Pipeline**

Construction of these two pipelines has been combined into one project to facilitate greater efficiency. Construction commenced in 2007 of the North-Eastern Offshore Pipeline and the Tobago offshore pipeline. The former is a large (36-inch) diameter pipeline that will originate from the Angostura field off the northeast coast of Trinidad and connect into the existing NGC pipeline network in the southeast. During 2007 the engineering design work was substantially completed and we were in the final stages of procuring long-lead items.

The second project component is the 33.5-mile, 12-inch-diameter sub-sea pipeline from the BHP Billiton Angostura field to the Cove Eco-Industrial Business Park in southwest Tobago. This line will supply gas to the Estate, as well as create a staging platform for proposed gas supply to third parties, particularly in the Eastern Caribbean. The front-end engineering design contract was awarded in September 2007 and the next major milestone is the award of the construction contract to a world class contractor by July 2008. Construction is due to commence in 2nd quarter 2009.

- **Liquid Fuels Pipeline System Projects**

NGC has been mandated by the Government to manage the construction of a 21.2 mile, 8-inch-

diameter liquid fuels pipeline from Pointe-à-Pierre to a new bond at Caroni. This line constitutes part of the domestic strategic distribution network for transportation fuels. It will serve a new centralized loading system for road tankers to supply fuel to service stations throughout Trinidad and have the capacity to transport 1.6 million b/d of refined products. A jet fuel line will also be constructed from Caroni to Piarco as part of this project. At year-end, engineering design and procurement were completed. Construction is scheduled to commence in 3rd quarter 2008.

- **Point Lisas 36-inch Ring Main 'Loop' Line**

This 6km line is being laid to accommodate an anticipated increase in natural gas demand on the Point Lisas Industrial Estate from 1.2 bcf/d to 2.0 bcf/d. This capacity increase will facilitate the minimization of pressure loss and gas flow velocities in the pipeline distribution system. At year-end the project was 80% complete with total completion targeted for the 1st quarter 2008. The construction and financing of this project was undertaken with internal resources.

- **Union Industrial Estate Pipeline**

The Union Industrial Estate pipeline is a 10km, 24-inch-diameter pipeline from Guapo to Union Industrial Estate to supply gas to industries slated for the Estate, including the aluminium smelter, as well as to supply low-pressure gas to consumers on the LABIDCO Estate and the operations of Trinidad Lake Asphalt Limited. The design and engineering contract was awarded in 2007. An application for a Certificate of Environmental Clearance was submitted in 2006 and public consultations were held in 3rd quarter 2007. Construction is expected to begin in 1st quarter 2008.

- **Small Consumer Distribution Lines**

Construction of the International Waterfront pipeline was undertaken in 2007. This 4-inch/8-inch-diameter low pressure distribution system taps off NGC's 16-inch-diameter line beneath Dock Road, opposite the International Waterfront and extends into a regulator station located on Dock Road.

Construction also commenced on a 3km, 6-inch-diameter line for e-Teck's Tamana Industrial Park at Wallerfield.

In addition, low pressure pipelines and related facilities being constructed to service light

industrial and commercial customers such as Great Foods, Carib Glassworks, National Flour Mills, MovieTowne and Trincity Mall were in various stages of completion.

MARKET DEVELOPMENT

• Supply Sources

The Company signed contracts with three producers for delivery of an additional 550 MMscf/d of gas. This incremental supply will satisfy increased demand from new industrial projects scheduled to come on stream during the 2009-2010 period.

• Consumers

(a) Heavy Industrial

A long-term gas supply contract was concluded with Essar Steel Caribbean Limited for the supply of 140 MMscf/d of natural gas, proposed to commence in 2009.

Negotiations commenced with Lurgi/Basell for long-term supply to the proposed 490,000 TPA polypropylene facility.

(b) Light Industrial

We continued to explore opportunities and mechanisms for making gas available at affordable and competitive prices to the small customers in the domestic market, for light industrial applications as well as for gas cooling. During 2007, this market grew by 7 customers to 121 customers, including CNG and gas cooling.

HEALTH, SAFETY AND ENVIRONMENT

In 2007, NGC was challenged once again by an unacceptable increase in unsafe incidents. Our safety performance continued to be unsatisfactory despite sustained and concerted efforts to re-educate and train every employee and to monitor contractor safety capability and performance. As a result, we embarked upon two key safety initiatives to address safety challenges among our staff and contractors.

The first initiative, called STOP (Safety Training Observation Programme), was mandated by the President. This company-wide programme was rolled out to supervisors during March to August and to

A new Employee Recognition Programme was launched. This programme will acknowledge and recognize performance excellence, along with our traditional dimensions of Safety and Long Service.

other employees from October to December. The project stresses safety as the number one priority among staff at all levels.

Additionally, in partnership with the Point Lisas Energy Association, NGC has been working to develop and implement an industry-wide passport system of training which brings uniformity in best practice working standards to all contractors operating on the Estate. This passport system is now an on-the-job requirement by all participating companies and increases safety awareness among contractors.

MANPOWER DEVELOPMENT AND TRAINING

In addition to our routine manpower development and training for all levels of staff, we embarked on two special initiatives in 2007 – a restructured Employee Recognition Programme and a Succession Planning and Leadership Development Programme.

Employee Recognition

A new Employee Recognition Programme was launched. This programme will acknowledge and recognize performance excellence along with our traditional dimensions of Safety and Long Service. Candidates for the performance awards will be chosen from peer nominations supported by line supervisors and managers.

Succession Planning

A new dimension was added to our succession planning and leadership development initiatives in 2007. This was in recognition of the value of succession planning for the sustainability of NGC in a situation where several leadership opportunities will become available over the next five years. A two-year targeted Leadership Development and Relationship Management Programme was initiated for potential leadership candidates throughout the Company. The objectives of this programme are to develop world class leaders and to manage work relationships which support the Company's strategic business objectives.

CORPORATE SOCIAL RESPONSIBILITY

Our dedication to serving the needs of our internal and external stakeholders has a significant impact on our corporate and management decisions. In 2007 we continued to be involved in our reforestation and infrastructure development programmes which seek to reforest areas denuded by NGC's construction activities, and upgrade social amenities in communities adjoining our pipelines and related facilities respectively. NGC also provides diverse forms of assistance in the areas of Youth Development, the Arts, Sport and Education. These activities are a manifestation of our contribution to facilitating a better quality of life for our young people and the realization of the Government's vision of developed country status by 2020.

OUTLOOK

This is my last review as President of NGC. I retire in June next year. Permit me to share with you some personal thoughts about the future.

As we scale the heights of success at NGC we must be ever mindful of the environment in which we operate. The prices of energy and energy-related products are inherently cyclical and volatile. This golden era of buoyant prices therefore ought not to be taken as a permanent condition. As night follows day, prices will fall.

Indeed, while oil demand growth remains robust, there are early signs that future revisions will be on the downside as demand-dampening factors, such as China's efforts to moderate energy consumption demand, global recession and the credit crunch kick in. In addition, while T&T has the potential to be the single largest supplier of LNG to the US and to attract further high-level foreign investment as the resource base is exploited, there is some medium- to long-term risk that competition in the LNG sub-sector can lead to downward pressure on supply prices.

We note also that high prices and escalating costs affect our capital projects significantly, in the case of the iron and steel based inputs to those projects. This is a worrying factor since most of our necessary investment requirements are high-cost and capital-intensive. In the same breath, we must also be aware of the incontrovertible fact that commodity prices more than costs tend to be intractable downwards.

These circumstances must be a foremost consideration in our future corporate strategy. Our business decisions, particularly those related to investments and costs, must meet the most stringent test of prudence. A critical success factor for NGC and a major determinant of the Company's ability to assure an enduring and sustainable future will be our ability to manage effectively and efficiently in this period of high output and input prices and rising operating costs. This also has to be done at a time when we are faced with necessary rising and high-level investment requirements. I have no doubt, however, that NGC will rise to this daunting challenge.

TRIBUTE

Regrettably, in the last quarter of 2007 the long-serving and devoted Chairman of our Board of Directors, Mr. Chiang Keith Awong, demitted office because of ill health. Mr. Awong is one of the outstanding professionals in our energy industry and has served in many capacities over his more than four decades of association with the industry.


We at NGC take this opportunity to pay public tribute to Mr. Awong. In particular, we thank him and his family for the use of his valuable services after he ceased full-time employment. We pray for his improved health and continued happiness.

APPRECIATION

As I take the time to appreciate the efforts of all stakeholders to our outstanding achievements in 2007, I must also show my appreciation for your collective efforts during my tenure. A heartfelt thanks therefore to our loyal and committed Shareholder and our Board of Directors, to our hard-working staff and their supportive families, to our understanding financiers, to our joint-venture and investee partners, and to our many contractors and customers for your unswerving support. My heartfelt thanks to you and all the best for the future.



FRANK LOOK KIN
President



We believe in the preservation
of the environment for future
generations and ourselves.
We shall conduct all our
business operations with the
highest global standards.



We are committed to developing the necessary competencies and providing the resources to empower employees to contribute meaningfully to the business decisions of the Company.





Auditors' Report

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

We have audited the accompanying non-consolidated financial statements of The National Gas Company of Trinidad and Tobago Limited, which comprise the balance sheet as at 31 December, 2007 and the Statement of Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of Significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

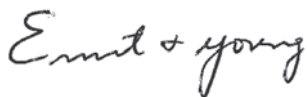
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the non-consolidated financial statements give a true and fair view of the financial position of the Company as of 31 December, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Port of Spain,
TRINIDAD:
26 November, 2008

Non-Consolidated Balance Sheet

As at 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

ASSETS		2007 \$'000	2006 \$'000 Restated
NON-CURRENT ASSETS	Notes		
Property, plant and equipment	4	3,436,583	3,053,566
Intangible assets	5	11,614	36,036
Pension asset	6	—	38,791
Investments and advances	7	1,761,650	1,783,176
Deferred tax asset	18	258,662	215,989
Deferred expenses	8	212,021	281,337
Long-term loans receivable	9	745,842	864,346
Debt reserve funds	10	83,355	79,391
		<u>6,509,727</u>	<u>6,352,632</u>
CURRENT ASSETS			
Cash and short-term deposits	12	7,038,582	4,745,650
Accounts receivable	11	2,876,366	2,222,016
Deferred expenses	8	45,680	206,610
Current portion of long-term loans receivable	9	127,050	126,638
Short-term loan receivable	9	100,762	66,847
Inventories	13	17,890	16,045
Sundry debtors and prepayments	14	1,707,669	1,900,081
Tax recoverable		81,343	—
		<u>11,995,342</u>	<u>9,283,887</u>
Total assets		<u>18,505,069</u>	<u>15,636,519</u>

The accompanying notes form an integral part of these financial statements.

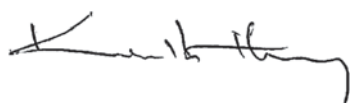
Non-Consolidated Balance Sheet

As at 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

EQUITY AND LIABILITIES		2007 \$'000	2006 \$'000 Restated
EQUITY	Notes		
Stated capital	15	1,752,848	1,752,848
Reserve fund	16	438,192	438,192
Other reserves	17	731,716	763,556
Retained earnings		8,524,405	5,545,252
		11,447,161	8,499,848
NON-CURRENT LIABILITIES			
Deferred tax liability	18	421,090	449,107
Long-term debt	19	2,926,241	2,979,046
Provisions	20	473,689	445,411
Post retirement medical and group life obligation	21	83,256	66,996
Pension obligation	6	2,091	–
Long-term creditors	8	111,602	156,707
		4,017,969	4,097,267
CURRENT LIABILITIES			
Current portion of long-term debt	19	80,645	79,151
Trade creditors	22	1,790,588	1,828,813
Sundry creditors and accruals	23	988,925	727,004
Dividend payable		–	200,000
Income tax payable		179,781	202,360
Provisions	20	–	2,076
		3,039,939	3,039,404
Total liabilities		7,057,908	7,136,671
Total equity and liabilities		18,505,069	15,636,519

The accompanying notes form an integral part of these financial statements.

Director



Director



Non-Consolidated Financial Statement of Income

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

		2007 \$'000	2006 \$'000 Restated
	Notes		
Sales	24	11,481,728	10,199,594
Cost of sales	24	(8,047,087)	(7,361,845)
Gross profit		3,434,641	2,837,749
Other operating income	25	63,250	113,596
Interest and other investment income	26	1,346,944	1,197,798
Administrative, maintenance & general expenses	27	(209,362)	(539,674)
Impairment expense	4 (c)	(190,000)	—
Depreciation		(57,045)	(43,332)
Other expenses		(21,636)	(25,153)
Finance costs	28	(217,982)	(232,945)
Loss on foreign exchange transactions		(2,320)	(10,071)
Profit before tax		4,146,490	3,297,968
Income tax expense	18	(1,191,484)	(1,122,930)
Profit for the year		<u>2,955,006</u>	<u>2,175,038</u>

The accompanying notes form an integral part of these financial statements.

Non-Consolidated Statement of Changes in Equity

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	Stated capital \$'000	Reserve fund \$'000	Other reserves \$'000	Retained earnings \$'000	Total \$'000
Balance as at 1 January, 2006	920,766	146,668	1,172,804	4,769,716	7,009,954
Transfer of depreciation for offshore pipelines	—	—	(24,104)	24,104	—
Net loss on available-for-sale financial assets	—	—	(373,509)	—	(373,509)
Foreign currency translation	—	—	(11,635)	—	(11,635)
Total income and expense for the year recognized in equity	—	—	(409,248)	24,104	(385,144)
Profit for the year	—	—	—	2,175,038	2,175,038
Total income/expense for the year	—	—	(409,248)	2,199,142	1,789,894
Increase in share capital	832,082	—	—	(832,082)	—
Increase in reserve fund	—	291,524	—	(291,524)	—
Dividends	—	—	—	(300,000)	(300,000)
Balance as at 31 December, 2006	<u>1,752,848</u>	<u>438,192</u>	<u>763,556</u>	<u>5,545,252</u>	<u>8,499,848</u>
Balance as at 1 January, 2007	1,752,848	438,192	763,556	5,545,252	8,499,848
Transfer of depreciation for offshore plant and equipment and pipelines	—	—	(24,147)	24,147	—
Net loss on available-for-sale financial assets	—	—	(35,360)	—	(35,360)
Foreign currency translation	—	—	27,667	—	27,667
Total income and expense for the year recognized in equity	—	—	(31,840)	24,147	(7,693)
Profit for the year	—	—	—	2,955,006	2,955,006
Total income/expense for the year	—	—	(31,840)	2,979,153	2,947,313
Balance as at 31 December, 2007	<u>1,752,848</u>	<u>438,192</u>	<u>731,716</u>	<u>8,524,405</u>	<u>1,447,161</u>

The accompanying notes form an integral part of these financial statements.

Non-Consolidated Statement of Cash Flows

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	2007 \$'000	2006 \$'000 Restated
Cash flows from operating activities		
Cash generated from operations (note 29)	3,592,158	1,915,238
Pension & other post retirement contribution paid	(14,555)	(11,638)
Income taxes paid	(1,359,089)	(1,091,121)
Interest received	419,955	210,722
Interest paid	(192,571)	(218,473)
Net cash generated from operating activities	2,445,898	804,728
Cash flows from investing activities		
Purchase of property, plant and equipment	(715,153)	(365,034)
Proceeds on disposal of property, plant and equipment	687	518
Net increase in short-term deposits	(2,975,847)	(2,364,350)
Investment & advances to subsidiary & associated companies	72,812	(338,915)
Proceeds from repayment of loans receivables	123,609	124,145
Purchase of other held-to-maturity investments	—	(9,830)
Proceeds from disposal of long-term investments	—	24,795
Increase in debt reserve fund	(3,749)	(3,380)
Dividends received	634,707	482,640
Net cash used in investing activities	(2,862,934)	(2,449,411)
Cash flows from financing activities		
Proceeds from long-term debt	—	2,590,406
Repayment of long-term debt	(82,295)	(87,028)
Payment of borrowing costs	(365)	(36,121)
Dividends paid	(200,000)	(300,000)
Net cash generated from/(used in) financing activities	(282,660)	2,167,257
Net increase in cash and cash equivalents	(699,696)	522,574
Net foreign exchange differences	8,561	(11,023)
Cash and cash equivalents		
- beginning of year	1,666,469	1,154,918
- end of year (note 12)	975,334	1,666,469

The accompanying notes form an integral part of these financial statements.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

I. Corporate information

The Company was incorporated in Trinidad and Tobago in August 1975, and continued in accordance with Section 340(1) of The Companies Act, 1995. It is principally engaged in the purchase, compression, transportation and distribution of natural gas to industrial users.

The Company's registered office is located at Orinoco Drive, Point Lisas Industrial Estate, Point Lisas.

The Company is owned by the Government of Trinidad and Tobago.

The financial statements of The National Gas Company of Trinidad and Tobago Limited were authorized for issue by the Board of Directors on 26 November, 2008.

2.1 Basis of preparation

These financial statements have been prepared under the historical cost basis, except for the revaluation of the Company's offshore plant and equipment and pipelines and available-for-sale investments, which have been measured at fair value. The financial statements are presented in Trinidad and Tobago dollars (TT\$). Separate consolidated financial statements have been prepared.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Restatement

As described below, the Company has restated its financial statements as at 31 December, 2006. All information presented in the financial statements and related notes include all such restatements.

The restatements relate to adjustments to the change in the accounting treatment with respect to the purchase of the 24-inch-diameter Pipeline from Dolphin Platform to Beachfield. The National Gas Company of Trinidad and Tobago Limited advanced US\$190 million to BG and Chevron Texaco in April 2006 and subsequently began receiving monthly pre-transfer payments representing advance part payments for the transportation services to be provided on and from the completion date of the pipeline. The advance payment was accounted for as Property, Plant & Equipment and the pre-transfer payments were accounted for as revenue. The Pipeline has not been completed and the transfer to the Company is not expected to take place until 2010.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.2 Restatement (continued)

These financial statements have been restated to record the advance payment of US\$190 million as a prepayment as at January 1, 2007 and the pre-transfer payments of US\$22.486 million for the period April to December 2006 as a current liability.

This restatement increased/(decreased) previously reported amounts as follows:

	As at or for the year ended 31 December, 2006			
	Profit before taxation \$'000	Property, plant & equipment \$'000	Sundry debtors & pre-payments \$'000	Sundry creditors & accruals \$'000
As originally reported	3,403,411	4,213,642	704,126	583,047
Dolphin pipeline	<u>(105,443)</u>	<u>(1,160,076)</u>	<u>1,195,955</u>	<u>143,957</u>
Restated	<u>3,297,968</u>	<u>3,053,566</u>	<u>1,900,081</u>	<u>727,004</u>

2.3 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:-

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these standards and interpretations did not have any effect of the financial performance or position of the Company. They did however give rise to additional disclosures including in some cases revisions to accounting policies.

IAS 1	-	Presentation of Financial Statements (Capital Disclosures)
IFRS 7	-	Financial Instruments Disclosures
IFRIC 7	-	Applying the Restated Approach under IAS 29
IFRIC 8	-	Scope of IFRS 2
IFRIC 9	-	Reassessment of Embedded Derivatives
IFRIC 10	-	Interim Financial Reporting and Impairment

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.3 Changes in accounting policy and disclosures (continued)

The principal effects of these changes are as follows:-

IAS 1 Presentation of Financial Statements

This amendment requires the Company to make new disclosures to enable users of the financial statements to evaluate the Company's objective, policies and processes for managing capital. These new disclosures are shown in note 37.

IFRS 7 Financial Instrument: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised or included where needed.

IFRIC 7 Applying the re-stated approach under IAS 29

The interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which the entity identifies the existence of hyper inflation in the economy of its functional currency when the economy was not hyper inflationary in the prior period and the entity therefore restates its financial statements in accordance with IAS 29. As the Company does not operate in a hyper inflationary economy the interpretation has no impact on the financial position or performance of the Company.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received in particular where equity instruments are issued for consideration which appears to be less than fair value. The interpretation has no impact on the financial position of the Company.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract the interpretation had no impact on the financial position or performance of the Company.

IFRIC 10 Interim Financial Reporting and Impairment

The interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either equity instruments or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements

In the process of applying the Company's accounting policies, management has determined that there were no judgements apart from those involving estimations which have a significant effect on the amounts recognized in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Company assesses whether there are indicators of impairment for all-non financial assets at each reporting date. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of available-for-sale investments

The Company classifies certain assets as available-for-sale and recognizes movement in their fair value in equity. When fair value declines management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. As at 31 December, 2007 no impairment loss has been recognized in the Statement of Income. Net losses recognized in the statement of equity have been TT\$35.36 million (2006:TT\$373.50 million).

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Tax assessments

The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due where the final tax outcome of these matters is different from the amounts that were initially recorded. Such differences will impact the income tax and deferred tax provisions in the period in which such determinations is made.

Pension and other post employment benefits

The cost of defined benefits pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of returns on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans such estimates are subject to significant uncertainty.

Asset retirement obligation

The company has recorded a provision for the estimated cost of decommissioning its offshore plant and equipment. In determining the amount of provision, assumptions and estimates are required in relation to discount rates and expected cost to dismantle and remove the offshore plant and equipment.

Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production (UOP) method over proven developed and undeveloped mineral reserves.

The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proved reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- changes in proven reserves;
- the effect on proven reserves of differences between actual commodity prices and commodity price assumptions;
- unforeseen operational issues.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies

(a) Cash and cash equivalents

Cash on hand, in banks and short-term deposits that are held to maturity are carried at cost.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks and short-term deposits with an original maturity of three months or less.

(b) Accounts and other receivables

Trade accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. A provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written-off when identified. Receivables from related parties are recognized and carried at cost.

(c) Inventories

Inventories are valued at the lower of weighted average cost and net realizable value.

(d) Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized.

The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax assets arising from tax losses not yet recognized are only carried forward if it is probable that future taxable profit will be sufficient to allow the benefit of the tax losses to be realized.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies

(d) Taxes (continued)

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

(e) Property, plant and equipment

i) Non-oil and gas assets

Property, plant and equipment, except for offshore plant and equipment and pipelines, are stated at cost, less accumulated depreciation and accumulated impairment losses. Offshore plant and equipment and pipelines are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

Machinery and equipment	10%	–	20%
Pipelines and related facilities	4%		
Offshore assets	12.5%	–	25%
Marine infrastructural assets	2.5%		
Other assets	12.5%	–	33.3%
Software	50%		

Leasehold property is amortized as follows:

Land	– over the term of the lease.
Buildings	– over fifty (50) years or the term of the lease, whichever is shorter.

All costs relating to assets under construction will upon completion be transferred to their relevant fixed asset categories and are depreciated from that date.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

i) Non-oil and gas assets (continued)

Following initial recognition at cost, offshore plant and equipment and pipelines are carried at a revalued amount, which is the fair value at the date of the revaluation, less any subsequent accumulated depreciation and impairment losses. Generally, valuations are performed every five to seven years unless there is an indication that the fair value of a revalued asset differs materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

ii) Oil and gas assets

The Company accounts for its natural gas and crude oil exploration, development and production activities under the full cost method of accounting.

Under this method all cost associated with the exploration for and development of oil and gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical costs, interest and the carrying costs of non-producing properties, cost of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs, but do not include any cost related to production, general corporate overheads or similar activities. The cost also includes the estimated cost of dismantlement, assets removal and site restoration.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

ii) Oil and gas assets (continued)

The provision for depletion and amortization is determined using the unit-of-production method based upon the estimated proven developed reserves of oil and gas, as determined by an independent qualified petroleum consultant. Costs associated with the acquisition and evaluations of significant unproven properties are excluded from amounts subject to depletion until such time as the properties are proved or become impaired.

(f) Intangible assets

Intangible assets acquired separately are measured at initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated depreciation.

Intangible assets consist of software which is depreciated over the useful economic life, currently estimated at two (2) years, and assessed for impairment whenever there is an indication that the intangible may be impaired. The depreciation period and the depreciation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method as appropriate and treated as changes in accounting estimates.

The depreciation expense on intangible assets with finite lives is recognized in the income statement in the expense category, consistent with the function of the intangible asset.

(g) Long-term debt

Long-term debt is initially recognized at the fair value of the consideration received less any directly attributable transaction costs.

After initial recognition, long-term debt is subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any directly attributable transaction costs.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(h) Foreign currencies

The presentation currency of the Company's financial statements is Trinidad & Tobago dollars (TT\$). The functional currency of the Company is the United States dollar (US\$) because the US\$ is the currency of the primary economic environment in which the Company operates. All balance sheet accounts have been translated using exchange rates in effect at the balance sheet date and income statement amounts have been translated using average exchange rates for the year. Gains and losses resulting from this process have been recorded in translation reserve as a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Resulting exchange differences are recognized in income for the year. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of the initial transactions.

(i) Borrowing costs

Borrowing costs to finance the construction of property, plant and equipment are capitalized during the period required to complete and prepare the asset for its intended use, using the effective interest method. All other borrowing costs are expensed.

(j) Trade and other payables

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

Payables to related parties are carried at cost.

(k) Investments and other financial assets

Investment in subsidiary companies

Investments in subsidiaries are accounted for at cost less any diminution in value considered permanent.

Investment in associated company

Investment in associated company is accounted for using the cost method of accounting whereby these investments are initially recorded at cost and subsequently adjusted to recognize any diminution in value considered permanent.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(k) Investments and other financial assets (continued)

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are carried at amortized cost using the effective interest method, less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(k) Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

Amortized cost

Held-to-maturity investments and loans and receivables are measured at amortized cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of borrowing costs.

(l) Pension and other post employment benefits

The Company maintains a defined benefit pension plan which covers all of its permanent employees effective 1 May, 1977. The funds of the plan are held separately from the Company and are administered by Trustees. The plan is funded by payments from employees and the Company, taking into account the recommendations of independent qualified actuaries.

The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of independent actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government securities. All actuarial gains or losses to be recognized are spread forward over the average remaining service lives of employees.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized, reduced by past service cost not yet recognized and the fair value of plan assets, out of which the obligations are to be settled directly. If such aggregate is negative, the pension asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and refunds from the plan or reductions in the future contributions to the plan.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(l) Pension and other post employment benefits (continued)

Pension income/cost is included in staff costs within administrative, maintenance and general expenses in the statement of income.

The Company also provides certain additional post-employment medical and group life benefits to retirees.

(m) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value, less costs to sell, and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(n) Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment, loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment, loss was recognized in profit or loss.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(o) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date. Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases. Operating lease payments are recognized as an expense in the income statement over the lease term.

(p) Revenue recognition

Revenues associated with the sale of gas, oil and condensate are recognized when title and the related rights pass to the customer. Revenue associated with services is recognized upon performance of services. Dividend income is recognized when dividends are declared by the Investee Company. Interest income is accounted for on the accruals basis.

(q) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amounts of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss net of any reimbursement. If the effects of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage in time is recognized as a finance cost.

Asset retirement obligation

The Company has recorded a provision for the net present value of the estimated cost of decommissioning the offshore plant and equipment and its proportionate share of the Teak, Samaan and Poui (TSP) assets at the end of their useful lives. The related fixed assets are increased in an amount equivalent to the provision and subsequently depreciated as part of the capital costs of the plant and equipment. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset unless related to the time value of money. The unwinding of the discount on the provision is included in finance costs in the income statement.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(q) Provisions (continued)

Provision for re-forestation

The Company has recorded a provision for the cost of re-forestation. These estimated costs of replacing forests cleared in the construction of its pipelines were included in the related fixed asset and are to be depreciated as part of the capital cost of the pipelines.

(r) Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value, less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

(s) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Significant accounting policies (continued)

(s) Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(t) Derivative financial instruments and hedging

The Company uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Company does not carry any financial instrument which meets the strict criteria for hedge accounting.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

3. Future changes in accounting policies

Standards issued but not yet effective

The Company has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning after 1 January, 2007.

			Effective Date
IAS 23	—	Borrowing Costs	1 January, 2009
IFRS 8	—	Operating Segments	1 January, 2008
IFRIC 11	—	IFRS 2 Group and Treasury Share Transaction	1 March, 2007
IFRIC 12	—	Service Concession Agreements	1 January, 2008
IFRIC 13	—	Customer Loyalty Programmes	1 July, 2008
IFRIC 14	—	IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January, 2008

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment

2007	Freehold land \$'000	Leasehold property \$'000	Machinery and equipment \$'000	Pipeline and related facilities \$'000	Oil and gas assets \$'000	Offshore plant and equipment \$'000	Marine and infrastructural assets \$'000	Other assets \$'000	Assets under construction \$'000	Total \$'000
Cost/valuation										
At beginning of year	3,307	117,290	91,725	1,874,570	304,072	438,325	93,303	50,217	1,275,173	4,247,982
Additions/transfer at cost	–	6,091	2,749	4,734	122,065	4,142	–	7,740	570,111	717,632
Disposals	–	–	(6,521)	–	–	–	–	(6,623)	–	(13,144)
Foreign exchange difference	9	323	250	5,110	1,015	1,177	249	147	3,286	11,566
	3,316	123,704	88,203	1,884,414	427,152	443,644	93,552	51,481	1,848,570	4,964,036
Accumulated depreciation/ impairment										
At beginning of year	–	45,270	72,099	522,014	49,474	438,325	35,147	32,087	–	1,194,416
Charges for year	–	1,873	16,142	72,347	47,283	4,142	1,960	7,863	190,000	341,610
Disposal	–	–	(6,515)	–	–	–	–	(5,824)	–	(12,339)
Foreign exchange difference	–	124	220	1,622	425	1,177	97	101	–	3,766
	–	47,267	81,946	595,983	97,182	443,644	37,204	34,227	190,000	1,527,453
Net book value	3,316	76,437	6,257	1,288,431	329,970	–	56,348	17,254	1,658,570	3,436,583

Interest capitalized for the year ended December 31, 2007 is \$26,183 (2006: \$26,961).

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment (continued)

2006	Freehold land \$'000	Leasehold property \$'000	Machinery and equipment \$'000	Pipeline and related facilities \$'000	Oil and gas assets \$'000	Offshore plant and equipment \$'000	Marine assets \$'000	Other assets \$'000	Assets under construction \$'000	Total \$'000
Cost/valuation										
At beginning of year	3,109	98,320	86,409	1,695,348	276,846	439,739	93,363	50,424	1,207,987	3,951,545
Additions/transfers at cost and adjustments	–	19,091	5,357	185,589	27,343	201	–	6,823	67,809	312,213
Disposals	–	–	–	–	–	–	–	(9,018)	–	(9,018)
Foreign exchange difference	198	(121)	(41)	(6,367)	(117)	(1,615)	(60)	1,988	(623)	(6,758)
	3,307	117,290	91,725	1,874,570	304,072	438,325	93,303	50,217	1,275,173	4,247,982
Accumulated depreciation/impairment										
At beginning of year	–	43,012	56,491	558,435	7,960	439,739	33,210	32,587	–	1,171,434
Charges for year	–	2,278	15,659	67,063	41,435	201	1,954	8,247	–	136,837
Prior year charges	–	–	–	(97,198)	–	–	–	–	–	(97,198)
Disposal	–	–	–	–	–	(201)	–	(8,515)	–	(8,716)
Foreign exchange difference	–	(20)	(51)	(6,286)	79	(1,414)	(17)	(232)	–	(7,941)
	–	45,270	72,099	522,014	49,474	438,325	35,147	32,087	–	1,194,416
Net book value	3,307	72,020	19,626	1,352,556	254,598	–	58,156	18,130	1,275,173	3,053,566

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment (continued)

(a) Revaluation of offshore plant and equipment and pipelines

i. Offshore plant and equipment

The Company revalues its offshore plant and equipment using an income approach every five to seven years. In December 2004, the Company revalued its offshore plant and equipment at an amount of TT\$139.00 million, to be depreciated over the assets' remaining useful life of eight years. A corresponding amount of TT\$90.30 million (net of tax) was recorded as a revaluation reserve. If the offshore plant and equipment were measured using the cost model, the net carrying amount would have been immaterial, as at 31 December, 2007.

ii. Pipelines

The Company revalues its pipelines every five to seven years. In January 2000, an independent accredited valuer revalued the Company's pipelines at an amount of TT\$927.09 million. If these pipelines were measured using the cost model, the net carrying amount would have been TT\$180.91 million and TT\$145 million respectively, as at 31 December, 2006 and 2007. Management intends to revalue the pipelines during 2008.

(b) Pipelines and related facilities

Included in "Pipelines and related facilities" is the Trinidad and Tobago Electricity Commission (T&TEC) pipeline system which was acquired by the Company from T&TEC with effect from 1 January, 1977. However, the Company has not obtained legal title to the asset because the proper Rights of Way associated with the pipeline system have not yet been acquired by the Company. Refer also to note 31(i).

(c) Assets under construction

The Company has incurred costs of approximately TT\$490.568 million (inclusive of capitalized interest of TT\$49.512 million) in respect of site development works on the Union Industrial Estate (UIE). The Company has determined that the fair value of the UIE is TT\$309.6 million. The reduction of TT\$190.0 million has been charged to the income statement. The fair value was determined based on an income approach using cash flow projections covering a thirty year period.

The site development works on the Union Industrial Estate were partially funded by bank borrowings of TT\$329.927 million (see note 19 iv). The Subsidiary Company, National Energy Corporation of Trinidad and Tobago is in the process of acquiring the land on which the site development works were done. It is therefore the intention of the Company to transfer the value of the development works to its Subsidiary (NEC) at terms and conditions to be agreed.

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment (continued)

(d) Transfer of oil and gas assets

During 2005 the Company acquired a 15% share of the Teak, Samaan and Poui (TSP) marine production assets. These assets are included in the property, plant and equipment of the Company under the category oil and gas assets. NGC intends to transfer the operations of the TSP into the subsidiary NGC E&P Investments Limited during 2009. The net book value of the TSP assets at 31 December, 2007 is TT\$329.970 million (2006:TT\$254.598 million). The impact on the Statement of Income is TT\$204 million (2006:TT\$49 million). NGC E&P Investments Limited was incorporated with the intention to own and operate the TSP assets.

5. Intangible assets

Cost

At the beginning of year
Additions at cost
Disposal
Foreign exchange difference

Accumulated depreciation

At the beginning of year
Charges for the year
Disposal
Foreign exchange difference

Net book value

6. Pensions

Benefit asset/(liability)

Present value of obligation
Fair value of plan assets

Pension (liability)/asset

	2007 \$'000	2006 \$'000
	71,247	21,505
	590	49,332
	(3,631)	—
	182	410
	68,388	71,247
	36,036	20,136
	25,066	14,993
	(3,631)	—
	(697)	82
	56,774	35,211
	11,614	36,036
	(302,064)	(233,070)
	299,973	271,861
	(2,091)	38,791

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

6. Pensions (continued)

Movement on the asset recognized in the balance sheet:

	2007 \$'000	2006 \$'000
Asset value at beginning of the year	38,791	84,765
Net pension cost	(56,423)	(56,632)
Contributions paid	15,541	10,658
(Liability)/asset value at end of the year	(2,091)	38,791

The amounts recognized in the statement of income are as follows:

Current service cost	17,478	11,371
Interest cost on benefit obligation	20,245	14,415
Expected return on plan assets	(27,239)	(24,204)
Net actuarial loss recognized in the year	45,939	19,543
Past service cost	—	35,507
Net pension cost	56,423	56,632
Actual return on plan assets	11,000	11,691

Changes in the present value of the defined benefits obligation are as follows:

Defined benefit obligation at start of the year	233,070	187,207
Service cost	17,478	11,371
Interest cost	20,245	14,415
Members' contribution	5,559	3,806
Benefit improvement	—	35,507
Actuarial (gain)/loss	29,700	(16,352)
Benefits paid	(3,469)	(2,469)
Expense allowance	(519)	(415)
Defined benefit obligation at end of the year	302,064	233,070

Changes in fair value of plan assets are as follows:

Plan assets at start of year	271,861	271,972
Expected returns on plan assets	27,239	24,204
Actuarial loss	(16,239)	(35,895)
Company contributions	15,541	10,658
Members' contributions	5,559	3,806
Benefits paid	(3,469)	(2,469)
Expense allowance	(519)	(415)
Plan assets at end of year	299,973	271,861

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

6. Pensions (continued)

The Company expects to contribute TT\$18.5 million to the defined benefit pension plan in 2008.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2007	2006
Equity securities	47%	61%
Debt securities	11%	2%
Property	0%	0%
Money market instruments/cash	31%	28%
Mutual funds	9%	0%
Other-deposits administrative contract	0%	6%
Other-purchased annuities	2%	3%
	<u>100%</u>	<u>100%</u>

The principal actuarial assumptions used for accounting purposes were:

Discount rate	8.75%	8.75%
Expected return on plan assets	9.75%	9.75%
Future salary increases	8.25%	8.25%
Pension increases	0%	0%

Expected rate of return on assets is set by reference to estimated long term returns on assets held by plan at that date. Allowance is made for some excess performance from the plan's equity portfolio.

7. Investments and advances

Investments and advances comprise the following:

	2007 \$'000	2006 \$'000
a) Investments in subsidiaries	1,022,809	1,016,915
b) Held-to-maturity investments	902	868
c) Available-for-sale financial assets	<u>737,939</u>	<u>765,393</u>
	<u>1,761,650</u>	<u>1,783,176</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

7. Investments and advances (continued)

a) Subsidiaries

La Brea Industrial Development Company Limited (LABIDCO)

During 2007, the Board of Directors of LABIDCO considered the options available for the winding up of the company. After evaluating the various options, the Board agreed that the preferred option was for the shareholders to relinquish their shareholdings voluntarily and that all the assets and liabilities of LABIDCO be transferred to the wholly-owned Subsidiary, National Energy Corporation of Trinidad and Tobago (NEC). The Board of the majority shareholder, NGC has accepted the recommendation. However, the approval of the minority shareholder, Petrotrin is yet to be obtained.

b) Held-to-maturity

These are investments with fixed or determinable payments and fixed maturity dates which the company intends to hold to maturity.

c) Available-for-sale financial assets

Shares – listed
Shares – unlisted

2007 \$'000	2006 \$'000
723,983	756,892
<u>13,956</u>	<u>8,501</u>
<u>737,939</u>	<u>765,393</u>

Listed

Available-for-sale financial assets consist of investments in ordinary shares and the first unit scheme of The Trinidad & Tobago Unit Trust Corporation (a mutual fund) and therefore have no fixed maturity date or coupon rate. The fair value of the listed ordinary shares is determined by reference to published price quotations in an active market.

Unlisted

For investments where there is no active market the fair value estimates cannot be reasonably assessed and as such are measured at cost.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

8. Deferred expenses

	2007 \$'000	2006 \$'000
Take-or-pay (note i)	254,969	484,785
Other (note ii)	2,732	3,162
	<u>257,701</u>	<u>487,947</u>
Less: current portion	<u>(45,680)</u>	<u>(206,610)</u>
	<u>212,021</u>	<u>281,337</u>

i) Take-or-pay

Take-or-pay represent the right to take gas under a take-or-pay agreement for which the Company has recognized a liability to pay for gas volumes contractually committed to but not yet taken. The expenditure is recognized on the earlier of when the gas volumes are actually taken or on expiration of the deficiency recovery period. The Company expects to take the underlying volumes of gas prior to the expiration of the contractual term.

Long-term creditors relate to take-or-pay liabilities expected to be settled more than one year after the balance sheet date.

ii) Other

This amount comprises mainly shippers' reserved capacity, which is billed one month in advance.

9. Loans receivable

a) Long-term loans receivable

Trinidad and Tobago Electricity Commission (T&TEC)	141,562	250,056
National Energy Corporation of Trinidad and Tobago Limited	24,541	36,019
Trinidad and Tobago LNG Limited	<u>706,789</u>	<u>704,909</u>
	<u>872,892</u>	<u>990,984</u>
Less: current portion of loans	<u>(127,050)</u>	<u>(126,638)</u>
Long-term loans receivable	<u>745,842</u>	<u>864,346</u>

Trinidad and Tobago Electricity Commission (T&TEC)

This loan is for a period of 6 years, with interest payable at the rate of 8.75% per annum with a moratorium on principal and interest payment for the first two years of the loan. During this period, interest was capitalized and amalgamated with the loan receivable, which is payable in equal monthly installments over the 4 remaining years with an option for prepayment. The loan agreement was finalized on 6 April, 2005.

The fair value of the loan was TT\$136.12 million at December 2007.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

9. Loans receivable (continued)

a) Long-term loans receivable (continued)

National Energy Corporation

Effective 1 January, 2000, the Company disposed of Savonetta Pier IV to its Subsidiary, National Energy Corporation (NEC) for the sum of \$157.17 million. This amount has been set up as a loan and comprises two (2) amounts: \$38.63 million own funds used in the construction of the Pier and \$118.54 million borrowed from the Caribbean Development Bank (CDB). The amount of \$38.63 million was repaid in 2001. Interest is payable based on the interest incurred on the CDB loan. The fair value of this loan approximates its carrying value.

Trinidad and Tobago LNG Limited

The amount represents advances of US\$111.99 million (2006: US\$111.99 million) to Trinidad and Tobago LNG Limited from July 2002 to December 2007. Repayment terms have not been finalized.

This loan is unsecured and interest is payable based on the interest charged on the Trinidad and Tobago LNG Limited's member's loan to Atlantic LNG 4 Company of Trinidad and Tobago Unlimited at a rate of Libor plus a margin which ranges from 1.125% to 2.125% per annum. The effective interest rate at the balance sheet date was 7.200% (2006: 7.356%). The fair value of this loan approximates its carrying value.

b) Short-term loan receivable

Trinidad and Tobago LNG Limited

2007 \$'000	2006 \$'000
<u>100,762</u>	<u>66,847</u>

The short-term loan of US\$15.97 million was required by Trinidad and Tobago LNG Limited to fund their portion of the pre-commercial expenses of Atlantic Train 4. These funds are loaned as required.

This loan is unsecured and interest is calculated on the principal amount outstanding and payable quarterly at a rate of Libor plus an applicable margin. The effective interest rate at 31 December, 2007 was 7.06%.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

10. Debt reserve funds

In accordance with the Letter of Credit and Reimbursement Agreement ("L/C Agreement") dated as of 15 October, 1997 among the Company, The Bank of Nova Scotia Trinidad and Tobago Limited, Citibank N.A., De Nationale Inversteringsbank (NA) N.V., and Kredietbank N.V. Dublin Branch collectively and The Bank of Nova Scotia L/C Agent, the Company maintains certain debt reserve funds which are funded from appropriations from two gas sales contracts. As at 31 December, 2007 and 2006, these funds totalling TT\$83.36 million and TT\$79.39 million respectively were held in interest bearing accounts.

11. Accounts receivable

	2007 \$'000	2006 \$'000
Trade receivable	<u>2,876,366</u>	<u>2,222,016</u>

Trade receivables are non-interest bearing and are generally on 15-30 days terms. Included in this balance is the amount of US\$171.33 million (TT\$1.082 billion) which represents amounts due from the Trinidad and Tobago Electricity Commission (T&TEC) which is the local utility company that distributes electric power to customers in Trinidad and Tobago. The amount represents gas sold to T&TEC for the period July 2005 to December 2007. T&TEC is wholly owned by the Government of Trinidad and Tobago and discussions are being held with the Company's shareholder to liquidate this outstanding receivable.

As at 31 December, 2007, trade receivables impaired and fully provided for totalled \$2.02 million (2006: \$0.706 million). Movements in the provision for impairment of receivables were as follows:

	Individually impaired	Collectively impaired	Total
At 1 January, 2006	706	—	706
Charge for year	—	—	—
Utilized	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December, 2006	706	—	706
Charge for year	19	1,997	2,016
Utilized	<u>(706)</u>	<u>—</u>	<u>(706)</u>
At 31 December, 2007	<u><u>19</u></u>	<u><u>1,997</u></u>	<u><u>2,016</u></u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

11. Accounts receivable (continued)

As at 31 December the ageing analysis of trade receivables is as follows:

Year	Total	Neither past due nor impaired	Past due but not impaired				
			<30 days	30-60 days	60-90 days	90-120 day	>120 days
2007							
T&TEC receivable	1,081,327	66,335	29,639	34,055	36,597	36,739	877,962
Other receivable	1,795,039	1,531,089	210,497	27,745	7,862	12,345	5,501
	<u>2,876,366</u>	<u>1,597,424</u>	<u>240,136</u>	<u>61,800</u>	<u>44,459</u>	<u>49,084</u>	<u>883,463</u>
2006							
T&TEC receivable	681,579	72,376	36,700	36,393	38,060	38,896	459,154
Other receivable	1,540,437	1,319,298	164,517	15,923	15,372	12,949	12,378
	<u>2,222,016</u>	<u>1,391,674</u>	<u>201,217</u>	<u>52,316</u>	<u>53,432</u>	<u>51,845</u>	<u>471,532</u>

12. Cash and short-term deposits

	2007 \$'000	2006 \$'000
Cash at banks and on hand	445,398	1,666,469
Short-term deposits	6,593,184	<u>3,079,181</u>
	<u>7,038,582</u>	<u>4,745,650</u>

Cash at bank earns interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Company and earn interest at the respective short term deposit rates. The fair value of cash and short-term deposits is TT\$7,038.58 million (2006: TT\$4,745.65 million).

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 31 December.

	2007 \$'000	2006 \$'000
Cash at banks and on hand	445,398	463,279
Short-term deposits (with an original maturity date of less than three months)	529,936	<u>1,203,190</u>
	<u>975,334</u>	<u>1,666,469</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

13. Inventories

	2007 \$'000	2006 \$'000
Consumable spares	14,669	12,823
TSP spares	2,997	2,989
Other	224	233
	<u>17,890</u>	<u>16,045</u>

14. Sundry debtors and prepayments

Sundry debtors and prepayments comprise the following:

Prepayments – Dolphin Pipeline	1,199,146	1,195,955
– Other	17,389	31,219
Staff related balances	3,720	5,856
Related party balances	268,556	444,379
Value Added Tax	32,038	22,574
Interest receivable	103,981	64,969
Accrued income	14,234	60,737
Other	68,605	74,392
	<u>1,707,669</u>	<u>1,900,081</u>

For terms and conditions relating to related party receivables refer to note 35.

15. Stated capital

Authorized

An unlimited number of ordinary shares of no par value

Issued and fully paid

1,752,848,000 ordinary shares of no par value	<u>1,752,848</u>	<u>1,752,848</u>
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16. Reserve fund

A Reserve Fund has been set up by the Board of Directors with the objective of minimizing the Company's exposure arising from business interruption, adverse gas price fluctuations, and liabilities or losses which may result from accidents on its self-insured assets.

Transfers to the Reserve Fund will be made in such cases where the Company's expected return on equity is exceeded. The fund cap is 25% of the issued stated capital of the Parent Company.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

17. Other reserves

Other reserves comprise the following as at 31 December:

	2007 \$'000	2006 \$'000
Revaluation surplus for offshore plant and equipment and pipelines	409,735	433,882
Unrealized gain on available-for-sale financial assets	252,264	287,624
Foreign currency translation	69,717	42,050
	<u>731,716</u>	<u>763,556</u>

18. Taxes

Current	– Corporation tax	1,230,390	1,054,558
	– Petroleum profit tax	11,743	84,757
	– Green fund	12,856	11,561
		<u>1,254,989</u>	<u>1,150,876</u>
Deferred		(63,505)	(27,946)
		<u>1,191,484</u>	<u>1,122,930</u>

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate

	2007 \$'000	2006 \$'000
Accounting profit	4,146,490	3,297,968
Tax at the rate of 35%	1,451,272	1,154,289
Tax exempt income	(225,233)	(176,672)
Non deductible (income)/expense	1,104	71,804
Additional tax allowances	(116)	–
Other differences	(22,627)	3,034
Prior years' corporation tax	(32,840)	27,229
Green fund	12,856	11,561
Effect of oil and gas assets taxed at a higher rate	11,088	31,685
Foreign exchange translation	(4,020)	–
Current year provision	<u>1,191,484</u>	<u>1,122,930</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

18. Taxes (continued)

Significant components of deferred tax asset and liability is as follows:

	2007 \$'000	2006 \$'000
Deferred tax asset:		
Accrued interest expense	29,986	25,071
Asset retirement obligation	174,941	164,771
Post retirement medical, group life and pension	29,141	23,447
Dry hole expense	21,719	—
Other	2,875	2,700
	<u>258,662</u>	<u>215,989</u>
Deferred tax liability:		
Property, plant and equipment	421,090	435,529
Pension	—	13,578
	<u>421,090</u>	<u>449,107</u>

	Current portion \$'000	Long-term portion \$'000	2007 Total \$'000	2006 Total \$'000
19. Long-term debt				
i) Caribbean Development Bank	12,237	9,147	21,384	36,215
ii) European Investment Bank	39,159	—	39,159	76,952
iii) AKA Ausfuhrkredit GMBH	29,249	102,372	131,621	160,443
iv) First Citizens Bank	—	329,927	329,927	306,584
v) US\$400M 30-year bond	—	2,484,795	2,484,795	2,478,003
	<u>80,645</u>	<u>2,926,241</u>	<u>3,006,886</u>	<u>3,058,197</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

19. Long-term debt (continued)

Description	Terms and Conditions	Security
Item (i) relates to a facility established on 23rd January, 1997 whereby the Company committed to borrow US\$21.52 million (TT\$135.5 million) to finance the construction of marine facilities at Savonetta, Point Lisas. The loan was fully drawn down in 2000.	The loan provides for 40 equal quarterly installments, and the first repayment of principal commenced in the year 2000. Interest is payable quarterly in arrears and determined annually. The applicable rate for 2007 ranged between 6-6.1% (2006: 6-6.25%). The fair value of this loan approximates its carrying value.	Letter of credit secured by specific Gas Sales Contracts.
Item (ii) relates to a facility established on 11th February, 1996 whereby the Company committed to borrow ECU45 million, approximately US\$49.71 million (TT\$313.20 million), to finance the construction of new pipelines. The loan was fully drawn down in 1999.	The loan provides for 18 equal semi-annual installments and commenced 10 June, 2000. Interest is payable semi-annually in arrears at the higher of 3% per annum and EIB's lending rate on disbursement date, less a subsidy applicable to all tranches.	Letter of credit secured by specific Gas Sales Contracts.
Item (iii) relates to a facility established with AKA Ausfuhrkredit-Gesellschaft GMBH on 10 July 2003 as follows: Tranche 1 US\$38.17 million Tranche 2 EUR 1,135.17 million – Insurance Premium	The loan provides for 17 equal and consecutive semi-annual installments commencing June 2004. Interest is payable semi-annually in arrears at the fixed rate of 4.18% per annum commencing June 2004. The fair value of the loan was US\$18.31 million (TT\$115.56 million) at December 2007.	Export Credit Insurance provided by HERMES.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

19. Long-term debt (continued)

Description	Terms and Conditions	Security
Item (iv) relates to a loan facility of US\$44.4 million established with FCB Ltd on 17 December 2004 for site development works on Union Industrial Estate.	The loan provides five years moratorium on principal and interest and for 20 equal and consecutive semi-annual installments of US\$4.17 million commencing 66 months from the effective date and continuing until the facility is repaid. Interest is payable semi-annually in arrears at FCB's USD Prime lending rate less 2.60%. The effective interest rate at 31 December, 2007 was 7.4% (2006:7.4%). The fair value of this loan approximates its carrying value.	No collateral/Security required except for the condition that Union Estate's operating account be opened at FCB Ltd.
Item (v) relates to a US\$400 million bond issued by the Company and arranged by Lehman Brothers/Citigroup on 20th January 2006 to finance the construction/acquisition of two new offshore pipelines and for advances to TT LNG to fund its 11.11% of its offshore shareholder loans to ALNG 4 Company of Trinidad and Tobago Unlimited.	The bond will be redeemed by a bullet payment on January 15, 2036. Interest is payable semi-annually in arrears at a fixed rate of 6.05% commencing in July 2006. The fair value of the bond was US\$386.74 million (TT\$2,440.89 million) at December 2007.	None.

Maturity profile of long-term debt

	2007 \$'000	2006 \$'000
In one year or less	80,645	79,151
In more than one year but not more than two years	38,139	79,627
In more than two years but not more than three years	64,940	66,983
In more than three years but not more than four years	64,940	81,149
In more than four years but not more than five years	50,315	81,111
In more than five years	<u>2,707,907</u>	<u>2,670,176</u>
	<u>3,006,886</u>	<u>3,058,197</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

20. Provisions

	Asset retirement obligation \$'000	Environmental obligation \$'000	2007 Total \$'000
Balance as at 1 January, 2007	431,519	15,968	447,487
Amounts utilized during year	—	(1,299)	(1,299)
Unwinding of discount	25,796	—	25,796
Foreign currency translation adjustment	1,176	529	1,705
Balance as at 31 December, 2007	<u>458,491</u>	<u>15,198</u>	<u>473,689</u>
Current portion	—	—	—
Non-current portion	<u>458,491</u>	<u>15,198</u>	<u>473,689</u>
	<u>458,491</u>	<u>15,198</u>	<u>73,689</u>

	Asset retirement obligation \$'000	Environmental obligation \$'000	2006 Total \$'000
Balance as at 1 January, 2006	408,432	17,074	425,506
Amounts utilized during year	—	(1,106)	(1,106)
Unwinding of discount	23,347	—	23,347
Foreign currency translation adjustment	(260)	—	(260)
Balance as at 31 December, 2006	<u>431,519</u>	<u>15,968</u>	<u>447,487</u>
Current portion	—	2,076	2,076
Non-current portion	<u>431,519</u>	<u>13,892</u>	<u>445,411</u>
	<u>431,519</u>	<u>15,968</u>	<u>447,487</u>

i. Asset retirement obligation

The Company has recorded provisions for the net present value of the estimated cost of decommissioning the offshore plant and equipment and the Teak, Samaan and Poui platforms based on studies conducted. A letter of credit was established for the Company's portion of the obligation for Teak, Samaan and Poui platforms. The future estimated payments of the cost are currently anticipated to be 2012 and 2025 respectively. However the ultimate amount and timing of the cost may vary from the original estimate.

ii. Environmental obligation

The Company has committed to reforestation of land areas equivalent to those cleared for pipeline construction and right of way extension. To this end an environmental obligation was recorded in the financial statements in December 2005.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

21. Post retirement medical and group life

Post retirement medical and group life

Movement on the liability recognized in the balance sheet:

Value at beginning of the year

Foreign exchange translation

Prior year adjustment

Net benefit cost

Premiums paid

Value at end of year

Changes in the present value of the defined benefits obligation are as follows:

Defined benefits obligation at start

Prior year adjustment

Service cost

Interest cost

Benefit improvement

Actuarial (gain)/loss

Foreign exchange translation

Company's premiums paid

Defined benefits obligation at end

The Company expects to contribute TT\$0.42 million to its post retirement medical and group life plans in 2008.

Movement on the liability recognized in the balance sheet:

The amounts recognized in the statement of income are as follows:

Current service cost

Interest cost on benefits obligation

Net actuarial loss recognized in the year

Past service cost

Net benefits cost

2007
\$'000

83,256

66,996

262

2,620

13,775

(397)

83,256

66,996

2,620

6,578

6,074

—

1,123

262

(397)

83,256

2006
\$'000

66,996

34,282

—

—

33,103

(389)

66,996

34,282

—

4,928

2,642

26,641

(1,108)

—

(389)

66,996

2007
\$'000

6,578

6,074

1,123

—

13,775

2006
\$'000

4,928

2,642

(1,108)

26,641

33,103

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

21. Post retirement medical and group life (continued)

The principal actuarial assumption used for accounting purpose were:

	2007	2006
Medical cost inflation	8.25%	8.25%
Discount rates	8.75%	8.75%
Average individual salary increases	8.25%	8.25%

Effects of one percentage point charge in medical expense increase assumption

	Aggregate service and interest costs \$'000	Year end deferred benefit obligation \$'000
Medical expenses increase by 1% P.A.	13,679	90,797
Medical expense decrease by 1% P.A.	9,226	60,160

Assets allocation as at 31 December

The Company funds the benefits directly by payments of premiums to an insurance company. There are no assets explicitly set aside for this plan.

Experience history

	2007 \$'000	2006 \$'000
Defined benefit obligation	83,256	66,996
Fair value of plan assets	—	—
Deficit	<u>83,256</u>	<u>66,996</u>
Experience adjustment on plan liabilities	1,123	(1,108)
Experience adjustment on plan assets	—	—
	<u>1,790,588</u>	<u>1,828,813</u>

22. Trade creditors

Trade payables are settled on 30-day terms

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

23. Sundry creditors and accruals

	2007 \$'000	2006 \$'000
Accrued interest	83,432	84,069
Accrued material/service amounts	521,158	441,924
Contract provisions	20,947	27,219
Employee related accruals	31,030	29,835
Pre-transfer payments – Dolphin pipeline	332,358	143,957
	<u>988,925</u>	<u>727,004</u>

Terms and conditions of the above financial liabilities

Interest payable is normally settled in accordance with the terms and conditions of the respective loan. See note 19. Accrued materials service amounts and contract provisions are non interest bearing and have an average term of two (2) months.

24. Sales and cost of sales

Sales include the following:

	2007 \$'000	2006 \$'000
Gas sales	10,847,076	9,550,491
Condensate sales	89,009	106,511
Transport tariffs	3,553	3,556
Compression charges	39,202	41,157
Crude oil	502,888	497,879
	<u>11,481,728</u>	<u>10,199,594</u>

Cost of sales include the following:

	2007 \$'000	2006 \$'000
Gas purchase	7,434,616	6,869,051
Depreciation – current year	115,480	108,298
– prior year	–	(97,198)
Impairment	4,142	201
Exploration and production cost	78,126	73,859
Production taxes including SPT	163,390	162,650
Maintenance cost	142,701	139,957
Royalties	60,309	59,499
Staff costs	48,323	45,528
	<u>8,047,087</u>	<u>7,361,845</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	2007 \$'000	2006 \$'000
25. Other operating income		
Lease income	16,879	22,147
Operation & maintenance fees	24,551	23,761
Management fees	6,983	5,425
Other	14,837	62,263
	63,250	113,596
26. Interest and other investment income		
Dividend income	634,707	482,644
Interest income	329,395	235,486
LNG production payments	302,927	385,822
Other investment income	79,915	93,846
	1,346,944	1,197,798
27. Expenses		
Administrative, maintenance and general costs include the following:		
Staff costs	202,067	197,665
Maintenance and general expenses	206,945	163,571
Provision for irrecoverable receivable	(2,070)	3,769
Insurance claim (received)/not settled	(197,580)	174,669
	209,362	539,674
Staff costs:		
Wages and salaries	175,773	151,945
National insurance	2,317	2,119
Pension costs	56,329	56,458
Post retirement medical and group life	15,971	32,671
	250,390	243,193
Staff costs included within:		
Cost of sales	48,323	45,528
Administrative and general expenses	202,067	197,665
	250,390	243,193

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

28. Finance costs

	2007 \$'000	2006 \$'000
Interest	191,711	186,970
Interest rate lock	495	22,678
Decommissioning – unwinding of discount rate	25,776	23,297
	<u>217,982</u>	<u>232,945</u>

During December, 2005 the Company entered into an agreement with two (2) financial institutions to lock-in the interest rate of the proposed US\$400 million 30-year bond which was issued in January 2006.

29. Statement of cash flow

	2007 \$'000	2006 \$'000 Restated
Cash generated from operations		
Profit before tax	4,146,490	3,297,968
Adjustments to reconcile net profit with net cash from operating activities:		
Depreciation	172,529	54,431
Impairment on property, plant and equipment	194,140	201
Provision for irrecoverable receivable	–	3,769
Finance costs	217,982	232,945
Gain on disposal of property, plant & equipment	271	(19)
Loss on foreign exchange translation	(1,468)	–
Dividend income	(634,707)	(482,644)
Decrease in deferred income	–	(5,549)
Increase in deferred expenses	231,157	(91,744)
Net pension costs	38,832	56,632
Interest income	(409,313)	(312,717)
Increase in post retirement obligation	18,140	33,103
	<u>3,974,053</u>	<u>2,786,376</u>
Operating profit before working capital changes		
Increase in accounts receivable	(647,338)	(669,673)
Decrease/(increase) in sundry debtors	58,616	(1,157,198)
Increase in inventories	(1,802)	(2,198)
Increase in trade creditors, sundry creditors and accruals, and long-term creditors	208,629	957,931
	<u>3,592,158</u>	<u>1,915,238</u>

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

30. Contingent liabilities

i. Taxes

For income years 1993 to 1996, 1999 and 2000 the Company has objected to certain adjustments of TT\$142.67 million by the Board of Inland Revenue to the Company's tax liability. Management is of the opinion that these adjustments are incorrect, excessive and without merit and therefore, no provision has been made in the accounts for any additional tax liabilities, penalties or interest.

ii. Letter of credit

The Company has letters of credit mentioned in 19(i) and (ii).

iii. Litigation matters

The Company has been named as defendant in various lawsuits and proceedings which are at various stages of litigation and their outcomes are difficult to predict. In the Company's opinion, however, the disposition of these matters is not likely to have a materially adverse effect on the Company's financial condition or results of operations.

31. Capital commitments

Approved and contracted capital expenditure

2007
\$'000

441,162

2006
\$'000

317,240

32. Other commitments

i. Compensation to land owners

As at 31 December, 2007 the Company is unable to accurately estimate the compensation that might be payable to owners of land along Rights of Way of the Company's pipelines. Accordingly, no provision has been made for any amounts that might be owed to the landowners.

ii. Guarantees

The Company has provided the following guarantees as at 31 December, 2007:

- (i) Bank guarantee for an amount of TT\$51.46 million in respect of a loan obtained by La Brea Industrial Development Company Limited. The loan balance is TT\$51.28 million at 31 December, 2007.
- (ii) Guarantee of obligations under gas transportation agreements by NGC Pipeline Company Limited.
- (iii) Guarantee payment to a financial institution under loan arrangements for NGC Pipeline Company Limited. The loan balance is US\$176.01 million (TT\$41,110.85 million) at 31 December, 2007.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

33. Operating lease commitments

Company as a lessee

Future minimum rentals payable under non-cancelable operating lease as at 31 December are as follows:

	2007 \$'000	2006 \$'000
Within one year	11,990	3,663
One to five years	24,403	3,663

Company as a lessor

Future minimum rentals receivable under non-cancelable operating lease as at 31 December are as follows:

	2007 \$'000	2006 \$'000
Within one year	30,257	30,175
One to five years	137,603	132,103
More than five years	178,460	214,217

34. Commitment contracts

Purchases

The Company purchases natural gas through US dollar denominated long-term 'take or pay' contracts from various upstream producers with terms varying from 15 to 23 years. Under these long-term take-or-pay contracts, the company is obliged to take any natural gas up to specified volume that is offered at the current price up to a specified volume or pay a specified amount if the company refuses to take the natural gas. Natural gas prices under these contracts are calculated based on a percentage of prices the company receives from sales to petrochemical customers.

Sales

Under long-term take-or-pay sales contracts, the Company's customers are obligated to take any natural gas that is offered to them at the current price, up to a specified percentage of the volume offered or to pay a specified amount if they refuse to take the natural gas. Increases in the gas prices that the customers pay under these contracts are not capped and the prices paid for natural gas cannot go below a certain minimum number.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

35. Related party transactions

The Company is wholly-owned by the Government of Trinidad and Tobago. The Company has entered into several agreements with various agencies/state owned companies of the Government, for the supply of gas. The sales to and purchases from related parties are at arms length, except for the gas sales contract with T&TEC. Outstanding balances at the year end are unsecured and the settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December, 2007 the Company has not made any provisions for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Significant subsidiaries and associate interests at 31 December, 2007 are as follows:

Name of Company	Country of incorporation	Proportion of issued equity capital held
<i>Subsidiary Companies</i>		
National Energy Corporation of Trinidad and Tobago Limited (NEC)	Trinidad and Tobago	100%
NGC Pipeline Company Limited	Trinidad and Tobago	100%
Trinidad and Tobago LNG Limited	Trinidad and Tobago	100%
La Brea Industrial Development Company Limited (LABIDCO)	Trinidad and Tobago	83%
NGC NGL Company Limited	Trinidad and Tobago	80%
NGC Trinidad and Tobago LNG Company Limited	Trinidad and Tobago	62.16%
<i>Associated Company</i>		
Trinidad and Tobago Marine Petroleum Company Limited (TRINTOMAR)	Trinidad and Tobago	20%

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

35. Related party transactions (continued)

The following table provides the total amount of material transactions, which have been entered into with related parties as at or for the years ended 31 December 2007 and 2006.

		Income from related parties \$'000	Purchases from related parties \$'000	Amounts due from related parties \$'000	Amounts due to related parties \$'000
Fellow State Enterprises:					
Trinidad and Tobago Electricity Commission					
Gas sales	2007	397,268	—	1,081,328	—
	2006	570,651	—	681,579	—
Loan receivable	2007	159,072	—	—	—
	2006	277,372	—	—	—
Petroleum Company of Trinidad and Tobago Limited	2007	199,284	—	52,472	—
	2006	152,739	—	41,909	—
Joint Venture:					
Phoenix Park Gas Processors Ltd	2007	636,699	—	131,116	—
	2006	489,717	—	99,264	—
Associates:					
Trinidad and Tobago Marine	2007	—	—	—	—
Petroleum Company Limited	2006	12,002	12,974	—	—
National Helicopter Services Limited	2007	—	10,856	—	3,572
	2006	—	13,755	—	1,378
Subsidiaries:					
Trinidad and Tobago LNG Limited	2007	—	—	8,902	—
	2006	—	—	148,147	—
Long and short term loan receivable	2007	58,971	—	807,552	—
	2006	51,940	—	771,753	—
Interest receivable	2007	—	—	14,757	—
	2006	—	—	64,026	—

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

35. Related party transactions (continued)

		Income from related parties \$'000	Purchases from related parties \$'000	Amounts due from related parties \$'000	Amounts due to related parties \$'000
Subsidiaries (continued):					
NGC Iron Company Limited	2007	—	—	—	—
	2006	—	—	13,132	—
NGC Pipeline Company Limited Transportation tariff	2007	—	81,200	—	9,681
	2006	—	82,508	—	24,648
Advances	2007	—	—	165,581	—
	2006	—	—	185,467	—
Operations, maintenance and service fees	2007	30,969	—	—	—
	2006	25,017	—	—	—
NGC Trinidad and Tobago LNG Limited Dividend income	2007	197,917	—	—	—
	2006	179,778	—	—	—
Management fees	2007	631	—	—	—
	2006	628	—	—	—
NGC NGL Company Limited Dividend income	2007	356,934	—	—	—
	2006	223,703	—	—	—
Management fees	2007	631	—	—	—
	2006	628	—	—	—

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

35. Related party transactions (continued)

		Income from related parties \$'000	Purchases from related parties \$'000	Amounts due from related parties \$'000	Amounts due to related parties \$'000
Subsidiaries (continued):					
La Brea Industrial Development Company Limited					
Lease rental income	2007	–	104	–	–
	2006	–	105	–	–
Miscellaneous payables	2007	–	–	–	9,123
	2006	–	–	–	3,717
National Enregy Corporation of Trinidad and Tobago Limited					
Management fees	2007	2,921	–	2,921	–
	2006	2,912	–	2,921	–
Dividend income	2007	20,965	–	–	–
	2006	–	–	–	–
Rental expense	2007	–	1,500	–	–
	2006	–	748	–	–
Loans and advances	2007	1,785	–	24,541	–
	2006	2,487	–	36,019	–
Miscellaneous receivables	2007	–	–	69,700	–
	2006	–	–	35,992	–

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

35. Related party transactions (continued)

The Company purchases services of immaterial value from various Government agencies at arm's length transactions.

Compensation of key management personnel

Short-term employee benefits
Post employment benefit

2007
\$'000

14,643
2,150

16,793

2006
\$'000

15,664
1,551

17,215

36. Financial risk management objectives and policies

The Company has various financial assets such as investments in ordinary shares and the first unit scheme of the Trinidad and Tobago Unit Trust Corporation, trade receivables, short-term investments and cash which arise directly from its operations. The Company's financial liabilities comprise bank loans, trade and sundry payables. The main purpose of these financial liabilities is to raise finance for the Company's operations.

The Company may enter into derivative transactions such as interest rate swap. The purpose is to manage the interest rate and currency risk arising from the Company's operations and its sources of finance.

The main risk arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and other price risks. Management reviews and agrees policies for managing each of these risks, which are summarized below.

Credit risk

The Company trades only with recognized creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. Amounts due from the Trinidad and Tobago Electricity Commission (T&TEC), which is the local utility Company that distributes electric power to customers in Trinidad and Tobago, is not considered to be doubtful due to being a fellow state organization. The Government of Trinidad and Tobago is the sole shareholder in both Companies and continues to monitor the situation and hold discussions to liquidate the outstanding receivable. With respect to credit risk arising from other financial assets of the Company, the exposure to credit risk arises from default of the counter party with a maximum exposure equal to the carrying amount of these instruments.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

36. Financial risk management objectives and policies (continued)

Liquidity risk

The Company monitors its risks to a shortage of funds by managing the maturity of both financial investments and financial assets (e.g. accounts receivables and short-term deposits) and projected cash flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility.

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December, 2007 based on contractual undiscounted payments.

Year ended 31 Dec 2007	On demand \$'000	<3 mths \$'000	3-12 mths \$'000	1-5 yrs \$'000	>5 yrs \$'000	Total \$'000
Long-term debt	—	6,105	74,540	218,334	2,707,907	3,006,886
Trade creditors	—	1,772,903	17,685	—	—	1,790,588
Other payables	—	877,841	20,540	—	—	898,381
Other financial liabilities	—	—	179,781	111,602	—	291,383
	—	2,656,849	292,546	329,936	2,707,907	5,987,238
Year ended 31 Dec 2006						
Long-term debt	—	6,089	73,062	308,870	2,670,176	3,058,197
Trade creditors	—	1,556,594	272,219	—	—	1,828,813
Other payables	—	696,082	28,505	—	—	724,587
Other financial liabilities	—	—	202,360	156,707	—	359,067
	—	2,258,765	576,146	465,577	2,670,176	5,970,664

Interest rate risk

The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

36. Financial risk management objectives and policies (continued)

Interest rate risk (continued)

The Company's policy is to manage its interest cost using a mix of fixed and variable rates. The Company has used derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations whereby the Company agrees to exchange at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December, 2007 after taking into account the effect of interest rate swaps approximately 50% of the Company's borrowings are at a fixed rate of interest (2006: 50%).

Interest rate risk table

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on floating rate borrowing). There is no impact to the Company's equity.

	Increase/ decrease in interest rate	Increase/ decrease on profit before tax TT\$'000
Long-term debt		
2007	10% (10%)	(427) 427
2006	10% (10%)	(435) 435
Loan receivables		
2007	10% (10%)	931 (931)
2006	10% (10%)	961 (961)

Foreign currency risk

The Company has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the Company's functional currency.

The Company also has currency exposure from loans denominated in currencies other than the Company's functional currency.

The following table demonstrates the sensitivity to a reasonable possible change in the TT dollar exchange rate with all other variables held constant of the Company's profit before tax. There is minimal impact on the Company's equity.

	Increase/ decrease in exchange rate	Effect on profit before tax TT\$'000
2007	0.01 (0.01)	1,230 (1,230)
2006	0.02 (0.02)	3,184 (3,184)

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

36. Financial risk management objectives and policies (continued)

Other price risks

The Company is exposed to equity price risks arising from its investments in ordinary shares in NEL and the first unity scheme of the Unit Trust Corporation (a mutual fund). These equity instruments are held for strategic rather than trading purposes and the Company does not actively trade these investments.

The following table demonstrates the sensitivity to a reasonably possible change in the price of these equity instruments, with all other variables held constant, of the Company's equity. There is no impact to the Company's profit before tax.

	Increase/ decrease in equity price	Effect on equity \$'000
2007	3-10% (3-10%)	72,329 (72,329)
2006	1-10% (1-10%)	75,106 (75,106)

Capital management

The primary objective of the Company's Capital Management is to ensure that it maintains a strong credit rating and healthy capital ratio in order to support its business and maximize shareholder value. It also manages its capital to ensure that the Company will be able to continue as a going concern. The Company's overall strategy remains unchanged from 2006.

The capital structure of the Company consists of share capital, reserves and retained earnings. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust capital structure the Company may issue new shares by transfers from retained earnings, adjust the dividend payment to shareholders or make transfers to its reserves. No changes were made in the objectives' policies or process during the years ended 31 December, 2007 and 31 December, 2006.

The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Company's policy is to maintain a gearing ratio between 25% and 30%. The Company includes within net debt interest bearing loans and borrowings. Capital includes stated capital reserves and retained earnings.

	2007 \$'000	2006 \$'000
Net debt	3,006,886	3,058,197
Equity	11,447,161	8,499,848
Debt plus equity	14,454,077	11,558,045
Gearing ratio	0.21	0.26

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

37. Financial instruments

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements.

	Carrying amounts		Fair value	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Financial assets				
Cash and short-term deposits	7,038,582	4,745,650	7,038,582	4,745,650
Available-for-sale investments	737,939	765,393	737,939	765,393
Trade debtors	2,876,366	2,222,016	2,876,372	2,222,016
Loans receivable	875,860	990,984	880,175	988,621
Debt reserve fund	83,355	79,391	83,555	79,391
Financial liabilities				
Fixed rate borrowings	2,616,416	2,638,446	2,556,449	2,618,222
Floating rate borrowings	390,470	419,751	390,470	419,751
Other financial liabilities	3,288,264	2,971,918	3,288,264	2,971,918

Short-term financial assets and liabilities

The carrying amount of short-term financial assets and liabilities comprising cash and cash equivalents, short-term investments, sundry debtors and current liabilities are a reasonable estimate of fair values because of the short term nature of these instruments.

Long-term financial assets and liabilities

The fair value of the Company's floating rate long-term loan receivable and debt approximates its carrying amount given the floating nature of the loans at prevailing market rates.

The fair value of investments that are actively traded in financial markets is determined by reference to quoted market prices at the close of business at the balance sheet date. For investments where there is no active market the fair value estimates cannot be reasonably assessed and as such are measured at cost.

Notes to the Non-Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

37. Financial instruments (continued)

Derivative financial instruments and hedging

The Company used derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Company does not carry any financial instrument which meets the strict criteria for hedge accounting.

38. Dividends

Dividends declared for the year amounted to Nil (2006: \$300 million). Subsequent to the year end, the Board of Directors proposed dividends of \$650 million for the 2007 financial year which is to be approved at the Annual General Meeting.

39. Events after balance sheet date

Investment in Credit Linked Notes

In 2006 the Company issued a US\$400 million bond to be repaid via a bullet payment in January 2036. To meet 50% of this liability, in 2008 the Company invested US\$35.5 million in Credit Linked Notes. During the first ten (10) years of the investment there is risk in relation to loss of principal. At the end of the ten (10) year period, the note converts to a zero coupon bond and this risk no longer applies. This investment will be accounted for in accordance with IAS 39.

NGC's business decisions,
particularly those related to
investments and costs,
must meet the most stringent
test of prudence.





A photograph of an industrial facility, likely a gas processing plant. The image shows a complex network of white pipes, green actuators, and various valves. In the foreground, a large white pipe runs horizontally. To its right, a green actuator is mounted on a vertical pipe. Further back, another green actuator is visible. A white cylindrical tank with a yellow label is in the background. A red text box is overlaid on the right side of the image.

NGC's ongoing access to development, capabilities, processes and technology sustains high standards of technical efficiency and corporate competitiveness.



Auditors' Report

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDERS OF THE NATIONAL GAS COMPANY OF TRINIDAD AND TOBAGO LIMITED

We have audited the accompanying consolidated financial statements of The National Gas Company of Trinidad and Tobago Limited which comprise the consolidated balance sheet as at 31 December, 2007 and the Consolidated Statement of Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and a summary of Significant Accounting Policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

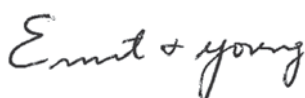
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of 31 December, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Port of Spain,
TRINIDAD:
26 November, 2008

Consolidated Balance Sheet

As at 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	2007 \$'000	2006 \$'000 Restated
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment (note 4)	5,272,152	4,938,825
Intangible assets (note 5)	11,614	36,036
Investment property (note 6)	67,758	68,843
Pension asset (note 7)	–	38,791
Interest in joint venture (note 8)	666,435	449,684
Investments and advances (note 9)	1,069,441	1,095,977
Deferred tax asset (note 20)	394,552	369,215
Deferred expenses (note 10)	206,386	278,175
Long-term loan receivable (note 11)	736,568	843,437
Debt reserve funds (note 12)	162,296	79,391
	8,587,202	8,198,374
CURRENT ASSETS		
Cash and short-term deposits (note 14)	8,217,556	5,993,520
Accounts receivable (note 13)	3,222,155	2,442,209
Current portion of long-term loan receivable (note 11)	111,784	111,528
Short-term loan receivable (note 11)	90,244	66,842
Inventories (note 15)	39,576	16,764
Sundry debtors and prepayments (note 16)	1,549,102	1,513,577
Deferred expenses (note 10)	45,680	206,610
Income taxes receivable	81,989	609
	13,358,086	10,351,659
Total assets	21,945,288	18,550,033

The accompanying notes form an integral part of these financial statements.

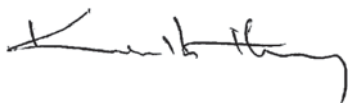
Consolidated Balance Sheet

As at 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	2007 \$'000	2006 \$'000 Restated
EQUITY AND LIABILITIES		
EQUITY		
Stated capital (note 17)	1,752,848	1,752,848
Reserve fund (note 18)	438,192	438,192
Other reserves (note 19)	729,020	758,504
Retained earnings	9,692,109	6,340,880
Equity attributable to equity holders of the parent	12,612,169	9,290,424
Minority interests	261,677	230,333
	<u>12,873,846</u>	<u>9,520,757</u>
NON-CURRENT LIABILITIES		
Deferred tax liability (note 20)	652,184	624,594
Long-term debt (note 21)	4,061,943	4,195,348
Provisions (note 22)	480,361	445,411
Post retirement medical and group life (note 23)	83,256	66,996
Pension obligation (note 7)	2,091	—
Deferred income (note 24)	62,197	74,713
Long-term creditors (note 10)	111,602	156,707
	<u>5,453,634</u>	<u>5,563,769</u>
CURRENT LIABILITIES		
Current portion of long-term debt (note 21)	162,664	155,569
Trade creditors (note 25)	2,125,620	2,059,568
Sundry creditors and accruals (note 26)	1,071,499	776,591
Dividends payable	—	200,000
Deferred income (note 24)	56,986	56,750
Provisions (note 22)	266	2,076
Income taxes payable	200,773	214,953
	<u>3,617,808</u>	<u>3,465,507</u>
Total equity and liabilities	<u>21,945,288</u>	<u>18,550,033</u>

The accompanying notes form an integral part of these financial statements.

Director



Director



Consolidated Statement of Income

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	Note	2007 \$'000	2006 \$'000 Restated
Sales	27	12,876,021	11,274,937
Cost of sales	27	(8,954,556)	(7,991,467)
Gross profit		3,921,465	3,283,470
Other operating income	28	42,161	103,309
Interest and investment income	29	1,116,051	1,169,786
Share of income from joint venture	8	645,788	450,220
Administrative, maintenance & general expenses	30	(247,132)	(566,667)
Impairment expense		(190,000)	—
Depreciation		(59,363)	(45,463)
Other expenses		(21,856)	(25,296)
Finance costs	31	(317,851)	(332,650)
Loss on foreign exchange transactions		(2,812)	(10,723)
Profit before tax		4,886,451	4,025,986
Income tax expense	20	(1,318,962)	(1,223,698)
Profit for the year		3,567,489	2,802,288
Attributable to:			
Equity holders of the Parent		3,327,082	2,579,103
Minority interests		240,407	223,185
Net profit for the year		3,567,489	2,802,288

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	Attributable to Equity Holders of the Parent					Total equity \$'000 Restated
	Stated capital \$'000	Reserve fund \$'000	Other reserves \$'000	Retained earnings \$'000	Minority interests \$'000	
Balance as at 1 January, 2006	920,766	146,668	1,173,280	5,161,279	7,401,993	172,721 7,574,714
Transfer of depreciation for offshore plant and equipment and pipelines	-	-	(24,104)	24,104	-	-
Net losses on available-for-sale financial assets	-	-	(373,509)	-	(373,509)	(373,509)
Foreign currency translation	-	-	(17,163)	-	(17,163)	(17,381)
Total income and expense for the year recognized in equity	-	-	(414,776)	24,104	(390,672)	(218)
Profit for the year	-	-	-	2,579,103	2,579,103	223,185
Total income/expense for the year	-	-	(414,776)	2,603,207	2,188,431	222,967
Increase in share capital	832,082	-	-	(832,082)	-	-
Increase in reserve fund	-	291,524	-	(291,524)	-	-
Dividends	-	-	-	(300,000)	(300,000)	(165,355)
Balance as at 31 December, 2006	1,752,848	438,192	758,504	6,340,880	9,290,424	230,333 9,520,757
Balance as at 1 January, 2007	1,752,848	438,192	758,504	6,340,880	9,290,424	230,333 9,520,757
Transfer of depreciation for offshore plant and equipment and pipelines	-	-	(24,147)	24,147	-	-
Net losses on available-for-sale financial assets	-	-	(35,360)	-	(35,360)	(35,360)
Foreign currency translation	-	-	30,023	-	30,023	634
Total income and expense for the year recognized in equity	-	-	(29,484)	24,147	(5,337)	634
Profit for the year	-	-	-	3,327,082	3,327,082	240,407
Total income/expense for the year	-	-	(29,484)	3,351,229	3,321,745	241,041
Dividends	-	-	-	-	-	(209,697)
Balance as at 31 December, 2007	1,752,848	438,192	729,020	9,692,109	2,612,169	261,677 2,873,846

The accompanying notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

	2007 \$'000	2006 \$'000 Restated
Cash flows from operating activities		
Cash generated from operations (note 32)	4,058,713	2,374,379
Pension contributions paid	(14,555)	(11,047)
Income taxes paid	(1,405,564)	(1,158,489)
Interest paid	(293,471)	(279,926)
Interest received	329,074	288,075
Income tax refund	2	—
Net cash generated from operating activities	2,674,199	1,212,992
Cash flows from investing activities		
Purchase of property, plant & equipment	(758,970)	(424,162)
Purchase of intangible assets	—	(16,374)
Purchase of investment property	—	(9,112)
Proceeds on disposal of property, plant & equipment	687	518
Net change in short-term investments	(3,105,604)	(2,465,471)
Repayments of loans and advances	110,312	15,476
Increase in equity contribution	—	(9,723)
Proceeds from disposal of long-term investments	—	24,795
Increase in debt reserve fund	(82,690)	(3,380)
Dividends received	773,741	806,568
Decrease in long-term loan receivable	(23,226)	—
Interest and investment income received	83,803	—
Net cash used in investing activities	(3,001,947)	(2,080,865)
Cash flows from financing activities		
Proceeds from long-term debt	—	2,874,436
Repayment of long-term debt	(163,584)	(160,258)
Payment of borrowing costs	(365)	(58,802)
Dividends paid	(409,701)	(465,355)
Net cash (used in)/generated from financing activities	(573,650)	2,190,021
Net (decrease)/increase in cash and cash equivalents	(901,398)	1,322,148
Net foreign exchange differences	11,198	(20,433)
Cash and cash equivalents		
— beginning of year	2,759,766	1,458,051
— end of year	1,869,566	2,759,766

The accompanying notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

I. Corporate information

The National Gas Company of Trinidad and Tobago Limited and Subsidiaries ("the Group") is a diversified company primarily engaged in the purchase, transmission, and distribution of natural gas in Trinidad and Tobago. The Company is wholly owned by the Government of Trinidad and Tobago. The Company's registered office is located at Orinoco Drive, Point Lisas Industrial Estate, Point Lisas, Trinidad.

The consolidated financial statements of the National Gas Company of Trinidad and Tobago Ltd. were authorized for issue by the Board of Director on 26 November, 2008.

The Group's subsidiaries, joint venture and associate are as follows:

Name of Company Subsidiary Companies	Country of incorporation	Percentage equity interest
National Energy Corporation of Trinidad and Tobago Limited	Trinidad and Tobago	100%
NGC Pipeline Company Limited	Trinidad and Tobago	100%
Trinidad and Tobago LNG Limited	Trinidad and Tobago	100%
La Brea Industrial Development Company Limited	Trinidad and Tobago	83%
NGC NGL Company Limited	Trinidad and Tobago	80%
NGC Trinidad and Tobago LNG Company Limited	Trinidad and Tobago	62.16%
Associated Company Trinidad and Tobago Marine Petroleum Company Limited (TRINTOMAR)	Trinidad and Tobago	20%
Joint Venture Phoenix Park Gas Processors Limited (PPGPL)	Trinidad and Tobago	41%*
Other Atlantic I Holdings LLC	United States of America	6.2%**
Atlantic LNG 4 Company of Trinidad and Tobago Unlimited	Trinidad and Tobago	11.11%***

* owned 51% by NGC NGL Company Limited

** owned 10% by NGC Trinidad and Tobago LNG Company Limited

*** owned by Trinidad and Tobago LNG Limited

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.1 Basis of preparation

These financial statements have been prepared under the historical cost basis, except for the revaluation of the Group's offshore plant and equipment, pipelines and available-for-sale investments, which have been measured at fair value. The financial statements are presented in Trinidad and Tobago dollars (TT\$).

Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS).

Principles of consolidation

The financial statements of the Group include the accounts of the Parent and its Subsidiary Companies. All intra-group balances, transactions, and income and expenses have been eliminated in full.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the Consolidated Statement of Income and within equity in the Consolidated Balance Sheet, separately from parent shareholders' equity.

2.2 Restatement

As described below, the Group has restated its financial statements as at 31 December, 2006. All information presented in the financial statements and related notes include all such restatements.

The restatements relate to adjustments to the change in the accounting treatment with respect to the purchase of the 24-inch pipeline from Dolphin Platform to Beachfield. The Parent Company advanced US\$190 million to BG and Chevron Texaco in April 2006 and subsequently began receiving monthly pre-transfer payments representing advance part payments for the transportation services to be provided on and from the completion date of the pipeline. The advance payment was accounted for as Property, Plant & Equipment and the pre-transfer payments were accounted for as revenue. The Pipeline has not been completed and the transfer to the Parent Company is not expected to take place until 2010.

These financial statements have been restated to record the advance payment of US\$190 million as a prepayment as at 1 January, 2007 and the pre-transfer payments of US\$22.486 million for the period April to December 2006 as a current liability.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.2 Restatement (continued)

This restatement increased/(decreased) previously reported amounts as follows:

	As at or for the year ended 31 December, 2006			
	Profit before taxation \$'000	Property, plant & equipment \$'000	Sundry debtors & pre-payments \$'000	Sundry creditors & accruals \$'000
As originally reported	4,131,429	6,098,901	317,622	632,634
Dolphin pipeline	(105,443)	(1,160,076)	1,195,955	143,957
Restated	4,025,986	4,938,825	1,513,577	776,591

2.3 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these standards and interpretations did not have any effect of the financial performance or position of the Group. They did however give rise to additional disclosures including in some cases revisions to accounting policies.

- IAS 1 – Presentation of Financial Statements (Capital Disclosures)
- IFRS 7 – Financial Instruments Disclosures
- IFRIC 7 – Applying the Restated Approach under IAS 29
- IFRIC 8 – Scope of IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

IAS 1 Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objective, policies and processes for managing capital. These new disclosures are shown in note 39.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.3 Changes in accounting policy and disclosures (continued)

IFRS 7 Financial Instrument Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised or included where needed.

IFRIC 7 Applying the re-stated approach under IAS 29

The interpretation provides guidance on how to apply the requirements of IAS 29 in a reporting period in which the entity identifies the existence of hyper inflation in the economy of its functional currency when the economy was not hyper inflationary in the prior period and the entity therefore restates its financial statements in accordance with IAS 29. As the Group does not operate in a hyper inflationary economy the interpretation has no impact on the financial position or performance of the Group.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received in particular where equity instruments are issued for consideration which appears to be less than fair value. The interpretation has no impact on the financial position of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract the interpretation has no impact on the financial position or performance of the Group.

IFRIC 10 Interim Financial Reporting and Impairment

The interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either equity instruments or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. However uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Judgements

In the process of applying the Group's accounting policies, management has determined that there were no judgements apart from those involving estimations, which have a significant effect on the amounts recognized in the financial statements.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of non-financial assets

The Group assesses whether there are indicators of impairment for all non-financial assets at each reporting date. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of available-for-sale investments

The Group classifies certain assets as available for sale and recognizes movement in their fair value in equity. When fair value declines management makes assumptions about the decline in value to determine whether it is an impairment that should be recognized in profit or loss. As at 31 December, 2007 no impairment loss has been recognized in the statement of income. Net losses recognized in the statement of equity has been TT\$35 million (2006:TT\$373 million).

Tax assessments

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due where the final tax outcome of these matters is different from the amounts that were initially recorded. Such differences will impact the income tax and deferred tax provisions in the period in which such determinations is made.

Pension and other post employment benefits

The cost of defined benefits pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of returns on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Carrying value of oil and gas assets

Oil and gas properties are depreciated using the units-of-production (UOP) method over proven developed and undeveloped mineral reserves.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.4 Significant accounting judgements, estimates and assumptions (continued)

Estimates and assumptions (continued)

The calculation of the unit-of-production rate of amortization could be impacted to the extent that actual production in the future is different from current forecast production based on proven reserves. This would generally result from significant changes in any of the factors or assumptions used in estimating reserves.

These factors could include:

- changes in proven reserves;
- the effect on proven reserves of differences between actual commodity prices and commodity price assumptions;
- unforeseen operational issues.

Asset retirement obligation

The Group has recorded a provision for the estimated cost of decommissioning its offshore plant and equipment. In determining the amount of provision, assumptions and estimates are required in relation to discount rates and expected cost to dismantle and remove the offshore plant and equipment.

2.5 Summary of significant accounting policies

(a) Cash and cash equivalents

Cash on hand, in banks and short-term deposits that are held to maturity are carried at cost.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash on hand and deposits in banks and short-term deposits with an original maturity of three months or less.

(b) Accounts and other receivables

Trade accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. A provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written-off when identified. Receivables from related parties are recognized and carried at cost.

(c) Inventories

Inventories are valued at the lower of weighted average cost and net realizable value. The cost of LNG inventories comprises feed gas cost, and other direct and production costs including transportation tariff and processing fees. Net realizable value is the estimate of the selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(d) Taxes

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized.

The carrying amount of deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Deferred tax assets arising from tax losses not yet recognized are only carried forward if it is probable that future taxable profit will be sufficient to allow the benefit of the tax losses to be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

(e) Property, plant and equipment

(i) Non-oil and gas assets

Property, plant and equipment, except for offshore plant and equipment and pipelines, is stated at cost less accumulated depreciation and accumulated impairment losses. Offshore plant and equipment and pipelines are measured at fair value less depreciation and impairment charged subsequent to the date of the revaluation.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(i) Non-oil gas assets (continued)

Depreciation is calculated on a straight-line basis over the estimated economic lives of the assets at the following rates:

Machinery and equipment	10% - 50%
Pipelines and related facilities	4%
Offshore plant and equipment	12.5%
Marine infrastructural assets	2.5% - 20%
Other assets	6.6% - 33.3%
Software	50%

Leasehold property is amortized as follows:

Land	– over the term of the lease.
Buildings	– over fifty (50) years or the term of the lease, whichever is shorter.

All costs relating to assets under construction will upon completion be transferred to their relevant fixed asset categories and are depreciated from that date.

Following initial recognition at cost, offshore plant and equipment and pipelines are carried at a revalued amount, which is the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Generally, valuations are performed every five to seven years unless there is an indication that the fair value of a revalued asset differs materially from its carrying amount.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit and loss, in which case, the increase is recognized in profit and loss. A revaluation deficit is recognized in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(e) Property, plant and equipment (continued)

(ii) Oil and gas assets

The Group accounts for its natural gas and crude oil exploration, development and production activities under the full cost method of accounting.

Under this method all cost associated with the exploration for and development of oil and gas reserves are capitalized. These costs include land acquisition costs, geological and geophysical costs, interest and the carrying costs of non-producing properties, cost of drilling productive and non-productive wells, administration costs related to exploration and development activities and related plant and equipment costs, but do not include any cost related to production, general corporate overheads or similar activities.

The cost also includes the estimated cost of dismantlement, assets removal and site restoration.

The provision for depletion and amortization is determined using the unit-of-production method based upon the estimated proven developed reserves of oil and gas, as determined by an independent qualified petroleum consultant. Costs associated with the acquisition and evaluation of significant unproven properties are excluded from amounts subject to depletion until such time as the properties are proved or become impaired.

(f) Investment property

Investment property is stated at cost less accumulated depreciation less impairment. Depreciation is provided on a straight line basis over the estimated economic useful lives of the assets at the following rates:

Fabrication Yard	3.33%
Development cost – access road	10%

No depreciation is provided on freehold land.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in year of retirement or disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(g) Intangible assets

Intangible assets acquired separately are measured at initial recognition at cost. Following initial recognition, intangible assets are carried at cost, less any accumulated depreciation.

Intangible assets consist of software, which is depreciated over the useful economic life, currently estimated at two (2) years and assessed for impairment whenever there is an indication that the intangible may be impaired. The depreciation period and the depreciation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the depreciation period or method as appropriate and treated as charges in accounting estimates.

The depreciation expense on intangible assets with finite lives is recognized in the Income Statement in the expense category, consistent with the function of the intangible asset.

(h) Long-term debt

Long-term debt is initially recognized at the fair value of the consideration received, less any directly attributable transaction costs.

After initial recognition, long-term debt is subsequently measured at amortized costs using the effective interest rate method. Amortized cost is calculated by taking into account any directly attributable transaction costs.

(i) Foreign currencies

The presentation currency of the Group's financial statements is Trinidad and Tobago dollars (TT\$). However, the functional currency of the Parent Company and four (4) of its Subsidiaries is the United States dollar (US\$) because it is the currency of the primary economic environment in which these entities operate. All balance sheet accounts have been translated using exchange rates in effect at the balance sheet date and Income Statement amounts have been translated using average exchange rates for the year. Gains and losses resulting from this process have been recorded in translation reserve as a separate component of equity.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Resulting exchange differences are recognized in income for the year. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate as at the dates of initial transactions.

(j) Borrowing costs

Borrowing costs to finance the construction of property, plant and equipment are capitalized during the period required to complete and prepare the asset for its intended use, using the effective interest method. All other borrowing costs are expensed.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(k) Trade and other payables

Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received.

Payables to related parties are carried at cost.

(l) Investments and other financial assets

Investment in joint venture

NGC NGL Company Limited, an 80% owned Subsidiary, has a 51% interest in Phoenix Park Gas Processors Limited (PPGPL), which is a jointly controlled entity involved in the extraction of propane, butanes and natural gasoline from the natural gas stream.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest. Despite its controlling interest, the Group does not exercise unilateral control over PPGPL's significant operating and financial decisions and, therefore, accounts for PPGPL under the equity method of accounting. The income statement reflects the Group's share of PPGPL's results of operations. If there has been a change recognized directly in PPGPL's equity, the Group recognizes its share of any changes and discloses this, where applicable, in the statement of changes in equity.

Investment in associated company

Investment in associated company is accounted for using the cost method of accounting whereby these investments are initially recorded at cost and subsequently adjusted to recognize any diminution in value considered permanent.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction cost. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(I) Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; or other valuation models.

Amortized cost

Held-to-maturity investments and loans and receivables are measured at amortized cost. This is computed using the effective interest method, less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(m) Pension and other post employment benefits

The Group maintains a defined benefit pension plan which covers all of its permanent employees effective 1 May, 1977. The funds of the plan are held separately from the Companies and are administered by Trustees. The plan is funded by payments from employees and the Group, taking into account the recommendations of independent qualified actuaries.

The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of independent actuaries who carry out a full valuation of the plan every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government securities. All actuarial gains or losses to be recognized are spread forward over the average remaining service lives of employees.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly.

If such aggregate is negative, the pension asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and refunds from the plan or reductions in the future contributions to the plan.

Pension income/cost is included in staff costs within administrative, maintenance and general expenses in the Statement of Income.

The Group also provides certain additional post-employment medical and group life benefits to retirees.

(n) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(n) Impairment of financial assets (continued)

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

(o) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value, less costs to sell and its value-in-use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(o) Impairment of non-financial assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(p) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date. Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases. Operating lease payments are recognized as an expense in the income statement over the lease term.

(q) Revenue recognition

Revenues associated with the sale of gas, oil and condensate are recognized when title and the related rights pass to the customer. Revenue associated with services is recognized upon performance of services. Dividend income is recognized when dividends are declared by the investee company. Interest income is accounted for on the accruals basis.

(r) Provisions

General

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amounts of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss net of any reimbursement. If the effects of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used the increase in the provision due to the passage in time is recognized as a finance cost.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(r) Provisions (continued)

Asset retirement obligation

The Group has recorded a provision for the net present value of the estimated cost of decommissioning the offshore plant and equipment and its proportionate share of the Teak, Samaan and Poui (TSP) assets at the end of their useful lives. The related fixed assets are increased in an amount equivalent to the provision and subsequently depreciated as part of the capital costs of the plant and equipment. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the fixed asset unless related to the time value of money. The unwinding of the discount on the provision is included in finance costs in the income statement.

Provision for reforestation

The Group has recorded a provision for the cost of reforestation. These estimated cost of replacing forests cleared in the construction of its pipelines were included in the related fixed asset and are to be depreciated as part of the capital cost of the pipelines.

(s) Financial liabilities

Interest bearing loans and borrowings

All loans and borrowings are initially recognized at fair value, less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss'.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

(t) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

2.5 Summary of significant accounting policies (continued)

(t) Derecognition of financial assets and liabilities (continued)

Financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(u) Derivative financial instruments and hedging

The Group used derivative financial instruments, such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such financial instruments are initially recognized at fair value on the date, on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Group does not carry any financial instrument which meets the strict criteria for hedge accounting.

(v) Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

3. Future changes in accounting policies

Standards issued but not yet effective

The Group has chosen not to early adopt the following standards and interpretations that were issued but not yet effective for accounting periods beginning after 1 January 2007.

		Effective Date
IAS 23	– Borrowing Costs	1 January 2009
IFRS 8	– Operating Segments	1 January 2008
IFRIC 11	– IFRS 2 Group and Treasury Share Transaction	1 March 2007
IFRIC 12	– Service Concession Agreements	1 January 2008
IFRIC 13	– Customer Loyalty Programmes	1 July 2008
IFRIC 14	– IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	1 January 2008

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment

2007	Freehold land \$'000	Leasehold property \$'000	Development costs \$'000	Machinery & equipment \$'000	Pipeline & related facilities \$'000	Oil & gas asset \$'000	Offshore plant & equipment \$'000	Marine assets \$'000	Other assets \$'000	Assets under construction \$'000	Total \$'000
Cost/valuation											
At beginning of year	3,834	127,169	105,987	97,747	3,452,809	304,072	438,325	705,803	55,449	1,285,932	6,577,127
Additions/transfer of assets at cost	–	6,096	728	3,091	9,424	122,065	4,142	42,872	8,205	577,000	773,623
Disposal/transfer of assets	–	–	–	(6,521)	–	–	–	–	(6,623)	(13,161)	(26,305)
Foreign exchange difference	12	323	–	250	8,798	1,015	1,177	249	147	3,286	15,257
	3,846	133,588	106,715	94,567	3,471,031	427,152	443,644	748,924	57,178	1,853,057	7,339,702
Accumulated depreciation											
At the beginning of year	–	46,802	103,231	76,643	590,464	49,474	438,325	297,803	35,560	–	1,638,302
Charges for year	–	2,113	589	16,607	135,909	47,283	4,142	33,058	8,461	190,000	438,162
Disposals	–	–	–	(6,515)	–	–	–	(85)	(5,836)	–	(12,436)
Foreign exchange difference	–	123	–	220	1,379	425	1,177	97	101	–	3,522
	–	49,038	103,820	86,955	727,752	97,182	443,644	330,873	38,286	190,000	2,067,550
Net book value	3,846	84,550	2,895	7,612	2,743,279	329,970	–	418,051	18,892	1,663,057	5,272,152

Interest capitalized for the year ended 31 December, 2007 is \$26 million (2006: \$27 million)

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment

2006	Freehold land \$'000	Leasehold property \$'000	Development costs \$'000	Machinery & equipment \$'000	Pipeline & related facilities \$'000	Oil & gas asset \$'000	Offshore plant & equipment \$'000	Marine assets \$'000	Other assets \$'000	Assets under construction \$'000	Total \$'000
Cost/valuation											
At beginning of year	3,636	108,015	103,349	91,281	3,240,970	276,846	439,739	616,757	54,921	1,272,735	6,208,249
Additions/transfer at cost	–	19,275	2,638	6,507	218,587	27,343	201	89,106	7,529	320,269	691,455
Disposal	–	–	–	–	–	–	–	–	(8,989)	(306,449)	(315,438)
Foreign exchange difference	198	(121)	–	(41)	(6,748)	(117)	(1,615)	(60)	1,988	(623)	(7,139)
	3,834	127,169	105,987	97,747	3,452,809	304,072	438,325	705,803	55,449	1,285,932	6,577,127
Accumulated depreciation											
At the beginning of year	–	44,305	102,856	60,458	563,351	7,960	439,739	270,640	35,546	–	1,524,855
Charges for year	–	2,517	375	16,237	129,910	41,435	201	27,180	8,762	–	226,617
Prior year depreciation	–	–	–	–	(97,198)	–	–	–	–	–	(97,198)
Disposals	–	–	–	(1)	–	–	(201)	–	(8,516)	–	(8,718)
Foreign exchange difference	–	(20)	–	(51)	(5,599)	79	(1,414)	(17)	(232)	–	(7,254)
	–	46,802	103,231	76,643	590,464	49,474	438,325	297,803	35,560	–	1,638,302
Net book value	3,834	80,367	2,756	21,104	2,862,345	254,598	–	408,000	19,889	1,285,932	4,938,825

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

4. Property, plant and equipment (continued)

(a) Revaluation of offshore plant and equipment and pipelines

i. Offshore plant and equipment

The Group revalues its offshore plant and equipment using an income approach every five to seven years. In December 2004, the parent company revalued its offshore plant and equipment at an amount of TT\$139 million to be depreciated over the assets' remaining useful life of eight years. A corresponding amount of TT\$90.3 million (net of tax) was recorded as a revaluation reserve. If the offshore plant and equipment were measured using the cost model, the net carrying amount would have been immaterial, as at 31 December 2007.

ii. Pipelines

The Group revalues its pipelines every five to seven years. In January 2000, an independent accredited valuer revalued the Group's pipelines at an amount of TT\$927 million. If these pipelines were measured using the cost model, the net carrying amount would have been TT\$181 million and TT\$145 million respectively, as at 31 December, 2006 and 2007. In accordance with the Company's revaluation policy, pipelines will be revalued respectively during 2008.

(b) Pipelines and related facilities

Included in "Pipelines and related facilities" is the Trinidad and Tobago Electricity Commission (T&TEC) pipeline system which was acquired by the Parent Company from T&TEC with effect from 1 January, 1977. However, the Parent Company has not obtained legal title to the asset because the proper Rights of Way associated with the pipeline system have not yet been acquired by the Company. Refer also to note 32(i).

(c) Assets under construction

The Group has incurred costs of approximately TT\$490.6 million (inclusive of capitalized interest of TT\$49.512 million) in respect of site development work on Union Industrial Estate (UIE). The Management has determined that the fair value of the Union Industrial Estate is TT\$309.6 million. The reduction of TT\$190.0 million has been charged to the income statement. The fair value was determined on an income approach using cash flow projections covering a 30-year period.

The site development works on the Union Industrial Estate were partially funded by bank borrowings of TT\$329.9 million (Note 21(iv)). The Group is in the process of acquiring the land on which the site development works were done.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

5. Intangible assets

Cost

At the beginning of year
Additions/transfers at cost
Disposals
Foreign exchange difference

Accumulated depreciation

At the beginning of year
Charges for the year
Disposals
Foreign exchange difference

Net book value

2007
\$'000

71,247
590
(3,631)
182

68,388

35,211
25,066
(3,631)
128

56,774

11,614

2006
\$'000

21,505
49,332
—
410

71,247

20,136
14,993
—
82

35,211

36,036

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

6. Investment property

	2007 \$'000	2006 \$'000
Cost		
At beginning of period	72,416	57,380
Additions	876	9,112
Transfers	—	6,168
Disposals	—	(245)
	<u>73,292</u>	<u>72,415</u>
Accumulated depreciation/impairment		
At beginning of period	3,573	1,697
Depreciation charge for period	1,961	1,890
Disposals	—	(15)
	<u>5,534</u>	<u>3,572</u>
Net book value	<u>67,758</u>	<u>68,843</u>

7. Pensions

Benefit asset/(liability)

Present value of obligation	(302,064)	(233,070)
Fair value of plan assets	<u>299,973</u>	<u>271,861</u>
	<u>(2,091)</u>	<u>38,791</u>
Unrecognized actuarial gains	—	—
Pension (liability)/asset	<u>(2,091)</u>	<u>38,791</u>

Movement on the asset recognized in the balance sheet:

Asset value at beginning of the year	38,791	84,765
Net pension cost	(56,423)	(56,632)
Contributions paid	<u>15,541</u>	<u>10,658</u>
(Liability)/asset value at end of the year	<u>(2,091)</u>	<u>38,791</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

7. Pensions (continued)

The amounts recognized in the statement of income are as follows:

	2007 \$'000	2006 \$'000
Current service cost	(17,478)	(11,371)
Interest cost on benefit obligation	(20,245)	(14,415)
Expected return on plan assets	27,239	24,204
Net actuarial gain recognized in the year	(45,939)	(19,543)
Past service cost	—	(35,507)
Net pension cost	<u>(56,423)</u>	<u>(56,632)</u>
Actual return on plan assets	<u>11,000</u>	<u>11,691</u>

Changes in the present value of the defined benefits obligation are as follows:

Defined benefit obligation at start of the year	233,070	187,207
Service cost	17,478	11,371
Interest cost	20,245	14,415
Members' contribution	5,559	3,806
Benefit improvement	—	35,507
Actuarial (gain)/loss	29,700	(16,352)
Benefits paid	(3,469)	(2,469)
Expense allowance	(519)	(415)
Defined benefit obligation at end of the year	<u>302,064</u>	<u>233,070</u>

Changes in fair value of plan assets are as follows:

Plan assets at start of year	271,861	271,972
Expected returns on plan assets	27,239	24,204
Actuarial gain/(loss)	(16,239)	(35,895)
Company contributions	15,541	10,658
Members' contributions	5,559	3,806
Benefits paid	(3,469)	(2,469)
Expense allowance	(519)	(415)
Plan assets at end of the year	<u>299,973</u>	<u>271,861</u>

The Company expects to contribute TT\$18.5 million to its defined benefit pension plan in 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

7. Pensions (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	2007	2006
Equity securities	47%	61%
Debt securities	11%	2%
Money market instruments/ cash	31%	28%
Mutual funds	9%	0%
Other – deposits administrative contract	0%	6%
Other – purchased annuities	2%	3%
	<u>100%</u>	<u>100%</u>

The principal actuarial assumptions used for accounting purposes were:

Discount rate	8.75%	8.75%
Expected return on plan assets	9.75%	9.75%
Future salary increases	8.25%	8.25%
Pension increases	0%	0%

Expected rate of return on assets set by reference to estimated long-term returns on assets held by plan at that date. Allowance is made for some excess performance from the plan's equity portfolio.

8. Interest in joint venture

The NGC NGL Company Limited's 51% share of the assets, liabilities, and income and expenses of PPGPL as at 31 December, 2007 and 2006 are as follows:

	2007 \$'000	2006 \$'000
Share of PPGPL's balance sheet:		
Current assets	886,978	763,166
Non-current assets	1,118,031	880,820
Current liabilities	(370,030)	(261,538)
Non-current liabilities	(968,544)	(932,764)
Net assets	<u>666,435</u>	<u>449,684</u>
Share of PPGPL's income statement:		
Revenue	2,403,144	1,919,040
Cost of sales	(1,227,486)	(1,056,753)
Operating and other expenses	(163,855)	(139,958)
Finance costs	(16,509)	(22,385)
Profit before tax	995,294	699,944
Income tax expense	(349,506)	(249,724)
Profit for the year	<u>645,788</u>	<u>450,220</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

9. Investments and advances

Investments and advances comprise the following:

Held-to-maturity investments
Investment in Atlantic I Holdings LLC, at cost
Investments in Atlantic LNG 4 Company of Trinidad
and Tobago Unlimited, at cost
Available-for-sale financial assets (note a)

(a) Available-for-sale financial assets

Shares – listed
Shares – unlisted

	2007 \$'000	2006 \$'000
	902	868
	153,903	153,491
	176,697	176,227
	737,939	765,391
	<u>1,069,441</u>	<u>1,095,977</u>
	723,983	756,892
	13,956	8,499
	<u>737,939</u>	<u>765,391</u>

Listed

Available-for-sale financial assets consist of investments in ordinary shares and the first unit scheme of The Trinidad & Tobago Unit Trust Corporation (a mutual fund) and, therefore have no fixed maturity date or coupon rate. The fair value of the listed ordinary shares is determined by reference to published price quotations in an active market.

Unlisted

For investments where there is no active market, the fair value estimates cannot be reasonably assessed and as such are measured at cost.

10. Deferred expenses

Take-or-pay

Less: current portion

	2007 \$'000	2006 \$'000
	252,066	484,785
	(45,680)	(206,610)
	<u>206,386</u>	<u>278,175</u>

Take-or-pay represents the right to take gas under a take-or-pay agreement for which the Group has recognized a liability to pay for gas volumes contractually committed to but not yet taken. The expenditure is recognized on the earlier of when the gas volumes are actually taken or on expiration of the deficiency recovery period. The Group expects to take the underlying volumes of gas prior to the expiration of the contractual term. Long-term creditors relate to take-or-pay liabilities expected to be settled more than one year after the balance sheet date.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

11. Loans receivable

(i) Long-term loans receivable

Trinidad and Tobago Electricity Commission (T&TEC)
Atlantic LNG 4 Company of Trinidad and Tobago Unlimited

Less: current portion of loans

Long-term loans receivable

2007 \$'000	2006 \$'000
141,562	250,056
706,790	704,909
848,352	954,965
(111,784)	(111,528)
736,568	843,437

Trinidad and Tobago Electricity Commission (T&TEC)

This loan is for a period of 6 years with interest payable at the rate of 8.75% per annum with a moratorium on principal and interest payment for the first two years of the loan. During this period, interest was capitalized and amalgamated with the loan receivable, which is payable in equal monthly installments over the 4 remaining years, with an option for prepayment. The loan agreement was finalized on 6 April, 2005.

The fair value of the loan was TT\$136.12 million as at 31 December, 2007.

Atlantic LNG 4 Company of Trinidad and Tobago Unlimited

Pursuant to the Atlantic LLC Agreement the Members are obligated to make Member's Loans and working capital contributions in proportion to each Member's Percentage Interest to fund the construction, commissioning and operations of the ALNG Train 4. The maximum aggregate principal amount of the long-term Member's Loan is US\$1.2 Billion of which the Group's proportion is 11.11% (US\$133.3 million). As at 31 December, 2007 the Group has contributed US\$111.988 million (2006:US\$111.988 million) which represents its share of the long-term Member's Loan. Repayment terms have not been finalized.

This loan is unsecured and interest is calculated on the principal amount outstanding and payable quarterly at a rate of Libor plus a margin which ranges from 1.125% to 2.125% per annum. The effective interest rate at the balance sheet date was 7.306% (2006: 7.054%). The fair value of this loan approximates its carrying value.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

11. Loans receivable (continued)

- (ii) Short-term loan receivable

Atlantic LNG 4 Company of Trinidad and Tobago Unlimited

The short-term loan receivable was required to fund the pre-commercial expenses of Train 4. These funds are cash called as required. The maximum aggregate principal amount of the short-term Member's Loan available to be drawn down is US\$148 million of which Trinidad and Tobago LNG Limited proportion is 11.11% US\$16.443 million. As at 31 December, 2007, the Company has contributed US\$15.965 million which represents its share. This facility will mature on 31 December, 2008. This loan is unsecured and interest is calculated on the principal amount outstanding and payable quarterly at a rate of Libor plus an applicable margin. The effective interest rate at 31 December, 2007 was 7.167% (2006: 6.915%). Repayment terms have not been finalized.

12. Debt reserve funds

In accordance with the Letter of Credit and Reimbursement Agreement ("L/C Agreement") dated as of October 15, 1997 among the parent company, The Bank of Nova Scotia Trinidad and Tobago Limited, Citibank N.A., De Nationale Inversteringsbank (NA) N.V., and Kredietbank N.V. Dublin Branch collectively and The Bank of Nova Scotia L/C Agent, the parent company maintains certain debt reserve funds which are funded from appropriations from two gas sales contracts. As at 31 December, 2007 and 2006, these funds totalling TT\$83.36 million and TT\$79.39 million respectively, were held in interest bearing accounts. In accordance with the Security agreement the lenders required that one of the subsidiary companies maintain a Debt Reserve Fund. As at 31 December, 2007 these funds totalling US\$12.508 million (TT\$78.942 million) were held in an interest bearing account.

13. Accounts receivable

	2007 \$'000	2006 \$'000
Trade receivable	<u>3,222,155</u>	<u>2,442,209</u>

Trade receivables are non-interest bearing and are generally on 15-30 days terms. Included in this balance is the amount of US\$171.33 million (TT\$1.082 billion) which represents amounts due from the Trinidad and Tobago Electricity Commission (T&TEC) which is the local utility company that distributes electric power to customers in Trinidad and Tobago. The amount represents gas sold to T&TEC for the period July 2005 to December 2007. T&TEC is wholly owned by the Government of Trinidad and Tobago and discussions are being held with the Group's shareholder to liquidate this outstanding recoverable.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

13. Accounts receivable (continued)

As at 31 December 2007, trade receivables impaired and fully provided for totalled \$6.8 million. Movements in the provision for impairment of receivables were as follows:

	Individually impaired	Collectively impaired	Total
At 1 January, 2006	706	3,794	4,500
Charge for year	—	2,180	2,180
Utilized	—	—	—
At 31 December, 2006	706	5,974	6,680
Charge for year	19	2,826	2,845
Utilized	(706)	(1,995)	(2,701)
At 31 December, 2007	19	6,805	6,824

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	<30 days	30-60 days	Past due but not impaired	60-90 days	90-120 days	>120 days
2007								
T&TEC receivable	1,081,327	66,335	29,639	34,055	36,597	36,739	877,962	
Other receivable	2,140,828	1,844,023	232,616	33,116	7,964	13,985	9,124	
	<u>3,222,155</u>	<u>1,910,358</u>	<u>262,255</u>	<u>67,171</u>	<u>44,561</u>	<u>50,724</u>	<u>887,086</u>	
2006								
T&TEC receivable	681,579	72,376	36,700	36,393	38,060	38,896	459,154	
Other receivable	1,760,630	1,461,199	221,671	23,062	22,998	13,465	18,235	
	<u>2,442,209</u>	<u>1,533,575</u>	<u>258,371</u>	<u>59,455</u>	<u>61,058</u>	<u>52,361</u>	<u>477,389</u>	

14. Cash and short-term deposits

Cash at banks and on hand
Short-term deposits

2007 \$'000	2006 \$'000
1,323,815	1,530,510
6,893,741	4,463,010
<u>8,217,556</u>	<u>5,993,520</u>

Cash at bank earns interest at floating rates on daily deposit rates. Short-term deposits are made for varying periods of between one day and twelve months, depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates. The fair value of cash and short-term deposits is TT\$8,217.556 million (2006: TT\$5,993.520 million).

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

14. Cash and short-term deposits (continued)

For the purposes of the cash flow statement, cash and cash equivalent comprise the following at 31 December.

	2007 \$'000	2006 \$'000
Cash at banks and on hand	1,323,815	1,530,510
Short-term deposits (with an original maturity date of less than three months)	545,751	1,229,256
	<u>1,869,566</u>	<u>2,759,766</u>
15. Inventories		
Finished goods – LNG	20,875	–
Consumable spares	15,480	13,542
TSP spares	2,997	2,989
Other	224	233
	<u>39,576</u>	<u>16,764</u>
16. Sundry debtors and prepayments		
Sundry debtors and prepayments comprise the following:		
Prepayments – Dolphin Pipeline	1,199,146	1,195,955
– Other	20,123	37,033
Staff related balances	3,720	5,856
Related party balance	1,616	1,189
Value Added Tax	62,990	40,402
Interest receivable	107,441	67,011
Accrued income	14,234	60,737
Other	139,832	105,394
	<u>1,549,102</u>	<u>1,513,577</u>
17. Stated capital		
Authorized		
An unlimited number of ordinary shares of no par value		
Issued and fully paid		
1,752,848,000 ordinary shares of no par value	<u>1,752,848</u>	<u>1,752,848</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

18. Reserve fund

A Reserve Fund has been set up by the Board of Directors with the objective of minimizing the Group's exposure arising from business interruption, adverse gas price fluctuations, and liabilities or losses which may result from accidents on its self-insured assets.

Transfers to the Reserve Fund will be made in such cases where the Group's standard return on equity is exceeded. The fund cap is 25% of the issued stated capital of the parent Company.

19. Other reserves

Other reserves comprise the following:

Revaluation surplus for offshore plant and equipment and pipelines
Unrealized gain on available-for-sale financial assets
Foreign currency translation

20. Taxation

Current – Corporation tax
– Petroleum profit tax
– Business levy
– Green fund levy

Deferred

	2007 \$'000	2006 \$'000
	409,735	433,882
	252,264	287,624
	67,021	36,998
	729,020	758,504
	1,281,709	1,126,817
	11,743	84,757
	65	50
	15,197	13,559
	1,308,714	1,225,183
	10,248	(1,485)
	1,318,962	1,223,698

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

20. Taxation (continued)

Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rate

	2007 \$'000	2006 \$'000
Accounting profit	4,886,451	4,025,986
Tax at the rate of 35%	1,710,258	1,409,095
Tax exempt income	(350,945)	(314,971)
Non-allowable expenses	848	72,433
Additional tax allowances	(116)	—
Other differences	(19,951)	(3,325)
Prior years' corporation tax	(30,271)	27,231
Business levy	66	50
Green fund	15,197	13,559
Tax losses utilized	(1,388)	(1,483)
Tax loss for which benefit was not recognized	1,097	2,066
Tax effect of subsidiaries at different rate	(13,028)	(12,643)
Effect of oil and gas assets taxed at a different rate	11,088	31,686
Foreign currency	(3,893)	—
Income tax provision	1,318,962	1,223,698

Significant components of deferred tax asset and liability are as follows:

Deferred tax asset:

Dry hole expense	21,719	165
Accrued interest expense	37,942	50,701
Tax losses	127,936	127,431
Post retirement, medical and group life obligation	29,141	23,447
Asset retirement obligation	174,941	164,771
Other	2,873	2,700
	394,552	369,215

Deferred tax liability:

Property, plant and equipment	652,184	611,016
Pension	—	13,578
	652,184	624,594

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

21. Long-term debt

- (i) Caribbean Development Bank
- (ii) European Investment Bank (EIB)
- (iii) AKA Ausfuhrkredit GMBH
- (iv) First Citizens Bank Limited
- (v) US\$400M 30-year bond
- (vi) CALYON
- (vii) First Citizens Bank Limited
- (viii) RBTT

Less: current portion

2007 \$'000	2006 \$'000
21,384	36,215
39,159	76,952
131,621	160,443
329,927	306,584
2,484,795	2,478,003
1,110,892	1,172,986
55,540	61,675
51,289	58,059
4,224,607	4,350,917
(162,664)	(155,569)
4,061,943	4,195,348

Description

Item (i) relates to a facility established on 23 January, 1997 whereby the Parent Company committed to borrow US\$21.52 million (TT\$135.5 million) to finance the construction of marine facilities at Savonetta, Point Lisas. The loan was fully drawn down in 2000.

Item (ii) relates to a facility established on 11 February, 1996 whereby the Parent Company committed to borrow ECU 45 million, approximately US\$49.71 million (TT\$313.2 million) to finance the construction of new pipelines. The loan was fully drawn down in 1999.

Terms and conditions

The loan provides for 40 equal quarterly installments, and the first repayment of principal commenced in the year 2000. Interest is payable quarterly in arrears and determined annually. The applicable rate for 2007 ranged between 6%-6.1% (2006: 6-6.25%). The fair value of this loan approximates its carrying value.

The loan provides for 18 equal semi-annual installments, which commenced on 10 June, 2000. Interest is payable semi-annually in arrears at the higher of 3% per annum and EIB's lending rate on disbursement date, less a subsidy applicable to all tranches. This loan is carried at an amount which reflects its contracted obligation.

Security

Letter of credit secured by specific gas sales contracts.

Letter of credit secured by specific gas sales contract.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

21. Long-term debt (continued)

Description	Terms and conditions	Security
Item (iii) relates to a facility established with AKA GMBH (AusfuhrkreditGesellschaftmbH) on 10 July, 2003 as follows: Tranche 1 – US\$38.17 million; and Tranche 2 – EUR 1,135.17 million – Insurance Premium.	The loan provides for 17 equal consecutive semi-annual installments commencing June 2004. Interest is payable semi-annually in arrears at the fixed rate of 4.18% per annum commencing June 2004. The fair value of the loan was US\$18.31 million (TT\$115.56 million) at December 2007.	Export credit insurance provided by HERMES.
Item (iv) relates to a loan facility of US\$44.4 million established with First Citizens Bank Ltd on 17 December, 2004 for site development works on Union Industrial Estate.	The loan provides five years moratorium on principal and interest and for 20 equal and consecutive semi-annual installments of US\$4.17 million commencing 66 months from the effective date and continuing until the facility is repaid. Interest is payable semi-annually in arrears at First Citizens Bank Ltd's USD prime lending rate less 2.60%. The effective interest rate as at 31 December, 2007 was 7.4% (2006: 7.4%). The fair value of this loan approximates its carrying value.	No collateral/security required except for the condition that Union Estate's operating account be established at First Citizens Bank Ltd.
Item (v) relates to a US\$400 million bond issued by the Parent Company and arranged by Lehman Brothers/Citigroup on 20 January 2006 to finance the construction/ acquisition of two new offshore pipelines and for advances to TT LNG to fund its 11.11% of its offshore shareholder loans to ALNG 4 Company of Trinidad and Tobago Unlimited.	The bond will be redeemed for a bullet payment on 15 January, 2036. Interest is payable semi-annually in arrears at a fixed rate of 6.05% commencing in July 2006. The fair value of the bond was US\$386.74 million (TT\$2,440.89 million) at December 2007.	None.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

21. Long-term debt (continued)

Description

Item (vi) relates to a facility established with a group of lenders led by CALYON on 23 December, 2004 for US\$200 million (TT\$1,260 million).

Terms and conditions

Principal is repayable in 30 consecutive semi-annual installments which commenced 1 June 2006 and matures on 1 December, 2021. Interest is payable quarterly. The interest rate is based on the relevant type Euro/ Base rate advances requested plus a margin ranging between 1.50% per annum to 2.50% per annum (Eurodollar rate advances) and 0.50% per annum to 1.50% per annum (Base rate advances). As at 31 December, 2007, all drawdowns were Eurodollar rate advances. A 15-year interest rate hedge became effective on 1 December, 2005 for fifty percent (50%) of the financing (US\$100.0 million) at a fixed rate of interest of 4.98% per annum plus the margins noted above. The fair value of the loan was TT\$911.608 million at 31 December, 2007 (2006: TT\$1,155.444 million).

The average Libor rate for the year ended 31 December, 2007 was 5.779% (2006: 5.100%). The effective interest rate at the balance sheet date is 4.91250% (2006: 5.3481%) exclusive of the above margin.

Security

Collateral accounts, which include a debt service reserve account, assignment of the borrower's rights, title and interest in specified term sheets relating to transportation agreements, receivables and inventory, assignment of insurances policies and the Company's shares owned by the Parent.

Item (vii) relates to a facility established with First Citizens Bank Ltd for TT\$67.9 million on 17 May, 2004 by National Energy Corporation of Trinidad and Tobago Limited in pursuit of its capital expansion programme.

This loan provides for two equal semi-annual payments of interest only followed by 18 semi-annual payments of principal and interest. Interest is fixed at a rate of 6.20% per annum. The fair value of the loan was TT\$54.352 million at December 2007 (2006: TT\$55.754 million).

Assignment of pier user contracts, chattel mortgage over two tugboats with carrying amounts totalling TT\$43.009 million (2006: TT\$48.775 million) and assignment of all risk marine and special perils insurance coverage over the tugboats.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

21. Long-term debt (continued)

Description

Item (viii) relates to a Bond issued on 22 May, 2005 whereby the Parent Company committed to borrow TT\$62 million to finance the construction of the fabrication yard and dock expansion. The Trustee is RBTT Trust Ltd.

Terms and conditions

The bond provides for 2 semi-annual payments of interest only, followed by 18 semi-annual payments of principal and interest. Interest rate is fixed at 6.05% per annum. The fair value of the bond was TT\$58.059 million at December, 2007 (2006: TT\$55.831 million).

Security

Bond is guaranteed by The National Gas Company of Trinidad and Tobago Limited and The Petroleum Company of Trinidad and Tobago Limited.

Maturity profile of long-term debt

In one year or less

In more than one year but not more than two years

In more than two years but not more than three years

In more than three years but not more than four years

In more than four years but not more than five years

In more than five years

2007
\$'000

162,664

135,497

160,013

167,345

160,506

3,438,582

4,224,607

2006
\$'000

155,569

161,281

154,988

176,007

183,283

3,519,789

4,350,917

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

22. Provisions

	Asset retirement obligation \$'000	Environmental obligation \$'000	2007 Total \$'000	2006 Total \$'000
Balance as at 1 January	431,519	22,887	154,406	425,506
Amounts utilized during year	—	(1,299)	(1,299)	(1,106)
Unwinding of discount	25,796	—	25,796	23,347
Foreign currency translation adjustment	1,176	548	1,724	(260)
	<u>458,491</u>	<u>22,136</u>	<u>180,627</u>	<u>447,487</u>
Less current portion	—	(266)	(266)	(2,076)
Non-current portion	<u>458,491</u>	<u>21,870</u>	<u>180,361</u>	<u>445,411</u>

i. Asset retirement obligation

The Group has recorded provisions for the net present value of the estimated cost of decommissioning the offshore plant and equipment and the Teak, Samaan and Poui platforms based on studies conducted. A letter of credit was established for the Group's portion of the obligation for the Teak, Samaan and Poui platforms. The future estimated payments of the cost are currently anticipated to be 2012 and 2025 respectively. However, the ultimate amount and timing of the cost may vary from the original estimate.

ii. Environmental obligation

The Group has committed to reforestation of land areas equivalent to those cleared for pipeline construction and right of way extension. To this end an environmental obligation was recorded in the financial statements in December 2005.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

23. Post retirement medical and group life

Post retirement medical and group life

Movement on the liability recognized in the balance sheet:

Value at beginning of the year

Foreign exchange translation

Prior year adjustment

Net benefit cost

Premiums paid

Value at end of year

Changes in the present value of the defined benefits obligation are as follows:

Defined benefits obligation at start

Prior year adjustment

Service cost

Interest cost

Benefit improvement

Actuarial (gain)/loss

Foreign exchange translation

Company's premiums paid

Expense allowance

Defined benefits obligation at end

	2007 \$'000	2006 \$'000
Post retirement medical and group life	<u>83,256</u>	<u>66,996</u>
Movement on the liability recognized in the balance sheet:		
Value at beginning of the year	66,996	34,282
Foreign exchange translation	262	—
Prior year adjustment	2,620	—
Net benefit cost	13,775	33,103
Premiums paid	<u>(397)</u>	<u>(389)</u>
Value at end of year	<u>83,256</u>	<u>66,996</u>
Changes in the present value of the defined benefits obligation are as follows:		
Defined benefits obligation at start	66,996	34,282
Prior year adjustment	2,620	—
Service cost	6,578	4,928
Interest cost	6,074	2,642
Benefit improvement	—	26,641
Actuarial (gain)/loss	1,123	(1,108)
Foreign exchange translation	262	—
Company's premiums paid	<u>(397)</u>	<u>(389)</u>
Expense allowance	<u>—</u>	<u>—</u>
Defined benefits obligation at end	<u>83,256</u>	<u>66,996</u>

The Group expects to contribute TT\$0.42 million to its post retirement medical and group life plans in 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

23. Post retirement medical and group life (continued)

Movement on the liability recognized in the balance sheet:

The amounts recognized in the statement of income are as follows:

	2007 \$'000	2006 \$'000
Current service cost	6,578	4,928
Interest cost on benefits obligation	6,074	2,642
Net actuarial loss recognized in the year	1,123	(1,108)
Past service cost	—	26,641
Net benefits cost	<u>13,775</u>	<u>33,103</u>

The principal actuarial assumption used for accounting purpose were:

Medical cost inflation	8.25%	8.25%
Discount rates	8.75%	8.75%
Average individual salary increases	8.25%	8.25%

Effects of one percentage point change in medical expense increase assumption.

	Aggregate service and interest costs \$'000	Year end deferred benefit obligation \$'000
Medical expenses increase by 1% P.A	13,679	90,797
Medical expense decrease by 1% P.A	9,226	60,160

Assets Allocation as at 31 December

The Group funds the benefits directly by payments of premiums to an insurance company. There are no assets explicitly set aside for this plan.

Experience history

	2007 \$'000	2006 \$'000
Defined benefit obligation	83,256	66,996
Fair value of plan assets	—	—
Deficit	<u>83,256</u>	<u>66,996</u>
Experience adjustment on plan liabilities	(1,123)	(1,108)
Experience adjustment on plan assets	—	—

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

24. Deferred income

Deferred income comprises revenue which is deferred into future periods. It comprises the following:

	2007 \$'000	2006 \$'000
Government grant (note a)	20,627	36,690
Transportation tariff (note b)	81,377	85,752
Pier user charge (note c)	12,144	9,021
Other	5,035	—
	119,183	131,463
Less: Current portion	(56,986)	(56,750)
	62,197	74,713

(a) This amount relates to two government grants.

(b) This amount comprises shippers reserve capacity which is billed one month in advance.

(c) This amount comprises pier user charges which is billed in advance.

25. Trade creditors

Trade payables are settled on 30-day terms

2007 \$'000	2006 \$'000
2,125,620	2,059,568

26. Sundry creditors and accruals

Accrued interest
Accrued material/service amounts
Contract provisions
Employee related accruals
Pre-transfer payments – Dolphin Pipeline

2007 \$'000	2006 \$'000
91,389	93,230
586,940	479,454
27,927	30,115
32,885	29,835
332,358	143,957
1,071,499	776,591

Terms and conditions of the above financial liabilities:

Interest payable is normally settled in accordance with the terms and conditions of the respective loan. See note 21.

Accrued materials service amounts and contract provisions are non interest bearing and have an average term of two (2) months.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

27. Sales and cost of sales

Sales include the following:

	2007 \$'000	2006 \$'000
Gas sales	10,847,076	9,550,491
Condensate sales	89,009	106,511
Transport tariffs	207,856	208,502
Compression charges	39,202	41,157
Crude oil income	502,888	497,879
LNG sales	934,432	674,779
Marine facilities and services	255,558	195,618
	<u>12,876,021</u>	<u>11,274,937</u>

Cost of sales include the following:

Gas purchase	8,103,200	7,341,004
Depreciation	212,886	100,636
Impairment	4,142	201
Other operating cost	173,685	58,403
Production taxes including SPT	163,390	162,650
Maintenance cost	106,646	149,687
Staff cost	52,172	45,528
Royalties	60,309	59,499
Exploration and production cost	78,126	73,859
	<u>8,954,556</u>	<u>7,991,467</u>

28. Other operating income include the following:

Lease income	16,879	26,348
Other	25,282	76,961
	<u>42,161</u>	<u>103,309</u>

29. Interest and other investment income

Dividend income	342,426	427,765
Interest income	439,902	308,260
LNG production payments	302,927	385,821
Other investment income	30,796	47,940
	<u>1,116,051</u>	<u>1,169,786</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

30. Expenses

Administrative, maintenance and general costs include the following:

Staff costs	217,835	210,628
Maintenance and general expenses	229,776	177,601
Insurance claim (received)/not settled	(197,580)	174,669
Provision for irrecoverable debt	(2,899)	3,769

247,132 **566,667**

Staff costs:

Wages and salaries	195,182	164,722
National insurance	2,525	2,305
Post retirement medical and group life	15,971	32,671
Pension costs	56,329	56,458

270,007 **256,156**

Staff costs included within:

Cost of sales	52,172	45,528
Administrative and general expenses	217,835	210,628

270,007 **256,156**

31. Finance costs

Interest	291,580	286,675
Interest rate lock	495	22,678
Decommissioning – unwinding of discount rate	25,776	23,297

317,851 **332,650**

During December 2005 the Group entered into an agreement with two (2) financial institutions to lock-in the interest rate of the proposed US\$400 million 30-year bond which was issued in January 2006.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

32. Statement of cash flow

Cash generated from operations

	2007 \$'000	2006 \$'000
Profit before tax	4,886,451	4,025,986
Adjustments to reconcile net profit with net cash from operating activities:		
Depreciation	271,043	146,108
Impairment	194,140	201
Finance costs	317,849	332,650
(Gain)/loss on disposal of property, plant and equipment	284	211
Loss on foreign exchange transaction	(1,468)	—
Provision for diminution in investment	(1,143)	—
Share of profit from joint venture	(645,788)	(450,220)
Dividends received	(349,211)	(427,765)
Decrease in deferred income	(6,027)	98,371
Increase in deferred expenses	229,733	(91,523)
Increase in provision for post retirement obligation	18,140	33,103
Decrease in pension asset	38,832	56,631
Interest and investment income	(446,146)	(339,584)
Operating profit before working capital changes	4,506,689	3,384,169
Increase in accounts receivable	(820,935)	(780,372)
Decrease/(increase) in sundry debtors	48,935	(1,194,796)
(Increase)/decrease in inventories	(22,735)	18,232
Increase in trade creditors, sundry creditors and accruals, and long-term creditors	346,759	947,146
	<u>4,058,713</u>	<u>2,374,379</u>

33. Contingent liabilities

i. Taxes

For the income years 1993 to 1996, 1999 and 2000, the Group has objected to certain adjustments of TT\$142.67 million by the Board of Inland Revenue to the Group's tax liability. Management is of the opinion that these adjustments are incorrect, excessive and without merit and therefore, no provision has been made in the accounts for any additional tax liabilities, penalties or interest.

ii. Litigation matters

The Group has been named as defendant in various lawsuits and proceedings which are at various stages of litigation and their outcomes are difficult to predict. In the Group's opinion, however, the disposition of these matters is not likely to have a materially adverse effect on the Group's financial condition or results of operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

34. Capital commitments

Approved and contracted capital expenditure

2007
\$'000

452,767

2006
\$'000

349,246

35. Other commitments – compensation to land owners

As at 31 December, 2007 the Group is unable to accurately estimate the compensation that might be payable to owners of land along Rights of Way of the Group's pipelines. Accordingly, no provision has been made for any amounts that might be owed to the landowners.

36. Operating lease commitments

(i) Group as a lessee

Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

Within one year

11,990

3,663

One to five years

24,403

3,663

36,393

7,326

(ii) Group as a lessor

Future minimum rental receivable under non-cancellable Operating leases as at 31 December are as follows:

Within one year

39,841

35,432

One to five years

156,691

151,491

More than five years

268,164

318,367

464,696

505,290

37. Commitment contracts

Purchases

The Group purchases natural gas through US dollar denominated long-term "take-or-pay" contracts from various upstream producers with terms varying from 15 to 23 years. Under these long-term "take-or-pay" contracts, the Group is obliged to take any natural gas up to specified volume that is offered at the current price up to a specified volume or pay a specified amount if the Group refuses to take the natural gas. Natural gas prices under these contracts are calculated based on a percentage of prices the Group receives from sales to petrochemical customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

37. Commitment contracts (continued)

Sales

Under long-term take-or-pay sales contracts, the Group's customers are obligated to take any natural gas that is offered to them at the current price, up to a specified percentage of the volume offered or to pay a specified amount if they refuse to take the natural gas. Increases in the gas prices that the customers pay under these contracts are not capped and the prices paid for natural gas cannot go below a certain minimum price.

38. Related party transaction

The Parent Company is wholly-owned by the Government of Trinidad and Tobago. The Group has entered into several agreements with various agencies/state-owned companies of the Government, for the supply of gas.

The sales to and purchases from related parties are at arm's length, except for the gas sales contract with T&TEC. Outstanding balances at the year-end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December, 2007 and 2006, the Group has not made any provisions for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The following table provides the total amount of material transactions, which have been entered into with related parties as at or for the year ended 31 December.

		\$'000 Sales to related parties	\$'000 Purchases from related parties	\$'000 Amounts due from related parties	\$'000 Amounts due to related parties
Fellow State Enterprises					
Trinidad and Tobago Electricity Commission					
Gas Sales	2007	397,268	—	1,081,328	—
	2006	570,651	—	681,579	—
Loan receivable	2007	159,072	—	—	—
	2006	277,372	—	—	—
Petroleum Company of Trinidad and Tobago Limited	2007	199,284	—	52,472	—
	2006	152,739	—	41,909	—
Associated Company					
National Helicopter Services Limited	2007	—	10,856	—	3,572
	2006	—	13,755	—	1,378

Furthermore, the Group purchases services of immaterial value from various Government agencies at arm's length transactions.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

38. Related party transaction (continued)

	2007 \$'000	2006 \$'000
Compensation of key management personnel		
Short-term employee benefits	17,535	18,391
Post employment benefit	<u>2,150</u>	<u>1,551</u>
	<u>19,685</u>	<u>19,942</u>

39. Financial risk management objectives and policies

The Group has various financial assets such as investments in ordinary shares and the first unit scheme of the Trinidad and Tobago Unit Trust Corporation, trade receivables, short-term investments and cash which arise directly from its operations. The Group's financial liabilities comprise bank loans, trade and sundry payables. The main purpose of these financial liabilities is to raise finance for the Group's operations.

The Company also enters into derivative transactions such as interest rate swap. The purpose is to manage the interest rate and currency risk arising from the Group's operations and its sources of finance.

The main risk arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk, foreign currency risk and other price risks. Management review and agrees policies for managing each of these risks, which are summarized below.

Credit risk

The Group trades only with recognized creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant, with the exception of amounts due from the Trinidad and Tobago Electricity Commission (T&TEC), which is the local utility Company that distributes electric power to customers in Trinidad and Tobago. The Government of Trinidad and Tobago is the sole shareholder in both Companies and continues to monitor the situation and hold discussions to liquidate the outstanding receivable. With respect to credit risk arising from other financial assets of the Group, the exposure to credit risk arises from default of the counter party with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk

The Group monitors its risks to a shortage of funds by managing the maturity of both financial investments and financial assets (e.g. accounts receivables and short-term investments) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

39. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Year ended 31 Dec 2007	On demand	<3 mths	3-12 mths	1-5 yrs	>5 yrs	Total
Long-term debt	—	6,106	156,558	614,220	3,447,723	4,224,607
Trade creditors	—	2,038,739	86,750	131	—	2,125,620
Other payables	—	960,415	20,540	—	—	980,955
Other financial liabilities	—	52,871	204,882	124,412	49,393	431,558
	—	3,058,131	468,730	738,763	3,497,116	7,762,740
Year ended 31 Dec 2006	On demand	<3 mths	3-12 mths	1-5 yrs	>5 yrs	Total
Long-term debt	—	6,089	149,480	675,679	3,519,669	4,350,917
Trade creditors	—	1,786,606	272,251	711	—	2,059,568
Other payables	—	641,031	114,251	11,975	—	767,257
Other financial liabilities —	—	53,466	218,235	176,368	55,052	503,121
	—	2,487,192	754,217	864,733	3,574,721	7,680,863

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rates. The Group has used derivative financial instruments such as interest rate swaps to hedge its risk associated with interest rate fluctuations whereby the Group agrees to exchange at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon national principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December, 2007 after taking into account the effect of interest rate swaps approximately 50% of the Group's borrowings are at a fixed rate of interest (2006: 49.8%)

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

39. Financial risk management objectives and policies (continued)

Interest rate risk table

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowing). There is no impact to the Group's equity.

	Increase/ decrease in percentage	Effect on profit before tax
Long-term debt		
2007	10% (10%)	(1,597) 1,597
2006	10% (10%)	(1,735) 1,735

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases in currencies other than the Group's functional currency.

The Group also has currency exposure from loans denominated in currencies other than the Group's functional currency.

The following table demonstrates the sensitivity to a reasonable possible change in the TT dollar exchange rate with all other variables held constant of the Group's profit before tax. There is no impact on the Group's equity.

	Increase/ decrease in TT dollar rate	Effect on profit before tax
2007	0.01 (0.01)	3,280 (3,280)
2006	0.02 (0.02)	8,320 (8,320)

Other price risks

The Group is exposed to equity price risks arising from its investments in ordinary shares in NEL and the first unity scheme of the Unit Trust Corporation (a mutual fund). These equity instruments are held for strategic rather than trading purposes and the Group does not actively trade these investments.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

39. Financial risk management objectives and policies (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the price of these equity instruments with all other variables held constant of the Group's equity. There is no impact to the Group's profit before tax.

	Increase/ decrease in equity price	Effect on equity
2007	3-10% (3-10%)	72,329 (72,329)
2006	1-10% (1-10%)	75,106 (75,106)

Capital management

The primary objective of the Group's Capital Management is to ensure that its maintains a strong credit rating and healthy capital ratio in order to support its business and maximize shareholder value. It also manages its capital to ensure that the Group will be able to continue as a going concern. The Group's overall strategy remains unchanged from 2006.

The capital structure of the Group consists of share capital, reserves and retained earnings. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust capital structure the Group may issue new shares by transfers from retained earnings, adjust the dividend payment to shareholders or make transfers to its reserves. No changes were made in the objectives policies or process during the years ended 31 December, 2007 and 31 December, 2006.

The Group monitors capital using a gearing ratio which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio between 25% and 30%. The Group includes within net debt interest bearing loans and borrowing. Capital includes stated capital reserves and retained earnings.

	2007	2006
Net debt	4,224,607	4,350,917
Equity	12,873,848	9,520,578
Debt plus equity	17,098,455	13,871,495
Gearing ratio	0.25	0.31

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

40. Financial instruments

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all the Company's financial instruments that are carried in the financial statements.

	Carrying amounts		Fair value	
	2007	2006	2007	2006
Financial assets				
Cash and cash equivalents	1,948,507	2,759,766	1,948,507	2,759,766
Short-term investments	6,347,990	3,233,754	6,347,990	3,233,754
Available-for-sale investments	737,939	765,391	737,939	765,391
Debt reserve funds	83,355	79,391	83,355	79,391
Loans receivable	848,352	954,965	852,667	952,602
Trade debtors	3,222,155	2,442,209	3,232,595	2,442,209
Other receivables	677,099	803,013	677,099	803,013
Financial liabilities				
Floating rate borrowings	1,501,362	1,592,737	1,501,362	1,592,237
Fixed rate borrowings	4,224,607	4,350,917	3,946,498	4,308,481
Other financial liabilities	3,180,847	3,180,346	3,180,847	3,180,346

Short-term financial assets and liabilities

The carrying amount of short-term financial assets and liabilities comprising cash and cash equivalents, short-term investments, sundry debtors and current liabilities are a reasonable estimate of fair values because of the short-term nature of these instruments.

Long-term financial assets and liabilities

The fair value of the Group's floating rate long-term loan receivable and debt approximates its carrying amount given the floating nature of the loans at prevailing market rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December, 2007 (Amounts Expressed in Trinidad and Tobago Dollars)

40. Financial instruments (continued)

The fair value of investments that are actively traded in financial markets is determined by reference to quoted market prices at the close of business at the balance sheet date. For investments where there is no active market the fair value estimates cannot be reasonably assessed and as such measured at cost.

Derivative financial instruments and hedging

The Group used derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

The Group does not carry any financial instrument which meets the strict criteria for hedge accounting.

As at 31 December 2007 the Company had an interest rate swap agreement in place with notional amount of 89,450 whereby it receives a fixed rate of interest of 4.98% and pays a variable rate equal to LIBOR \pm 1.625% on the national amount. The swap is being used to hedge the exposure to changes in the fair value of its 50% secured loan. The secured loan and interest rate swap have the same critical terms.

41. Dividends

Dividends declared for the year amounted to Nil (2006: \$300 million). Subsequent to the year-end, the Board of Directors proposed dividends of \$650 million for the 2007 financial year which is to be approved at the Annual General Meeting.

42. Events after balance sheet date

Investment in Credit Linked Notes

In 2006 the Parent Company issued a US\$400 million bond to be repaid via a bullet payment in January 2036. To meet 50% of this liability, in 2008, the Parent Company invested US\$35.5 million in Credit Linked Notes. During the first ten (10) years of the investment there is risk in relation to loss of principal. At the end of the ten (10) year period, the note converts to a zero coupon bond and this risk no longer applies. This investment will be accounted for at fair value with gains and losses recognized in profit or loss.

Five-Year Financial Review: 2003-2007

INCOME STATEMENT

TT\$ ('000)	2007	2006 Restated	2005	2004 Restated	2003 Restated
Sales	12,876,021	11,274,937	8,024,288	6,230,821	4,652,270
Cost of Sales	(8,954,556)	(7,991,467)	(5,758,367)	(4,436,001)	(3,548,829)
Gross Profit	3,921,465	3,283,470	2,265,921	1,794,820	1,103,441
Net Operating Costs	(521,163)	(648,149)	(388,567)	(304,481)	(279,319)
Operating Profit/(Loss)	3,400,302	2,635,321	1,877,354	1,490,339	824,122
Interest and Investment Income	1,761,839	1,620,006	974,261	745,203	758,545
Finance Costs	(317,851)	(332,650)	(142,893)	(46,581)	(33,398)
Other Income	42,161	103,309	48,299	73,504	37,548
Profit Before Tax	4,886,451	4,025,986	2,757,021	2,262,465	1,586,817
Taxation	(1,318,962)	(1,223,698)	(854,131)	(666,192)	(385,580)
Net Profit for the year	3,567,489	2,802,288	1,902,890	1,596,273	1,201,237
Minority Interest	(240,407)	(223,185)	(137,203)	(103,146)	(49,793)
Net Profit Attributable to Equity Holders of Parent	3,327,082	2,579,103	1,765,687	1,493,127	1,151,444

BALANCE SHEET

TT\$ ('000)	2007	2006 Restated	2005	2004 Restated	2003 Restated
Net Current Assets (Current Assets-Liabilities)	9,740,278	6,886,152	2,006,485	1,228,087	771,356
Loan Receivable	736,568	843,437	936,492	362,008	407,831
Investments and Advances	1,735,876	1,545,661	1,841,882	2,275,975	1,514,456
Fixed Assets	5,351,524	5,043,704	4,740,445	3,758,451	2,641,886
Pension Assets	0	38,791	84,765	82,177	65,185
Deferred Items	600,938	647,390	706,204	376,543	344,389
Debt Reserve Funds	162,296	79,391	76,011	74,171	73,002
	18,327,480	15,084,526	10,392,284	8,157,412	5,818,105
Financed By:					
Long Term Debt and Accruals	4,739,253	4,864,462	2,212,380	1,223,463	772,238
Deferred Items	714,381	699,307	605,190	475,620	421,896
Minority Interest	261,677	230,333	172,721	187,527	146,340
Shareholders' Equity:					
Share Capital	1,752,848	1,752,848	920,766	920,766	240,766
Capital Reserves	1,167,212	1,196,696	1,319,948	1,312,021	739,012
Retained Earnings	9,692,109	6,340,880	5,161,279	4,038,015	3,497,853
	18,327,480	15,084,526	10,392,284	8,157,412	5,818,105

Five-Year Financial Review: 2003-2007

Balance Sheet

As At 2007, December 31

(With Comparative Figures - TT\$'000)

	2007 @ 31/12/2007	2006 @ 31/12/2006 Restated	2005 @ 31/12/2005	2004 @ 31/12/2004 Restated	2003 @ 31/12/2003 Restated
ASSETS					
CURRENT ASSETS:					
Cash And Cash Equivalents	\$ 1,323,815	1,530,510	1,458,051	1,233,746	670,312
Short-Term Investments	6,893,741	4,463,010	793,078	270,957	232,359
Accounts Receivable	3,222,155	2,442,209	1,661,837	1,101,263	726,181
Current Portion of Loans Receivable	111,784	111,528	102,641	74,648	—
Short-Term Loan Receivable	90,244	66,842	—	—	—
Inventories	39,576	16,764	34,996	18,071	24,463
Sundry Debtors and Prepayments	1,549,102	1,513,577	269,368	86,501	88,007
Income Taxation Receivable	81,989	609	126	26,228	29,930
Deferred Expenses	45,680	206,610	—	—	56,974
TOTAL CURRENT ASSETS	13,358,086	10,351,659	4,320,097	2,811,414	1,828,226
NON-CURRENT ASSETS					
Property, Plant and Equipment	5,351,524	5,043,704	4,740,445	3,758,451	2,641,886
Pension Assets	—	38,791	84,765	82,177	65,185
Interest on Joint Venture	666,435	449,684	377,547	311,818	293,371
Investment and Advances	1,069,441	1,095,977	1,464,335	1,964,157	1,221,085
Deferred Taxation	394,552	369,215	315,838	56,876	42,595
Deferred Expenses	206,386	278,175	390,366	319,667	301,794
Long-Term Receivables	736,568	843,437	936,492	362,008	407,831
Debt Reserve Fund	162,296	79,391	76,011	74,171	73,002
TOTAL NON-CURRENT ASSETS	8,587,202	8,198,374	8,385,799	6,929,325	5,046,749
TOTAL ASSETS	\$21,945,288	18,550,033	12,705,896	9,740,739	6,874,975
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Current Portion of Long-Term Debt	\$ 162,664	155,569	163,359	100,777	99,271
Trade Creditors	2,125,620	2,059,568	1,193,984	1,077,782	727,605
Sundry Creditors and Accruals	1,071,499	776,591	577,344	366,744	197,412
Dividend Payable	—	200,000	200,000	—	—
Taxation Payable	200,773	214,953	154,017	38,024	32,582
Deferred Income	56,986	56,750	23,802	—	—
Environmental Obligation	266	2,076	1,106	—	—
TOTAL CURRENT LIABILITIES	3,617,808	3,465,507	2,313,612	1,583,327	1,056,870

Five-Year Financial Review: 2003-2007

	2007 @ 31/12/2007	2006 @ 31/12/2006 Restated	2005 @ 31/12/2005	2004 @ 31/12/2004 Restated	2003 @ 31/12/2003 Restated
NON-CURRENT LIABILITIES					
Deferred tax Liability	652,184	624,594	572,098	475,620	419,541
Net long-term debt	4,061,943	4,195,348	1,506,446	688,896	296,499
Pension Obligation	2,091	—	—	—	—
Asset retirement obligation	458,491	431,519	408,432	323,001	308,947
Post retirement obligation	83,256	66,996	34,282	—	—
Deferred Income	62,197	74,713	33,092	—	2,355
Net long term creditors	111,602	156,707	247,252	211,566	166,792
Environmental obligation	21,870	13,892	15,968	—	—
TOTAL LONG-TERM LIABILITIES	5,453,634	5,563,769	2,817,570	1,699,083	1,194,134
TOTAL LIABILITIES	9,071,442	9,029,276	5,131,182	3,282,410	2,251,004
SHAREHOLDERS' EQUITY					
Share Capital	1,752,848	1,752,848	920,766	920,766	240,766
Reserve Fund	438,192	438,192	146,668	146,668	60,000
Other/Revaluation reserve	729,020	758,504	1,173,280	1,165,353	679,012
Retained Earnings	9,692,109	6,340,880	5,161,279	4,038,015	3,497,853
	12,612,169	9,290,424	7,401,993	6,270,802	4,477,631
MINORITY INTEREST	261,677	230,333	172,721	187,527	146,340
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$21,945,288	18,550,033	12,705,896	9,740,739	6,874,975
Leverage/Gearing					
Long Term Debt (Greater than one year) x 100 = Long Term Debt + Shareholder's Equity + Minority Share	23.98%	30.59%	16.59%	9.64%	6.03%
Return on Assets					
Net Profit Attributable to Shareholders x 100 = Total Liabilities and Shareholders' Equity	15.16%	13.90%	13.90%	15.33%	16.75%

PRINCIPAL OFFICERS

Frank Look Kin

President

Rebecca Ramdhanie

VP, Finance and Information Management

Arnold De Four

VP, Commercial

Stephen Julien

VP, Gas Transmission & Distribution

Wade Hamilton

VP, Technical Services

Maria Thorne

VP, Legal and Corporate Management Services/
Company Secretary

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