

TELECOMMUNICATIONS OF JAMAICA LIMITED

NOTES TO THE FINANCIAL STATEMENTS

March 31, 1995

1. COMPANY IDENTIFICATION AND FINANCIAL STATEMENTS:

The company was incorporated on May 19, 1987 and is a 79% subsidiary of Cable and Wireless (W.I.) Limited, a company incorporated in the United Kingdom. The ultimate parent company is Cable and Wireless plc which is also incorporated in the United Kingdom.

The principal activities of the group (note 2(a)) are the provision of local telephone, telex and telegraph services and international telecommunications services.

All amounts are stated in Jamaican dollars unless otherwise indicated.

2. SIGNIFICANT ACCOUNTING POLICIES:

(a) Consolidation-

The group financial statements include the financial statements of the company and its two wholly owned subsidiaries, Jamaica International Telecommunications Limited (JAMINTEL) and The Jamaica Telephone Company Limited (JTC), both of which are incorporated in Jamaica. The equity method is used in accounting for the group's 30% interest in Jamaica Digiport International Limited.

(b) Operating revenues -

Operating revenues include amounts earned from the provision of local and international telephone, telegraph and telex services. Such revenues exclude amounts which are billed to customers on behalf of other organisations providing international service.

(c) Fixed assets and depreciation -

The substantial part of plant and equipment is stated on the replacement cost basis, using relevant industry indices for equipment purchased abroad (adjusted where applicable for movements of the Jamaican dollar) and indices for local costs, taking into consideration modern equivalent units where applicable.

Buildings are revalued annually on the replacement cost basis by independent, professional valuers.

Additions to plant and equipment include direct labour, materials and an appropriate charge for overheads. An allowance for funds used during construction is capitalised, based on the average cost of funds.

Depreciation expense is calculated on a straight line basis on the cost or valuation of plant in service at the following rates:

| | | |
|---------------------|-----------|-------|
| Buildings | 2.0% and | 2.5% |
| Plant and equipment | 2.0% to | 22.5% |
| Furniture | 9.5% and | 10.0% |
| Vehicles | 20.5% and | 22.5% |

Leased assets are depreciated over the shorter of the lease period and the expected useful lives of the assets.

(d) Materials and supplies -

These include construction material and are stated at weighted average cost.

(e) Deferred expenditure -

Deferred General Consumption Tax (GCT) comprises GCT input tax paid on fixed asset acquisitions and is recoverable over a twenty-four month period by way of offset against GCT output tax. Other deferred expenditure is written off as the revenue to which it relates is earned.

(f) Foreign currency translation -

Foreign currency balances, with the exception of investments which are stated at historical rates, have been included in the financial statements at the rates of exchange ruling at the balance sheet date.

To the extent that the net movement on the revaluation of fixed assets is attributable to changes in the rate of exchange during a year or where foreign liabilities, incurred for the purchase of fixed assets, are matched in whole or in part by foreign currency assets, the net translation gains and losses are transferred to capital reserve (note 11), otherwise they are included in the group profit and loss account.

(g) Deferred taxation -

Provision is made for deferred taxation arising from timing differences between profits as computed for taxation purposes and profits as stated in the financial statements at current tax rates.

(h) Investment in subsidiaries -

The investment in subsidiaries is revalued annually based on the underlying net assets of the subsidiaries. The net surplus arising on the revaluation is credited to capital reserve.

(i) Leases -

Assets which are financed by leasing agreements commencing on or after April 1, 1993, that give rights approximating to ownership are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor. Depreciation on the relevant assets is charged to operating profit. Lease payments are treated as consisting of capital and interest elements and the interest is charged to the profit and loss account using the annuity method. All other leases, including leases in existence prior to April 1, 1993 are accounted for as operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

3. LICENCES AND REGULATIONS:

- (a) JTC operates under the following Licences-
- The All Island Telephone Licence, 1988
 - The Telecommunications of Jamaica Limited
(Wireless Telephony) Special Licence, 1988
 - The Telecommunications of Jamaica Limited
(Telegraphic Services) Special Licence, 1988
 - The Telecommunications of Jamaica Limited
(Telex and Teleprinter Services) Special Licence, 1988

These Licences were granted to the company for 25 years from August 31, 1988 and have been assigned to JTC. The Licences provide the Minister of Public Utilities with the power and authority to require observance and performance by the company of its obligations under the Licences and to regulate the rate charged by the company.

JTC's accounting records are maintained in accordance with the regulations of the Federal Communications Commission of the United States of America insofar as these regulations allow compliance with the Companies Act and the Licences.

- (b) JAMINTEL operates under The Telecommunications of Jamaica Limited

(External Communications Services) Special Licence, 1988 granted to the company for 25 years from August 31,1988 and which has been assigned to JAMINTEL.

4. PROFIT BEFORE TAXATION:

| | 1995 | 1994 |
|--|----------|----------|
| | \$'000 | \$'000 |
| This is arrived at after charging/ (crediting): | | |
| Directors' emoluments- | | |
| Fees | 240 | 472 |
| Management remuneration | 4,269 | 3,015 |
| Auditors' remuneration | 6,385 | 4,865 |
| Investment income | (41,936) | (64,463) |

5. TAXATION:

(a) Taxation charged in these financial statements is based on the results of operations, adjusted for taxation purposes and for timing differences (note 2(g) and comprises:

| | 1995 | 1994 |
|-----------------------|------------------|----------------|
| | \$'000 | \$'000 |
| Income tax at 33 1/3% | 969,423 | 626,106 |
| Deferred taxation | 303,181 | 212,349 |
| | 1,272,604 | 838,455 |

(b) Depreciation on the inflation element of the revaluation increment is not deductible for tax purposes.

6. DIVIDENDS:

| | 1995 | 1994 |
|----------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Additional 1993 dividends, paid | | |
| - out of unfranked income, gross | - | 96,569 |
| Interim, payable | | |

| | | |
|----------------------------------|----------------|----------------|
| - out of unfranked income, gross | 154,509 | 154,509 |
| Final, proposed | | |
| - out of unfranked income, gross | 193,137 | 193,137 |
| | 347,646 | 444,215 |

7. EARNINGS PER STOCK UNIT:

The calculation of earnings per stock unit is based on the profit after taxation of \$1,692,025,000 (1994 - \$1,149,108,000) and the 3,862,736,000 stock units in issue for both years.

8. FIXED ASSETS:

| | The Group | | The Company | |
|---|-------------------|-------------------|----------------|----------------|
| | 1995 \$'000 | 1994 \$'000 | 1995 \$'000 | 1994 \$'000 |
| Land, buildings, conduits, equipment and vehicles- | | | | |
| at historical cost | 544,947 | 399,597 | 128,099 | 108,908 |
| at valuation | 3,876,047 | 2,643,668 | 753,238 | - |
| Plant in service- | | | | |
| at historical cost | 76,455 | 76,158 | - | - |
| at replacement cost | 23,430,237 | 19,761,688 | - | - |
| Plant held for future use | | | | |
| at replacement cost | 579,635 | 535,955 | - | - |
| Leased assets, at cost | 367,778 | 161,185 | - | - |
| | 28,875,099 | 23,578,251 | 881,337 | 108,908 |
| Less accumulated provision for depreciation | 13,716,292 | 11,149,197 | 14,822 | - |
| | 15,158,807 | 12,429,054 | 866,515 | 108,908 |
| Plant under construction | 4,140,835 | 2,569,585 | 2,900 | - |

| | | | | |
|---|-------------------|-------------------|----------------|----------------|
| | 19,299,642 | 14,998,639 | 869,415 | 108,908 |
| Depreciation charge in the profit and loss account- | | | | |
| Buildings, conduits, equipment and vehicles | 106,908 | 77,936 | 5,454 | - |
| Plant in service | 1,311,793 | 954,731 | - | - |
| Plant held for future use | 15,007 | 9,319 | - | - |
| Leased assets | 61,430 | 14,997 | - | - |
| | 1,495,138 | 1,056,983 | 5,454 | - |

The net movements arising on the revaluations of assets are dealt with in capital reserve (note 11).

9. INVESTMENTS

| | The Group | | The Company | |
|--|----------------|----------------|-------------------|------------------|
| | 1995 \$'000 | 1994 \$'000 | 1995 \$'000 | 1994 \$'000 |
| Revalued investment in subsidiaries | - | - | 11,044,755 | 8,548,272 |
| Investment in associated company, at cost | 5,500 | 5,500 | 5,500 | 5,500 |
| Share of accumulated deficit | (5,500) | (5,500) | - | - |
| | - | - | 11,050,225 | 8,553,772 |
| At cost: | | | | |
| Mortgage debentures | 200 | 200 | 200 | 200 |
| National Housing Trust | 1,999 | 1,999 | - | - |
| Interest in International Telecommunications Satellite Organisation (INTELSAT) | 90,495 | 85,755 | - | - |
| | 92,694 | 87,954 | 11,050,455 | 8,553,972 |

National Housing Trust contributions up to July 31, 1979 are refundable in the years 2001 to 2004.

10. SHARE CAPITAL:

| | 1995 \$'000 | 1994 \$'000 |
|-------------------------------------|----------------|----------------|
| Authorised: | | |
| Ordinary shares of \$1 each | 4,000,000 | 4,000,000 |
| Issued and fully paid: | | |
| Ordinary stock units of \$1 each | 3,862,736 | 3,862,736 |

11. CAPITAL RESERVE:

| | The Group | | The Company | |
|---|-------------------|--------------------|------------------|--------------------|
| | 1995 \$'000 | 1994 \$'000 | 1995 \$'000 | 1994 \$'000 |
| Balance at beginning of year | 2,564,669 | 1,732,203 | 4,684,526 | \$3,856,231 |
| Increment on revaluation of Investment in subsidiaries | - | - | 2,496,483 | 2,759,663 |
| Increment on revaluation of plant less net attributable foreign exchange differences | 1,292,724 | 2,285,125 | 140,621 | - |
| Written back on fixed asset disposal | - | (230,320) | - | - |
| | 3,857,393 | 3,787,008 | 7,321,630 | 6,615,894 |
| Transfer to retained earnings: | | | | |
| Incremental depreciation | (365,147) | (222,339) | - | - |
| Bonus issue | - | (1,000,000) | - | (1,931,368) |
| | (365,147) | (1,222,339) | - | (1,931,368) |
| | 3,492,246 | 2,564,669 | 7,321,630 | 4,684,526 |
| Capital reserve arising on consolidation | 80,978 | 80,978 | - | - |
| Balance at end of year | 3,573,224 | 2,645,647 | 7,321,630 | 4,684,526 |

The transfer to retained earnings of incremental depreciation represents the additional depreciation charge arising from the changes in the value of fixed assets attributable to inflation.

12. LONG TERM LOANS:

| | The Group | |
|---|----------------|----------------|
| | 1995 | 1994 |
| | \$ '000 | \$ '000 |
| Secured - | | |
| 6% Registered Debenture Series 'A' 1972/95 (US\$6,048,000 | 202,034 | 209,258 |
| 9 1/2 % Registered Debenture Stock Series 'D' 1985/95 | - | 170 |
| | 202,034 | 209,428 |
| Guaranteed by the Government of Jamaica- | | |
| Caribbean Development Bank | | |
| 10 1/2 % loan repayable 1986/96 (denominated in various foreign currencies) | 39,741 | 66,664 |
| Export Development Corp. interest free loan repayable 1999/2038 (US\$7,319,149) | 244,497 | 244,195 |
| | 284,238 | 310,859 |
| | | |
| | The Group | |
| | 1995 | 1994 |
| | \$ '000 | \$ '000 |
| Guaranteed by Cable & Wireless Plc- | | |
| ABN Amro Bank NV | | |
| 7.75% loan repayable 1990/95 (NLG 3,399,762) | 72,108 | 121,175 |
| ABN Amro Bank NV | | |
| 9 7/8% loan repayable 1992/2002 | | |

| | | |
|---|-----------|-----------|
| (NLG 46,168,091) | 979,216 | 652,570 |
| Bank of Nova Scotia - Puerto Rico Variable rate based on cost of '936' Funds loan repayable 1992/2002 (US\$16,782,770) | 560,630 | 629,931 |
| Bank of Nova Scotia - Puerto Rico "LIBOR" + 5/8% loan repayable 1992/2002 (US\$8,929,080) | 298,277 | 310,560 |
| Bank of Nova Scotia - Puerto Rico "LIBOR" + 5/8% loan repayable 1994/2003 (US\$5,400,000) | 180,387 | 200,183 |
| Bank of Nova Scotia - Grand Cayman 6.9375% loan repayable 1993/2002 (US\$40,000,000) | 1,336,204 | 1,501,376 |
| Bank of Nova Scotia - Puerto Rico "LIBOR" + 3/4% loan repayable 1996/2005 (US\$47,607,301) | 1,590,327 | 768,957 |
| Bank of Nova Scotia - Puerto Rico "LIBOR" + 3/4% loan repayable 1996/2006 (US\$3,847,358) | 128,521 | - |
| ING Bank "AIBOR" + 5/8% loan repayable 1996/2006 (NLG 3,594,717) | 76,243 | - |
| | 5,221,913 | 4,184,752 |

| | The Group | |
|--|-----------|---------|
| | 1995 | 1994 |
| | \$'000 | \$'000 |
| Unsecured - | | |
| Government of Jamaica 11% Advances | 1,431 | 1,431 |
| Government of Jamaica 10% loan repayable 1998/2007 | 496,010 | 495,672 |
| N.E.C. America 10.83% Credit repayable 1983/95 (US\$22,242) | 742 | 742 |
| Kleinwort Benson Limited | | |

| | | |
|--|------------------|------------------|
| 9.15% loan repayable 1991/95 (STG 395,002) | 20,633 | 36,057 |
| Bank of Nova Scotia Jamaica Limited 38% loan repayable 1994/97 | 127,273 | 200,000 |
| Commonwealth Development Corporation 9% loan repayable 1991/98 (STG 8,250,000) | 430,893 | 502,062 |
| IBM Jamaica Pension Fund 27.6% loan #2 repayable 1986/94 | | 250 |
| Government of Jamaica loan repayable 1994/95 | | 10,600 |
| U.K Government/Jamaican Government 20% loan #1 | 5,181 | 5,181 |
| Bank of Nova Scotia Jamaica Limited 24% loan repayable 1995/96 | 350,000 | |
| Government of Jamaica 2.5% loan repayable 1993/2001 (NLG 2,701,970) | 57,308 | 50,246 |
| | 1,489,471 | 1,302,241 |
| Total loans outstanding | 7,197,656 | 6,007,280 |
| less - | | |
| Current portion | 1,209,774 | 700,702 |
| | 5,987,882 | 5,306,578 |

Interest -

Where the interest rate is based on the base rate or a margin above the prime lending rate of the local institutions from which the funds have been borrowed, the rate shown is that prevailing at March 31, 1995.

Bank of Nova Scotia - Puerto Rico loans on which interest is based on a margin above "LIBOR", may instead attract interest at the cost of '936' funds subject to the availability of such funds and the continued qualification of these loans for '936' funding.

"LIBOR" is used to abbreviate the London Interbank Offer Rate, which at

March 31, 1995 was 6.25% (1994 - 4%). The cost of '936' funds at that date was 5.04% (1994 - 3.42%).

"AIBOR" is used to abbreviate the Amsterdam Interbank Offer Rate, which at March 31, 1995 was 4.875%.

13. FINANCE LEASES:

The group, in the ordinary course of business, has finance lease arrangements with Superannuation Limited and Industrial Finance Corporation Limited (note 15), for motor vehicles and office equipment. Future payments under these lease commitments are as follows:

| | \$'000 |
|---|------------------|
| In the year ending March 31, 1996 | 207,498 |
| 1997 | 205,715 |
| 1998 | 124,371 |
| 1999 | 20,395 |
| Total minimum lease payments | 557,979 |
| Less: Future finance charges | (233,852) |
| Present value of minimum lease payments | 324,127 |
| Less: Current portion | (84,784) |
| | 239,343 |

14. DEFERRED INCOME:

This represents an exceptional gain arising on the adjustment of the group's interest in International Telecommunications Satellite Organisation (INTELSAT) consequent on the accession of China and is being taken to income over five years from April 1994.

15. RELATED PARTY TRANSACTIONS:

The Group has various ongoing transactions with affiliated companies. These include the provision of and compensation for international telecommunications services, financing arrangements, technical support services and software use. These transactions comprised approximately

1.5% (1994 - 0.6%) of revenues and 4.6% (1994 - 3.9%) of expenses.

In addition, during the year the group had arrangements with companies affiliated with two directors for lease financing as detailed in note 13, and for the supply of services and equipment valued at approximately \$32,700,000 (1994 - \$46,000,000).

All the above transactions were entered into the ordinary course of business.

16. PENSION PLAN:

The group operates a pension plan which is administered by Life of Jamaica Limited. The plan requires employee contributions of 5.5% of pensionable earnings and employer contributions determined actuarially as a percentage of employees' pensionable earnings, currently 13% (1994 - 13%). Annual pension at normal retirement age is based on 2% of the final 5 years average pensionable earnings for each year of service.

An actuarial valuation as at December 31, 1993 revealed that the pension plan was adequately funded.

Group pension contributions charged in these financial statements amounted to \$151,223,000 (1994 - \$82,336,000).

17. COMMITMENTS:

(a) Contracts for future capital expenditure not provided for in these financial statements amounted to approximately \$1,195,696,000 (1994 - \$2,025,256,000).

(b) The group has outstanding operating lease commitments as follows:-

| | \$'000 |
|-----------------------------------|----------------|
| In the year ending March 31, 1996 | 85,913 |
| 1997 | 17,818 |
| | 103,731 |

18. SUBSEQUENT EVENT:

Effective April 1, 1995, Telecommunications of Jamaica Limited (TOJ) has assumed the undertakings, assets and liabilities of JTC and JAMINTEL pursuant to the Telecommunications of Jamaica (Transfer to and Vesting of Assets and Liabilities of Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited) Act 1995 (the Merger Act).

The Merger Act provides, among other things, that all customer contracts with JTC and JAMINTEL shall, on a date to be determined by the Minister, which is April 1, 1995, be read and construed as contracts with TOJ. In addition, all outstanding balances owed to those companies are now due to TOJ and, like-wise, all claims and complaints against those companies will survive and be enforceable against TOJ.