Telecommunications of Jamaica Limited 1996

Notes to the Financial Statements

March 31, 1996

1. The Company

   The company is incorporated in Jamaica and these financial statements are presented in Jamaican dollars.

   The company is a 79% subsidiary of Cable and Wireless (CALA Investments) Limited, incorporated in the Cayman Islands [1995: Cable and Wireless (West Indies) Limited, incorporated in England] and the ultimate parent company is Cable and Wireless plc., incorporated in England. Other Cable & Wireless group companies are referred to in these financial statements as "related companies".

   On April 1, 1995, Telecommunications of Jamaica Limited, took over and assumed the undertaking, assets and liabilities of its wholly-owned subsidiaries, Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited, 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 subsidiaries were rendered dormant on that date.

   The principal activity of the company is the provision of domestic and international telecommunications services under the following licences granted to the company for 25 years from August 31, 1988:

The All Island Telephone Licence;

The Telecommunications of Jamaica Limited (Wireless Telephony) Special Licence;

The Telecommunications of Jamaica Limited (Telegraphic Services) Special Licence;

The Telecommunications of Jamaica Limited (Telex and Teleprinter Services) Special Licence; and

The Telecommunications of Jamaica Limited (External Communications Services) Special Licence.

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 rates charged by the company.

2. Significant Accounting Policies

(a) General:
The company's accounting policies are 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 that constitute its scheme of control.

(b) Accounting Convention:
The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation.

(c) Basis Of Consolidation:
The group financial statements include the financial statements of the company and its subsidiaries made up to March 31, 1996.
The company and its subsidiaries are collectively referred to as the "group".

The equity method is used in accounting for the group's 30% interest in Jamaica Digiport International Limited.

(d) Operating Revenue:
Operating revenue represents amounts, excluding general consumption tax, for the provision of domestic and international telecommunications services less amounts billed on behalf of other organizations providing international services. Estimates are included to provide for that portion of revenue which connecting carriers have not yet reported to the company.

(e) Fixed Assets And Depreciation:
The substantial part of plant and equipment is revalued annually on the replacement cost basis, using relevant industry indices or other independent bases 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 capitalized, 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%
Conduits, equipment & plant	2.0% to 22.5%
Vehicles	20.0% and 22.5%

Leased assets are depreciated over the shorter of the lease period and the estimated useful lives of the assets [see note 2 (g)].

(f) Inventories:
Inventories represent materials and supplies, including construction material, and are valued at the lower of cost, determined on a weighted average basis, and estimated realisable value.

(g) Leases:

Assets held under leases transferring substantially all the risks and rewards incident to ownership (finance leases) are capitalised at the present value of the total minimum lease payments and are depreciated over the shorter of the lease periods and their estimated useful lives [see note 2(e)].

Lease payments are apportioned between interest (included in the profit and loss account) and principal, to produce a constant periodic rate of interest on the outstanding lease obligations.

All other leases are treated as operating leases, with the entire lease payments included in the profit and loss account.

(h) Foreign Currencies:
Foreign currency balances at the balance sheet date, with the exception of investments which are stated at historical rates, are translated at the rates of exchange ruling on that date.

Transactions in foreign currencies have been converted at the rates of exchange ruling at the dates of those transactions.

To the extent that the net movement on the revaluation of fixed assets is attributable to changes in the rate of exchange during the 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; otherwise they are included in the profit and loss account.

(i) Deferred Taxation:
Provision is made for deferred taxation arising from timing differences between profit, as computed for taxation purposes, and profit, as stated in the financial statements, at current tax rates.

(j) Investment In Subsidiaries:
The investment in subsidiaries is revalued annually based on the underlying net assets of subsidiaries. The net surplus arising on the revaluation is credited to capital reserve.

3. Disclosure Of Expenses/(Income) And Related Party Transactions

(a) Profit before taxation is stated after charging/(crediting) the following:

	1996 $'000	1995 $'000
Directors' emoluments:		
Fees	273	240
Management remuneration	4,077	4,269
Auditors' remuneration	7,172	6,385
Operating expenses	3,830,291	2,786,721
Depreciation	1,971,090	1,495,138
Interest expenses:		
Loans	778,044	553,426
Obligations under finance leases	130,704	108,585
Other	88,801	61,471
Investment income	(41,481)	(41,936)
Allowance for funds used during construction	**(381,164)**	**(152,340)**

(b) The group has various ongoing transactions with related companies. These include the provision of, and compensation for, international telecommunications services, financing arrangements, technical support and market research services, and software use. These transactions comprised approximately 2.8% (1995: 1.5%) of revenues and 4.6% (1995: 4.6%) of expenses.

In addition, during the year the company had arrangements with companies affiliated with two directors for lease financing, as detailed in notes 13 and 18(b), and for the supply of services and equipment valued at approximately $50,126,000 (1995: $32,700,000).

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

4. Taxation

Taxation, based on the profit for the year adjusted for taxation purposes, is made up as follows:

	1996	1995

	$'000	$'000
Income tax @ 33 1/3%	1,080,663	969,423
Deferred tax	348,646	303,181
	1,429,309	1,272,604

(a) The effective tax rate for 1996 is 43.1 % (1995: 42.9%) of profit before taxation, compared to a statutory rate of 33 1/3% (1995: 33 1/3%). The effective tax rate differs from the statutory rate primarily on account of incremental depreciation arising on the revalued portion of fixed assets not being allowed for tax purposes.

(b) Deferred tax arises materially on account of timing differences between depreciation charges, on historic cost basis for financial statement purposes and capital allowances for tax purposes.

5. Net Profit Attributable To Stockholders

	1996 $'000	1995 $'000
Net profit attributable to stockholders, dealt with in the financial statements of the company	**1,889,990**	**347,646**

6. Dividends

Out of unfranked income, gross:		
Interim, payable @ 4¢ per stock unit	154,509	154,509
Final, proposed @ 5¢ per stock unit	193,137	193,137
	347,646	**347,646**

7. Earnings Per Stock Unit

The calculation of earnings per stock unit is based on the profit attributable to stockholders of $1,889,990,OOO (1995: $1,692,025,000) and the 3,862,736,000 stock units in issue for both years.

8. Fixed Assets

	The Group 1996	The Group 1995	The Company 1996	The Company 1995
Land, buildings, conduits, equipment & vehicles:				
At historic cost	883,967	544,947	883,967	128,099
At valuation	5,425,459	3,876,047	5,425,459	753,238
Plant in service:				
At historic cost	-	76,455	-	-
At valuation	31,147,429	23,430,237	31,147,429	-
Plant held for future use:				
At valuation	1,113,768	579,635	1,113,768	-
Leased assets, at cost	416,434	367,778	416,434	-
	38,987,057	28,875,099	38,987,057	881,337
Less: Accumulated provision for depreciation	18,465,315	13,716,292	18,465,315	14,822
	20,521,742	15,158,807	20,521,742	866,515
Plant under construction	5,936,335	4,140,835	5,936,335	2,900
Net book value	**26,458,077**	**19,299,642**	**26,458,077**	**869,415**
Depreciation charge in the profit and loss account:				
Buildings, conduits, equipment & vehicles	164,061	106,908	164,061	5,454
Plant in service	1,672,628	1,311,793	1,672,628	-
Plant held for future use	15,486	15,007	15,486	-
Leased assets	118,915	61,430	118,915	-
	1,971,090	**1,495,138**	**1,971,090**	**5,454**

Land, buildings, conduits, equipment & vehicles include land aggregating $136,456,000 (1995: $126,732,000) at historic cost and $7,566,000 (1995: $7,566,000) at valuation.

The net movements arising on the revaluation of fixed assets are dealt with through capital reserve (note 16).

9. Investments

	The Group 1996 $'000	The Group 1995 $'000	The Company 1996 $'000	The Company 1995 $'000
Revalued investment in subsidiaries	-	-	11,984,344	11,044,755
Investment in associated company, at cost	5,500	5,500	5,500	5,500
Share of accumulated deficit	(5,500)	(5,500)	(5,500)	-
	-	-	11,984,344	11,050,255
At cost:				
Mortgage debentures	200	200	200	200
National Housing Trust	1,999	1,999	1,999	-
Interest in International Telecommunications Satellite Organisation (INTELSAT)	120,167	90,495	120,167	-
	122,366	**92,694**	**12,106,710**	**11,050,455**

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

(b) At March 31, 1996, the group's interest in INTELSAT was valued at approximately US$4,354,000 (1995: US$3,710,000).

10. Deferred Expenditure

	The Group 1996 $'000	The Group 1995 $'000	The Company 1996 $'000	The Company 1995 $'000
Deferred General Consumption Tax (GCT)	458,575	315,380	458,575	-
Other	39,237	27,148	39,237	-
	497,812	342,528	497,812	-
Less: Current portion	(387,130)	(184,838)	(387,130)	-
	110,682	**157,690**	**110,682**	**-**

(a) Deferred GCT comprises input tax on fixed asset acquisitions and is recoverable over a 24-month period by way of offset against output tax.

(b) Other deferred expenditure is written off as the revenue to which it relates is earned.

11. Due To Subsidiaries

This represents interest-free long-term loans due to subsidiaries for which no fixed repayment terms have been agreed.

12. Loans

	The Group		The Company	
	1996	1995	1996	1995
Secured:				
6% Registered Debenture Series 'A' 1972/1995	-	202,034	-	-
Guaranteed by the Government of Jamaica:				
Caribbean Development Bank 10 1/2% loan repayable 1986/1996 (denominated in various foreign currencies)	9,249	39,741	9,249	-
Export Development Corporation interest free loan repayable 1999/2038 (US$7,319,000)	292,891	244,497	292,891	-
	302,140	284,238	302,140	-
Guaranteed by Cable & Wireless plc:				
ABN Amro Bank NV 7 3/4% loan repayable 1990/95	-	72,108	-	-
ABN Amro Bank NV 9 7/8% loan repayable 1992/2002 (NLG 38,940,000)	948,620	979,216	948,620	-
	948,620	1,051,324	948,620	-
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1992/2002 (US$14,685,000)	587,645	560,630	587,645	-
Bank of Nova Scotia - Puerto Rico				

Variable rate (based on cost of '936' funds) loan repayable 1992/2002 (US$7,652,000)	306,174	298,277	306,174	-
Bank of Nova Scotia - Puerto Rico " LIBOR" + 5/8% loan repayable 1994/2003 (US$4,800,000)	192,081	180,387	192,081	-
Bank of Nova Scotia - Grand Cayman 6 7/16% loan repayable 1993/2002 (US$35,000,000)	1,400,591	1,336,204	1,400,591	-
Bank of Nova Scotia - Puerto Rico "LIBOR" + 3/4% loan repayable 1996/2005 (US$50,456,000)	2,019,107	1,590,327	2,019,107	-
Bank of Nova Scotia - Puerto Rico "LIBOR" + 3/4% loan repayable 1996/2006 (US$2,977,000)	119,115	128,521	119,115	-
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1995/2003 (US$22,681,000)	907,642	-	907,642	-
ING Bank "AIBOR" + 5/8% loan repayable 1996/2006 (NLG 29,552,000)	719,938	76,243	719,938	-
	7,200,913	5,221,913	7,200,913	-
Unsecured:				
Government of Jamaica 11% advances	1,431	1,431	1,431	-
Government of Jamaica 10% loan repayable 1995/2007	454,676	496,010	454,676	-
Kleinwort Benson Limited 9 3/20% loan repayable 1991/1995	-	20,633	-	-
Citibank "LIBOR"+1 9/10% loan repayable 1995/1996 (US$10,000,000)	400,169	-	400,169	-
	856,276	518,074	856,276	-
Bank of Nova Scotia Jamaica Limited				

46% loan repayable 1996	650,000	-	650,000	-
National Commercial Bank Jamaica				
Limited 47% loan repayable 1995/96	100,000	-	100,000	-
Bank of Nova Scotia - Puerto Rico				
"LIBOR" + 2 1/4% loan repayable				
1996/2004				
(US$14,776,000)	591,305	-	591,305	-
Bank of Nova Scotia Jamaica Limited				
38% loan repayable 1994/97	-	127,273	-	-
N.E.C. America				
10 5/6% credit repayable 1983/95	-	742	-	-
Commonwealth Development Corporation				
9% loan repayable 1991/98				
(£5,500,000)	320,338	430,893	320,338	-
U.K. Government/Government of Jamaica				
20% loan	5,181	5,181	5,181	-
Bank of Nova Scotia Jamaica Limited				
24% loan repayable 1995/96	-	350,000	-	-
	2,523,100	1,432,163	2,523,100	-
Government of Jamaica				
2.5% loan repayable				
1993/2001 (NLG 2,252,000)	54,853	57,308	54,853	-
	2,577,953	1,489,471	2,577,953	-
Total loans outstanding	10,081,006	7,197,656	10,081,006	-
Less: Current portion	(2,139,407)	(1,209,774)	(2,139,407)	-
	7,941,599	**5,987,882**	**7,941,599**	**-**

(a) Where the interest rate is based on the base rate or a margin above the prime rate of the local institutions from which the funds have been borrowed, the rate shown is that prevailing at March 31, 1996.

(b) 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. The cost of '936' funds at March 31, 1996 was 4 6/25% (1995: 5 1/25%).

(c) LIBOR is used to abbreviate the London Interbank Offer Rate which, at March 31, 1996, was 5 7/16% (1995: 6 1/4%).

(d) AIBOR is used to abbreviate the Amsterdam Interbank Offer Rate, which at March 31,1996, was 3 1/10% (1995: 4 7/8%).

13. Obligations Under Finance Leases

In the ordinary course of business, the group has finance lease arrangements for motor vehicles and office equipment with Superannuation Limited and Industrial Finance Corporation Limited, companies affiliated with two directors [note 3(b)]. Future payments under these lease commitments are as follows:

	The Group		The Company	
	1996	1995	1996	1995
	$'000	$'000	$'000	$'000
Within 1 year	231,479	207,498	231,479	-
From 1-2 years	158,778	205,715	158,778	-
From 2-3 years	31,543	124,371	31,543	-
From 3-4 years	4,391	20,395	4,391	-
Total future minimum lease payments	426,191	557,979	426,191	-
Less: Future finance charges	(133,397)	(233,852)	(133,397)	-
Present value of minimum future lease payments	292,794	324,127	292,794	-
Less: Current portion	(123,194)	(84,784)	(123,194)	(-)
	169,600	**239,343**	**169,600**	-

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 within five years from April 1994.

15. Share Capital

	1996	1995

	$'000	$'000
Authorised:		
4,000,000,000 ordinary shares of $1 each	4,000,000	4,000,000
Issued and fully paid:		
3,862,736,000 ordinary stock units of $1 each	3,862,736	3,862,736

16. Capital Reserve

	The Group		The company	
	1996	1995	1996	1995
	$'000	$'000	$'000	$'000
At beginning of year	3,492,246	2,564,669	7,321,630	4,684,526
Increment on revaluation of investment in subsidiaries	-	-	939,060	2,496,483
Increment on revaluation of fixed assets net of attributable foreign exchange differences	2,719,629	1,292,724	2,719,629	140,621
Transfer to retained earnings	(755,711)	(365,147)	(755,711)	-
	5,456,164	3,492,246	10,224,608	7,321,630
Capital reserve arising on consolidation	80,978	80,978	-	-
At end of year	**5,537,142**	**3,573,224**	**10,224,608**	**7,321,630**

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

17. Retained Earnings

	1996	1995
	$'000	$'000
Retained in the financial statements of:		
The company	1,353,529	-
Subsidiaries	4,687,466	3,748,440

Associated company (written down in the company - see note 9)	-	(5,500)
	6,040,995	**3,742,940**

18. Commitments

(a) Capital:

At March 31, 1996, commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately:

	1996	1995
	$'000	$'000
Commitments in respect of contracts placed	857,000	1,015,750
Amounts authorised in addition to contractual commitments	113,000	179,906
	970,000	**1,195,656**

(b) Lease:

Unexpired commitments under operating leases with companies affiliated with two directors [see also note 13] are payable as follows:

	The Group		The Company	
	1996	1995	1996	1995
	$'000	$'000	$'000	$'000
Within 1 year	147,977	85,913	147,977	-
From 1 - 2 years	87,628	17,818	87,628	-
	235,605	103,731	235,605	-

19. Pension Plan

The company operates a pension plan which is administered by two life assurance organizations.
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% (1995: 13%). Annual pension at normal retirement age is based on 2% of

the final five years' average pensionable earnings for each year of service.

The plan is subject to annual actuarial valuations. An actuarial valuation, conducted as at December 31, 1994, revealed that, in the opinion of the actuaries, the pension plan was adequately funded at the existing contribution rate.

Pension contributions during the year aggregated $202,368,000 (1995: $151,223,000).