TELECOMMUNICATIONS OF JAMAICA LIMITED 1997

Notes to the Financial Statements

March 31, 1997

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 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".

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 wholly-owned dormant subsidiaries - The Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited, both incorporated in Jamaica -made up to March 31, 1997. 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, also incorporated in Jamaica.

(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 company's investment in its subsidiaries has been revalued to reflect the underlying net assets of the subsidiaries. The net surplus arising on the revaluation has been credited to capital reserve in the financial statements of the company.

(k) The company operates a pension plan (see note 18) the assets of which are held separately from those of the company. Contributions to fund past and future benefits are charged to the profit and loss account as and when these are incurred.

3. Disclosure of expenses/(income) and related party transactions

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

	1997 $'000	1996 $'000
Directors' emoluments		
Fees	561	273
Management remuneration	5,385	4,077
Auditors' remuneration	8,882	7,172
Interest expenses:		
Loans	609,721	778,044
Obligations under finance leases	103,678	130,704
Other	100,245	88,801
Other operating expenses	4,683,335	3,818,769*
Depreciation	2,321,104	1,971,090
Investment income	(100,938)	(41,481)
Allowance for funds used during construction	**(329,790)**	**(381,164)**

* Restated to conform with 1997 comparative.

(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 1.5% (1996: 2.8%) of revenues and 5% (1996: 4.6%) of expenses.

In addition, during the year, the company had arrangements with companies affiliated with three directors for lease financing, as detailed in notes 12 and 17(b); for the investment of pension contributions as disclosed in note 18; and for the supply of services and equipment valued at approximately $39,263,000 (1996: $50,126,000).

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

4. Taxation

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

	1997 $'000	1996 $'000
Income tax @ 33 1/3%	1,301,258	1,080,663
Less: Tax credit arising in respect of bonus share issue (see note 14)	(349,962)	-
	951,296	1,080,663
Deferred tax	488,468	348,646
	1,439,764	1,429,309

(a) The effective tax rate for 1997, before bonus tax credit but including deferred tax, is 43.6% (1996: 43.1%) of profit before taxation, compared to a statutory rate of 33 1/3% (1996: 331/3%). The effective tax rate differs from the statutory rate primarily because incremental depreciation arising on the revalued portion of fixed assets is not allowed for tax purposes.

(b) The tax credit in respect of bonus issue is subject to the approval of the Commissioner of Income Tax.

(c) 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. Dividends

	1997	1996
	$'000	$'000
Out of unfranked income, gross:		
Interim, payable @ 4¢ per stock unit	154,509	154,509
Final, proposed @ 5¢ per stock unit	386,274	193,137
	540,783	**347,646**

The proposed dividends are based on the increased share capital consequent on the proposed issue of bonus shares in the ratio of 1: 1 (see note 14).

6. Earnings per stock unit

The calculation of earnings per stock unit is based on the profit attributable to stockholders of $2,665,775,000 (1996: $1,889,990,000) and the 3,862,736,000 stock units in issue for both years.

7. Fixed assets

	The Group and the Company	
	1997	1996
	$'000	$'000
Land, buildings, conduits, equipment & vehicles: At		
At historic cost	2,365,957	883,967
At valuation	5,465,431	5,425,459
Plant in service:		
At valuation	34,961,439	31,147,429
Plant held for future use:		

At valuation	805,967	1,113,768
Leased assets, at cost	411,324	416,434
	44,010,118	3,898,705
Less: Accumulated provision for depreciation	20,148,410	18,465,315
	23,861,708	20,521,742
Plant under construction	4,971,254	5,936,335
Net book value	28,832,962	26,458,077
Depreciation charge in the profit and loss account:		
Buildings, conduits, equipment & vehicles	221,854	164,061
Plant in service Plant	1,969,722	1,672,628
held for future use	14,096	15,486
Leased assets	115,432	118,915
	2,321,104	**1,971,090**

Land, buildings, conduits, equipment & vehicles include land aggregating $201,448,000 (1996: $136,456,000) at historic cost and $7,566,000 (1996: $7,566,000) at valuation.

The net movements arising on the revaluation of fixed assets are dealt with through capital reserve (note 15).

8. Investments

	The Group		The Company	
	1997	1996	1997	1996
	$'000	$'000	$'000	$'000
Revalued investment in subsidiaries	-	-	11,984,344	11,984,344
Investment in associated				

company, at cost	5,500	5,500	5,500	5,500
Share of accumulated deficit	(5,500)	(5,500)	(5,500)	(5,500)
	-	-	11,984,344	11,984,344
At cost:				
Mortgage debentures	200	200	200	200
National Housing Trust	1,999	1,999	1,999	1,999
Interest in International Telecommunications Satellite Organisation (INTELSAT)	131,264	120,167	131,264	120,167
	133,463	**122,366**	**12,117,807**	**12,106,710**

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

(b) At March 31, 1997, the group's interest in INTELSAT was valued at approximately US$4,285,000 (1996: US$4,354,000).

9. Deferred expenditure

	The Group and the Company	
	1997	1996
	$'000	u $'000
(a) Deferred General Consumption Tax (GCT)	437,216	458,575
(b) Other	34,849	39,237
	472,065	497,812
Less: Current portion	(372,023)	(387,130)
	100,042	**110,682**

(a) Deferred GCT comprises input tax on fixed asset acquisitions and is recoverable over a twenty-four 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.

10. Due to subsidiaries

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

11. Loans

	The Group and the Company	
	1997	1996
	$'000	$'000
Guaranteed by the Government of Jamaica:		
Caribbean Development Bank 10 1/2% loan repayable 1986 /1996 (denominated in various foreign currencies)	-	9,249
Export Development Corporation interest free loan repayable 1999/2038 (US$7,319,000)	256,709	292,891
	256,709	302,140
Guaranteed by Cable and Wireless plc:		
ABN Amro Bank NV 9 7/8% loan repayable 1992/2002 (NLG 31,711,000)	597,357	948,620
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1992/2002 (US$12,587,000)	441,474	587,645
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1992/2002 (US$6,373,000)	223,529	306,174
Bank of Nova Scotia - Puerto Rico LIBOR + 5/8 % loan repayable 1994/2003 (US$4,200,000)	147,309	192,081
Bank of Nova Scotia - Grand Cayman		

67/16% loan repayable 1993/2002 (US$30,000,000)	1,052,208	1,400,591
Bank of Nova Scotia - Puerto Rico LIBOR + 3/4% loan repayable 1996/2005 (US$45,256,000)	1,587,303	2,019,107
Bank of Nova Scotia - Puerto Rico LIBOR + 3/4% loan repayable 1996/2006 (US$4,500,000)	157,831	119,115
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1995/2003 (US$23,359,000)	819,291	907,642
ING Bank AIBOR + 5/8% loan repayable 1996/2006 (NLG 37,468,000)	705,810	719,938
European Investment Bank 3% loan repayable 1996/2006 (US$18,638,000)	653,696	-
	6,385,808	7,200,913

Unsecured:

Government of Jamaica 11 % advances		
Government of Jamaica 10% loan repayable 1995/2007	-	1,431
Citibank LIBOR+l 9/10%1oan repayable 1995/1996 (US$10,000,000)	413,342	454,676
Citibank LIBOR+2% loan repayable 1997/1999	-	400,169
(US$1,780,000)	62,427	-

Citibank		
LIBOR+1 1/2% loan repayable 1996/2001 (US$25,000,000)	876,840	-
Barclays Bank- Grand Cayman		
LIBOR+3/4% repayable 1996/1997 (US$15,000,000)	526,104	-
Bank of Nova Scotia Jamaica Limited		
46% loan repayable 1996	-	650,000
National Commercial Bank Jamaica Limited		
47% loan repayable 1995/96	-	100,000
Bank of Nova Scotia - Puerto Rico		
LIBOR + 2 1/4% loan repayable 1996/2004 (US$24,979,000)	876,107	591,305
Commonwealth Development Corporation		
9% loan repayable 1991/98 (£2,750,000)	152,879	320,338
U.K. Government/Government of Jamaica		
20% loan	-	5,181
Government of Jamaica		
2.5% loan repayable 1993/2001 (NLG 1,801,000)	33,933	54,853
	2,941,632	2,577,953
Total loans outstanding	9,584,149	10,081,006
Less: Current portion	(1,729,563)	(2,139,407)
	7,854,586	**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, 1997.

(c) LIBOR is used to abbreviate the London Interbank Offer Rate which, at March 31, 1997, was 5 13/16% (1996: 5 7/16%).

(d) AIBOR is used to abbreviate the Amsterdam Interbank Offer Rate, which at March 31, 1997, was 3 2/10% (1996: 3 1/1O%).

12. 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 three directors [note 3(b)]. Future payments under these lease commitments are as follows:

	The Group and the Company	
	1997	1996
	$'000	$'000
Within 1 year	160,362	231,479
From 1-2 years	45,683	158,778
From 2-3 years	3,929	31,543
From 3-4 years	-	4,391
Total future minimum lease payments	209,974	426,191
Less: Future finance charges	(42,150)	(133 397)
Present value of minimum future lease payments	167,824	292,794
Less: Current portion	(126,341)	(123,194)
	41,483	**169,600**

13. 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 was being taken to income within five years from April 1994.

During the year, the entire unrecognized gain, outstanding at April 1, 1996, was taken to income, consequent on China's departure from INTELSAT.

14. Share capital

	1997 $'000	1996 $'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**

The directors have recommended, for the approval of stockholders at the 1997 annual general meeting:

. An increase of $4,000,000,000 in the authorised share capital by the creation of 4,000,000,000 ordinary shares of $1 each, such shares to rank pari passu in all respects with the existing ordinary stock units of the company;

. The capitalization of the sum of $3,862,736,000; firstly out of the profits of the company for the year ended March 31, 1997 (in the amount of $1,399,848,000) and secondly out of unrealised capital reserves (in the amount of $2,462,888,000) to be applied in paying up in full 3,862,736,000 unissued shares of the company; to be allotted as fully paid up shares (converted into stock units at the time of issue) of the company to members of the company in the ratio of 1 (one) share for every 1 (one) unit held on the date of closure of the register of members.

15. Capital reserve

	The Group		The Company	
	1997	1996	1997	1996
	$'000	$'000	$'000	$'000
At beginning of year	5,537,142	3,573,224	10,224,608	7,321,630
Increment on revaluation of investment in subsidiaries	-	-	-	939,060
Increment on revaluation of fixed assets net of attributable foreign exchange differences	620,804	2,719,629	620,804	2,719,629
Transfer to profit and loss account	(527,289)	(755,711)	(527,289)	(755,711)
At end of year	**5,630,657**	**5,537,142**	**10,318,123**	**10,224,608**

The transfer to profit and loss account represents the additional depreciation charge arising from the cumulative effects of revaluation of fixed assets.

16. Retained earnings

	1997	1996
	$'000	$'000
Retained in the financial statements of:		
The company	4,005,810	1,353,529
Subsidiaries	4,687,466	4,687,466
	8,693,276	6,040,995

17. Commitments

(a) Capital:

At March 31, 1997, commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately:

	The Group and the Comnanv	
	1997	1996
	$'000	$'000
Commitments in respect of contracts	678,663	857,000
Amounts authorised in addition to contractual commitments	37,614	113,000
	716,277	**970,000**

(b) Lease:

Unexpired commitments under operating leases with companies affiliated with three directors [see also note 12] are payable as follows:

	The Group and the Company	
	1997	1996
	$'000	$'000
Within 1 year	333,194	147,977
From 1 - 2 years	164,770	87,628
	497,964	**235,605**

18. Pension plan

The company operates a pension plan which is administered by Life of Jamaica Limited. During the year, the trustees of the plan, with the agreement of the company, appointed Prime Life Assurance Company Limited, a company affiliated with three directors, as one of the three investment managers of the assets of the plan. The primary investment manager is Life of Jamaica Limited, with investment management services in respect of defined portion of plan assets being provided by The Jamaica Mutual Life Assurnace Society

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 % (1996: 13 %). Annual pension at normal retirement age is based on 2 % of the final 5 years' average pensionable earnings for each year of service.

The plan is subject to triennial acturial valuations, with interim annual valuations as required by the trustees. The latest actuarial valuation, conducted as at Decemebr 31,1994 revealed that, in the opinion of the actuaries, the pension plan was adequately funded at the existing contribution rate. The next triennial valuation is due as at December 31,1996.

Pension contributions during the yaer aggregated $227,185,000 (1996: $202,368,000).