Cable & Wireless Jamaica Limited 1998

(formerly Telecommunications of Jamaica Limited)

Notes to the Financial Statements

March 31, 1998

1. The Company

The company was incorporated in Jamaica on May 19, 1987 as Telecommunications of Jamaica Limited on February 5, 1998, the stockholders of the company changed its name to Cable & Wireless Jamaica Limited; subject to the approval of the Registrar of Companies. This was received on February 6, 1998.

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 Commerce & Technology (1997: 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.

These financial statements are presented in Jamaica dollars.

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, 1998. 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 outpayments. 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 Jamaica 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%
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 the 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 17), 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:

	1998	1997
	$'000	$'000
Directors' emoluments		
Fees	724	561
Management remuneration	6,800	6,185*
Auditors' remuneration	9,010	8,882
Interest expenses:		

Loans	627,441	609,721
Obligations under finance leases	15,916	103,678
Other	100,017	100,245
Other operating expenses	5,783,475	4,682,535*
Depreciation	2,738,636	2,321,104
Investment income	(188,639)	(100,938)
Allowance for funds used during construction	(248,347)	(329,790)

*Restated to conform with 1998 comparative statements

(b) The group has various ongoing transactions with related companies. These include the provision of, and compensation for, international telecommunications services, financing and insurance arrangements, technical support and market research services, and software use. These transactions comprised approximately 1.63% (1997: 1.5%) of revenues and 4.29% (1997: 5.49%*) 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 16(b); for the investment of pension contributions as disclosed in note 17; and for the supply of services and equipment valued at approximately $43,057,000 (1997: $39,263,000).

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:

	1998	1997
	$'000	$'000
Income tax @ 33 1/3%	1,631,260	1,301,258
Less: Tax credit arising in respect of bonus share issue (see note 13)	(386,274)	(349,962)
	1,244,986	951,296
Deferred tax	430,531	488,468
	1,675,517	**1,439,764**

(a) The effective tax rate for 1998, before bonus tax credit but including deferred tax, is 42.8%

(1997: 43.6%) of profit before taxation, compared to a statutory rate of 33 1/3% (1997: 33 1/3%). 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 income tax regime in Jamaica operates under a self-assessment system. Consequently, tax credits claimed in respect of bonus issue are subject to the agreement 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

	1998 $'000	1997 $'000
Out of unfranked income, gross:		
Interim, payable @ 4¢ per stock unit	309,019	154,509
Final, proposed @ 8 3/4¢ (1997: 5¢) per stock unit	811,174	386,274
	1,120,193	540,783

The proposed dividends in both years are based on the increased share capital consequent on the proposed issues of bonus stock units in the ratio of 1:5 and 1:1 respectively (see note 13).

6. Earnings per stock unit

The calculation of earnings per stock unit is based on the profit attributable to stockholders of $3,138,786,000 (1997: $2,665,775,000) and the 7,725,472,000 issued and fully paid ordinary stock units. The comparative in respect of 1997 has been adjusted for the 1:1 bonus issue effected during the year (see note 13).

7. Fixed assets

The Group and The Company	
1998 $'000	1997 $'000

Land, buildings, conduits, equipment & vehicles:		
At historic cost	3,376,933	2,365,957
At valuation	5,857,935	5,465,431
Plant in service:		
At valuation	42,851,921	34,961,439
Plant held for future use:		
At valuation	486,715	805,967
Leased assets, at cost	119,213	411,324
	52,692,717	44,010,118
Less: Accumulated provision for depreciation	24,113,905	20,148,410
	28,578,812	23,861,708
Plant under construction	4,603,518	4,971,254
Net book value	**33,182,330**	**28,832,962**
Depreciation charge in the profit and loss account:		
Buildings, conduits, equipment & vehicles	254,653	221,854
Plant in service	2,402,434	1,969,722
Plant held for future use	9,248	14,096
Leased assets	72,301	115,432
	2,738,636	**2,321,104**

Land, buildings, conduits, equipment & vehicles include land aggregating $202,600,000 (1997: $201,448,000) at historic cost and $7,566,000 (1997: $7,566,000) at valuation.

The net movements arising on the revaluation of fixed assets are dealt with through capital reserve (note 14).

8. Investments

	The Group 1998	The Group 1997	The Company 1998	The Company 1997
Revalued investment in subsidiaries	-	-	11,984,274	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)
	-	-	11,984,274	11,984,344
At cost:				
Mortgage debentures	100	200	100	200
National Housing Trust	1,988	1,999	1,988	1,999
Interest in International Telecommunications Satellite Organisation (INTELSAT)	**139,642**	**131,264**	**139,642**	**131,264**
	141,730	**133,463**	**12,126,004**	**12,117,807**

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

(b) At March 31, 1998, the group's interest in INTELSAT was valued at approximately US$5,118,000 (1997:US$4,285,000).

9. Deferred expenditure

	The Group and the Company 1998 $'000	The Group and the Company 1997 $'000
(a) Deferred General Consumption Tax (GCT)	361,213	437,216
(b) Other	35,671	34,849
	396,884	472,065
Less: Current portion	(328,254)	(372,023)
	68,630	**100,042**

(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	
	1998	1997
	$'000	$'000
Guaranteed by Government of Jamaica:		
Export Development Corporation interest free loan repayable 1999/2038 (US$7,319,000)	266,870	256,709
Guaranteed by Cable and Wireless plc:		
ABN Amro Bank NV 9 7/8% loan repayable 1992/2002 (NLG 24,482,000)	437,472	597,357
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1992/2002 (US$10,489,000)	382,457	441,474
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1992/2002 (US$5,096,000)	185,780	223,529
Bank of Nova Scotia - Puerto Rico LIBOR + 5/8% loan repayable 1994/2003 (US$3,600,000)	131,263	147,309
Bank of Nova Scotia - Grand Cayman 6 7/16% loan repayable 1993/2002 (US$25,000,000)	911,547	1,052,208

Bank of Nova Scotia - Puerto Rico LIBOR + 3/4% loan repayable 1996/2005 (US$40,056,000)	1,460,531	1,587,303
Bank of Nova Scotia - Puerto Rico LIBOR + 3/4% loan repayable 1996/2006 (US$4,000,000)	145,848	157,831
	3,654,898	4,207,011
Bank of Nova Scotia - Puerto Rico Variable rate (based on cost of '936' funds) loan repayable 1995/2003 (US$21,797,000)	794,749	819,291
ING Bank AIBOR + 5/8% loan repayable 1996/2006 (NLG 48,993,000)	875,486	705,810
European Investment Bank 3% loan repayable 1996/2006 (US$31,663,000)	1,154,494	653,696
	6,479,627	6,385,808
Unsecured:		
Government of Jamaica 10% loan repayable 1995/2007	372,007	413,342
Citibank LIBOR+2% loan repayable 1997/1999	-	62,427
Citibank LIBOR+1 1/2% loan repayable 1996/2001 (US$23,958,000)	873,566	876,840
Barclays Bank - Grand Cayman LIBOR+ 3/4% repayable 1997/1998 (US$15,000,000)	546,929	526,104
Bank of Nova Scotia - Puerto Rico LIBOR + 2 1/4% loan repayable 1996/2004 (US$21,408,000)	780,565	876,107
Commonwealth Development Corporation 9% loan repayable 1991/98	-	152,879
Government of Jamaica 2.5% loan repayable 1993/2001 (NLG 1,351,000)	24,141	33,933
	2,597,208	2,941,632

Total loans outstanding	9,343,705	9,584,149
Less: Current portion	(1,917,378)	(1,729,563)
	7,426,327	**7,854,586**

(a) 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, 1998 was 5 20/25% (1997: 5 8/25%).

(b) LIBOR is used to abbreviate the London Interbank Offer Rate which, at March 31, 1998, was 5 23/32% (1997: 5 26/32%).

(c) AIBOR is used to abbreviate the Amsterdam Interbank Offer Rate which, at March 31, 1998, was 3 12/25% (1997: 3 5/25%).

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 Limited, companies affiliated with three directors [note 3(b)]. Future payments under these lease commitments are as follows:

	The Group and the Company	
	1998	1997
	$'000	$'000
Within 1 year	43,953	160,362
From 1-2 years	3,954	45,683
From 2-3 years	-	3,929
Total future minimum lease payments	47,907	209,974
Less: Future finance charges	(9,391)	(42,150)
Present value of minimum future lease payments	38,516	167,824
Less: Current portion	(36,317)	(126,341)
	2,199	**41,483**

13. Share capital

	1998 $'000	1997 $'000
Authorised:		
8,000,000,000 (1997: 4,000,000,000) ordinary shares of $1 each	**8,000,000**	**4,000,000**
Issued and fully paid:		
7,725,472,000 (1997: 3,862,736,000) ordinary stock units of $1 each	**7,725,472**	**3,862,736**

(a) At the 1997 annual general meeting, the directors recommended and the stockholders approved:

- 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 on December 12, 1997.

(b) The directors have recommended, for the approval of stockholders at the 1998 annual general meeting:

An increase of $1,600,000,000 in the authorised share capital by the creation of 1,600,000,000 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 $1,545,094,400; fully out of the profits of the company for the year ended March 31, 1998 to be applied in paying up in full 1,545,094,400 unissued shares of the company; to be allotted as fully paid up shares (to be 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 5 (five) stock units held on the date of closure of the register of members.

14. Capital reserve

	The Group		The Company	
	1998	1997	1998	1997
	$'000	$'000	$'000	$'000
At beginning of year	5,630,657	5,537,142	10,318,123	10,224,608
Increment on revaluation of fixed assets net of attributable foreign exchange differences	2,142,885	620,804	2,142,885	620,804
Bonus issue	(2,462,888)	-	(2,462,888)	-
Transfer from profit and loss account (a)	198,869	-	54,709	-
Transfer to profit and loss account (b)	(907,003)	(527,289)	(907,003)	(527,289)
At end of year (c)	4,602,520	5,630,657	9,145,826	10,318,123

(a) The transfer from profit and loss account represents capital gains arising between 1989 and 1998 on disposal of investments aggregating $198,869,000 (1997: $195,381,000) for the group and $54,709,000 (1997: $51,221,000) for the company. Such gains are available for distribution to stock holders subject to deduction of transfer tax @ 7 1/2%.

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

(c) The capital reserve of the group includes realised revaluation reserves of subsidiaries aggregating $3,167,769,000 (1997: $3,573,224,000) available for distribution to stockholders subject to the deduction of transfer tax @ 7 1/2%.

15. Retained earnings

	1998 $'000	1997 $'000
Retained in the financial statements of:		
The company	5,476,849	4,005,810
Subsidiaries	4,543,306	4,687,466
	10,020,155	**8,693,276**

16. Commitments

(a) Capital:

At March 31, 1998, commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately:

	The Group and the Company 1998 $'000	1997 $'000
Commitments in respect of contracts placed	682,328	678,663
Amounts authorised in addition to contractual commitments	21,909	37,614
	704,237	**716,277**

(b) Lease:

Unexpired commitments under operating leases with companies affiliated with three directors [see also note 3(b)] are payable as follows:

	The Group and the Company 1998 $'000	1997 $'000
Within 1 year	386,736	333,194
From 1 - 2 years	127,987	164,770
	514,723	**497,964**

17. Pension plan

The company operates a defined benefit pension plan (the plan) in respect of various classes of its employees. The plan is administered by Life of Jamaica Limited. During the previous 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 investment managers of the assets of the plan. The primary investment manager is Life of Jamaica Limited, with investment management services in respect of a defined portion of plan assets being provided by The Jamaica Mutual Life Assurance Society.

The plan requires employee contributions of 5.5% of pensionable earnings and employer contributions determined actuarially as a percentage of employees' pensionable earnings. 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 actuarial valuations, with interim annual valuations as required by the trustees. The latest actuarial valuation, conducted as at December 31,1996, using the Projected Unit Credit method indicated a past service funding deficiency of approximately $568 million. To recoup this deficiency over ten years, the actuaries have recommended an employers' contribution rate of 12.7%. During the year the company contributed at a rate of 13% (1997: 13%) of pensionable earnings. The next triennial valuation is due as at December 31,1999.

Pension contributions during the year aggregated $318,028,000 (1997: $227,185,000) for the group and the company.