



JAMAICA PUBLIC SERVICE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2005

I Glenford Watson, Secretary of JPSCo Ltd. hereby certifies that this is a true copy of the JPSCo audited financial statements for the year-ended December 31, 2005.

~~JAMAICA PUBLIC SERVICE COMPANY LTD.~~
Glenford Watson
Secretary (Acting)



KPMG
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To the Members of
JAMAICA PUBLIC SERVICE COMPANY LIMITED

Auditors' Report

We have audited the financial statements of Jamaica Public Service Company Limited (the company) as at and for the year ended December 31, 2005, set out on pages 2 to 31, and have obtained all the information and explanations which we required. The financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, and have been prepared in accordance with International Financial Reporting Standards, give a true and fair view of the state of affairs of the company as at December 31, 2005, and of its results, changes in shareholders' equity and cash flows for the year then ended, and comply with the provisions of the Companies Act.

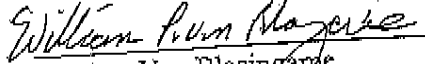
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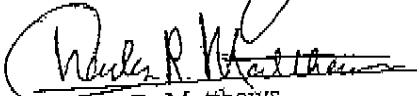
May 2, 2006

JAMAICA PUBLIC SERVICE COMPANY LIMITEDBalance Sheet
December 31, 2005

| | Notes | 2005 \$'000 | 2004 \$'000 |
|---|-------|-------------------|-------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | 1,735,628 | 1,461,604 |
| Accounts receivable | 6 | 9,180,085 | 6,866,491 |
| Tax recoverable | | 164,089 | 147,448 |
| Inventories | 7 | <u>2,052,901</u> | <u>1,618,573</u> |
| | | <u>13,132,703</u> | <u>10,094,116</u> |
| CURRENT LIABILITIES | | | |
| Short-term loans | 8 | 1,420,791 | 195,172 |
| Current portion of long-term loans | 17 | 9,159,423 | 656,671 |
| Accounts payable and provisions | 9 | 4,755,444 | 3,609,432 |
| Due to related companies | | <u>34,324</u> | <u>61,911</u> |
| | | <u>15,369,982</u> | <u>4,523,186</u> |
| | | (2,237,279) | 5,570,930 |
| NET CURRENT (LIABILITIES)/ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant & equipment | 10 | 37,491,502 | 34,633,358 |
| Intangible assets | 11 | 110,062 | 118,396 |
| Employee benefits asset | 12(a) | <u>1,408,739</u> | <u>1,225,700</u> |
| | | <u>36,773,024</u> | <u>41,548,384</u> |
| Financed by: | | | |
| SHAREHOLDERS' EQUITY | | | |
| Stated capital | 13 | 11,744,730 | 10,917,031 |
| Share premium | 14 | - | 827,699 |
| Capital reserve | 15 | 9,493,649 | 8,207,164 |
| Retained earnings | | <u>3,544,603</u> | <u>2,657,893</u> |
| | | 24,782,982 | 22,609,787 |
| NON-CURRENT LIABILITIES | | | |
| Customer deposits | 16 | 2,054,811 | 2,124,962 |
| Long-term loans | 17 | 5,663,107 | 14,184,703 |
| Deferred taxation | 18 | 3,068,121 | 1,527,209 |
| Employee benefits obligations | 12(b) | <u>1,204,003</u> | <u>1,101,723</u> |
| | | <u>36,773,024</u> | <u>41,548,384</u> |

The financial statements on pages, 2 to 31, were approved by the Board of Directors on May 2, 2006, and signed on its behalf by:

 Chairman
William Von Blasingame

 Director
Charles R. Matthews

* Restated or reclassified to conform to 2005 presentation

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

JAMAICA PUBLIC SERVICE COMPANY LIMITEDIncome Statement
Year ended December 31, 2005

| | Notes | 2005 \$'000 | 2004 \$'000 |
|--|-------|---------------------|---------------------|
| Operating revenue: | 19 | 21,198,045 | 14,731,932 |
| Fuel revenues | | <u>19,055,088</u> | <u>15,666,985</u> |
| Non-fuel revenues | | <u>40,253,133</u> | <u>30,398,917</u> |
| Cost of sales: | | (22,174,846) | (14,591,749) |
| Fuel | 4 | <u>(3,953,703)</u> | <u>(3,570,568)</u> |
| Purchased power (excluding fuel) | | <u>(26,128,549)</u> | <u>(18,162,317)</u> |
| Gross profit | | 14,124,584 | 12,236,600 |
| Operating expenses: | | | |
| Operating & maintenance, selling, general & administrative expenses | | (7,336,154) | (6,605,588) |
| Depreciation and amortisation | | <u>(2,531,646)</u> | <u>(2,265,125)</u> |
| | | <u>(9,867,800)</u> | <u>(8,870,713)</u> |
| Operating profit before net finance costs, other income & expenses and taxation | 20 | 4,256,784 | 3,365,887 |
| Net finance costs | 21 | (2,409,365) | (1,977,171) |
| Other income | 22(a) | 165,407 | 57,245 |
| Other expenses | 22(b) | <u>(86,770)</u> | <u>(1,572,415)</u> |
| Profit/(loss) before taxation | | 1,926,056 | (126,454) |
| Taxation | 23 | <u>(479,901)</u> | <u>(15,452)</u> |
| Profit/(loss) for the year | | <u>1,446,155</u> | <u>(141,906)</u> |
| Profit/(loss) per share/stock unit | 24 | <u>6.62¢</u> | <u>(0.65¢)</u> |

JAMAICA PUBLIC SERVICE COMPANY LIMITEDStatement of Changes in Shareholders' Equity
Year ended December 31, 2005

| | Stated capital \$'000 (note 13) | Share premium \$'000 (note 14) | Capital reserve \$'000 (note 15) | Retained earnings \$'000 | Total \$'000 |
|---|--|---|---|--------------------------------|-------------------|
| Balances at December 31, 2003 | 10,917,031 | 827,699 | 6,966,665 | 2,177,896 | 20,889,291 |
| Revaluation surplus | - | - | 2,793,858 | - | 2,793,858 |
| Deferred tax on revaluation surplus | - | - | (931,286) | - | (931,286) |
| Loss for the year | - | - | - | (141,906) | (141,906) |
| Realised revaluation surpluses [note 15(i)] | - | - | (622,073) | 622,073 | - |
| Preference dividends paid (note 25) | - | - | - | (170) | (170) |
| Balances at December 31, 2004 | 10,917,031 | 827,699 | 8,207,164 | 2,657,893 | 22,609,787 |
| Transfer of share premium (see note 14) | 827,699 | (827,699) | - | - | - |
| Revaluation surplus | - | - | 3,183,032 | - | 3,183,032 |
| Deferred tax on revaluation surplus | - | - | (1,061,011) | - | (1,061,011) |
| Profit for the year | - | - | - | 1,446,155 | 1,446,155 |
| Realised revaluation surpluses [note 15(i)] | - | - | (835,536) | 835,536 | - |
| Ordinary dividends paid (note 25) | - | - | - | (1,394,811) | (1,394,811) |
| Preference dividends paid (note 25) | - | - | - | (170) | (170) |
| Balances at December 31, 2005 | <u>11,744,730</u> | <u>-</u> | <u>9,493,649</u> | <u>3,544,603</u> | <u>24,782,982</u> |

Net recognised gains for the year aggregated \$3,568,176,000 (2004: \$1,720,666,000), of which \$2,122,021,000 (2004: \$1,862,572,000) was recognised directly in equity.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDStatement of Cash Flows
Year ended December 31, 2005

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit/(loss) for the year | 1,446,155 | (141,906) |
| Adjustments for: | | |
| Depreciation and amortisation | 2,531,646 | 2,265,125 |
| (Gain)/loss on disposal/adjustment of property, plant & equipment | (52,859) | 194,616 |
| Unrealised foreign exchange losses | 620,501 | 313,343 |
| Interest capitalised (note 10) | (48,962) | (68,332) |
| Other interest expense | 1,876,587 | 1,644,166 |
| Deferred taxation | 479,901 | 15,452 |
| Employee benefits, net | (80,759) | (285,077) |
| Cash generated before changes in working capital and deposits | 6,772,210 | 3,937,387 |
| Accounts receivable | (2,313,594) | (428,453) |
| Inventories | (434,328) | (145,620) |
| Accounts payable | 1,158,957 | (212,883) |
| Due to related companies | (27,587) | (81,317) |
| Customer deposits and advances | (70,151) | 64,677 |
| Cash generated from operations | 5,085,507 | 3,133,791 |
| Interest paid | (1,851,199) | (1,970,220) |
| Taxes withheld | (16,641) | (33,899) |
| Net cash provided by operating activities | <u>3,217,667</u> | <u>1,129,672</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant & equipment | (2,095,445) | (1,773,289) |
| Purchase of intangible assets | (1,158) | (9,063) |
| Proceeds from disposal of property, plant & equipment | - | 67,727 |
| Net cash used by investing activities | <u>(2,096,603)</u> | <u>(1,714,625)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Short-term loans received | 1,860,803 | 318,647 |
| Repayment of short-term loans | (647,197) | (1,152,369) |
| Long-term loans received | - | 2,332,459 |
| Repayment of long-term loans | (665,665) | (1,343,351) |
| Share premium (note 14) | - | 357,563 |
| Dividends paid | (1,394,981) | (170) |
| Net cash (used)/provided by financing activities | <u>(847,040)</u> | <u>512,779</u> |
| Net increase/(decrease) in cash and cash equivalents | 274,024 | (72,174) |
| Cash and cash equivalents at beginning of year | <u>1,461,604</u> | <u>1,533,778</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>1,735,628</u> | <u>1,461,604</u> |

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

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements
December 31, 20051. Corporate structure and nature of business

The company is incorporated in Jamaica and is an 80% subsidiary of Mirant JPSCO (Barbados) SRL, which is incorporated in Barbados. The registered office of the company is situated at 6 Knutsford Boulevard, Kingston 5, Jamaica, W. I., and its preference shares are listed on the Jamaica Stock Exchange.

The ultimate holding company is Mirant Corporation, incorporated in Delaware, U.S.A, which is listed on the New York Stock Exchange. Mirant Corporation and its subsidiary companies are referred to in these financial statements as "related companies".

The principal activities of the company are generating, transmitting, distributing and supplying electricity in accordance with the terms of the All-Island Electric Licence 2001 (the Licence), granted on March 30, 2001 by the Minister of Mining and Energy.

2. Regulatory arrangements and tariff structure

The Licence authorises the company to supply electricity for public and private purposes within the Island of Jamaica, subject to regulation by the Office of Utilities Regulation (OUR) established pursuant to the Office of Utility Regulation Act, 1995, and as subsequently amended, with power and authority to require observance and performance by the company of its obligations under the Licence, and to regulate the rates charged by the company.

Under the provisions of the Licence, the company is granted the exclusive right to transmit, distribute and supply electricity throughout the Island of Jamaica for a period of twenty years and to develop new generation capacity within the first three years from the effective date of the Licence. Upon the expiration of this period the company shall have the right, together with other persons, to compete for the right to develop new generation capacity.

Schedule 3 of the Licence defines the rates for electricity and the mechanism for rate adjustments. Under the Licence, the rates for electricity consist of a Non-Fuel Base Rate, which is adjusted annually using the Performance Based Rate-making Mechanism; and a Fuel Rate, which is adjusted monthly to reflect fluctuations in actual fuel costs, net of adjustments for prescribed efficiency targets. Both rates (fuel and non-fuel) are adjusted monthly to account for movements in the monetary exchange rate between the United States (US) dollar and the Jamaica dollar.

As of February 1, 2002, these rates are determined in accordance with the tariff regime, provided that the OUR annually reviews the company's efficiency levels (system losses and heat rate) and, where appropriate, adjusts these in the tariff, primarily relating to fuel revenues. Under the rate schedule the company should recover its actual fuel costs net of the prescribed efficiency adjustments through its Fuel Rate.

As of May 31, 2004, and thereafter, on each succeeding fifth anniversary, the company must submit a filing to the OUR for further rate adjustments to its Non-Fuel Base Rate. The rate filing, which requires OUR approval, is based on a test year and includes defined "efficient" non-fuel operating costs, depreciation expenses, taxes, and a fair return on investment.

Embedded in the OUR approved tariff is an amount to be set aside monthly in case of a major catastrophe affecting the company's transmission and distribution assets.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations adopted by the International Accounting Standards Board (IASB), and comply with the provisions of the Companies Act.

At the date of authorisation of the financial statements, there were certain standards and interpretations which were in issue but were not yet effective. Those which are considered relevant to the company and their effective dates are as follows:

| | | <u>Effective date</u> |
|------------------|--|-----------------------|
| IFRS 7 | Financial Instruments: Disclosure | January 1, 2007 |
| IAS 19 Amendment | Actuarial Gains & Losses, Group Plans and Disclosures | January 1, 2006 |
| IAS 39 Amendment | The Fair Value Option | January 1, 2006 |
| IFRIC 4 | Determining whether an Arrangement Contains a Lease | January 1, 2006 |
| IFRIC 5 | Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | January 1, 2006 |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market – Waste, Electrical and Electronic Equipment | December 1, 2006 |
| IFRIC 8 | Scope of IFRS 2 | January 1, 2006 |

The adoption of IFRS 7 is expected to result in additional disclosures for financial instruments. Except for these additional disclosures, the adoption of these standards and interpretations are not expected to have a material impact on the financial statements.

(b) Basis of preparation:

These financial statements are presented in Jamaica dollars (\$), which is the currency in which the company conducts the majority of its operations (functional currency).

The financial statements are prepared under the historical cost basis, modified for the inclusion of specialised plant and equipment carried at valuation.

(c) Use of estimates and judgements:

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(c) Use of estimates and judgements (cont'd):

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Pension and other post-retirement benefits:

The amounts recognised in the balance sheet and income statement for pension and other post-retirement benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-retirement obligations and the expected rate of increase in medical costs for post-retirement medical benefits.

The expected return on plan assets considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the company's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate by extrapolating from the longest-tenure security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors. Any changes in these assumptions will affect the amounts recorded in the financial statements for these obligations.

(ii) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from receivables, for example, default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired receivables as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individual significant receivables with similar characteristics, such as credit risks.

(d) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances including short-term deposits with maturities ranging between one and three months from the balance sheet date.

(e) Accounts receivable:

Trade and other accounts receivables are stated at cost less impairment losses.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(f) Inventories:

Inventories materially comprise fuel stocks, and generation, transmission and distribution spare parts. Inventories are valued at the lower of cost, determined principally on a weighted average cost basis, and net realisable value.

(g) Accounts payable:

Trade and other payables are stated at cost.

(h) Provisions:

A provision is recognised in the balance sheet when the company has an obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value, and, where appropriate, the risks specific to the obligation.

(i) Interest-bearing borrowings:

Interest-bearing borrowings are recognised initially at cost. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowing using the effective interest method.

(j) Property, plant & equipment and intangible assets:

In accordance with the Licence, additions to property, plant & equipment and intangible assets, replacement of retirement units of plant in service, or additions to construction work in progress, include direct labour, materials, professional fees and an appropriate charge for overheads; reduced by non-refundable contributions received from customers, where applicable.

Specialised plant and equipment are revalued quarterly by management on the depreciated replacement cost basis using relevant industry indices (Handy Whitman) for equipment purchased abroad, with the foreign component of costs appropriately adjusted for movements in the Jamaica dollar and the local component of costs adjusted for movements in local inflation. Gains and losses on revaluation are initially recognised in capital reserve (see note 15) and transferred to retained earnings as realised.

Land and buildings are stated at cost, while general plant and machinery and other equipment are stated at cost (or deemed cost at the IFRS transition date of January 1, 2003), less accumulated depreciation and impairment losses.

Property, plant & equipment in the course of construction are carried at cost less recognised impairment losses.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(j) Property, plant & equipment and intangible assets (cont'd):

Intangible assets, comprising computer software, are stated at cost, less amortisation and impairment losses.

(k) Depreciation and amortisation:

Property, plant & equipment and intangible assets are depreciated/amortised on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates, which are specified by the License, are as follows:

| | |
|----------------------------|----------------|
| Steam production plant | 4% |
| Hydraulic production plant | 2%, 2½%, 2.86% |
| Other production plant | 2½%, 4% & 5% |
| Transmission plant | 4% |
| Distribution plant | 3.33% & 4% |
| General plant & equipment: | |
| Buildings and structures | 2% |
| Transport equipment | 14.3% |
| Other equipment | 4%, 5% & 6.65% |

Land and land rights are not depreciated.

The composite rate of depreciation for the year was approximately 3.7% (2004: 3.3%).

Computer software is amortised at 6.65% per annum.

(l) Employee benefits:

Assets and liabilities in respect of pensions and other post-employment benefits have been actuarially determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations were conducted in accordance with IAS 19, and the financial statements reflect the company's post-employment benefits asset and obligations as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

(i) Defined benefit pension scheme:

The company operates a defined-benefit pension scheme administered by trustees, the assets of which are held separately from those of the company.

The pension scheme requires the company to contribute a percentage of employees' pensionable earnings and employees to contribute a similar amount. Such contributions, which are actuarially determined, provide for current costs and amounts to amortise any past service deficits disclosed over the average future working lifetime of the active membership. Annual pension at normal retirement age is determined based on the employee's years of service and highest three years pensionable earnings. Employees may elect to pay voluntary contributions of up to 3.5% of their pensionable earnings to enhance the basic benefits otherwise payable. The plan is subject to triennial actuarial valuations to determine the funding status, with interim annual valuations for accounting purposes and as required by the trustees.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(1) Employee benefits (cont'd):

(i) Defined benefit pension scheme (cont'd):

The company's net obligation in respect of the defined benefit pension scheme is calculated at each balance sheet date by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods, discounting it to determine its present value, and deducting the fair value of the plan assets. The discount rate applied is the yield at balance sheet date on long-term government instruments that have maturity dates approximating the term of the company's obligation. The calculation is performed by a qualified independent actuary using the projected unit credit method.

When the benefits of the scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, the expense is recognised immediately in the income statement.

In calculating the company's obligation in respect of the scheme at the balance sheet date, actuarial gains or losses which exceed ten percent (10%) of the greater of the present value of the defined benefit obligation and the fair value of plan assets, are recognised in the income statement over the expected average remaining working lives of the participating employees. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the company, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the scheme.

(ii) Other post-employment benefits:

A provision is made for unutilised vacation and sick leave in respect of services rendered by employees up to the balance sheet date. Under collective bargaining agreements, employees are entitled to a termination benefit in relation to their unutilised vacation and sick leave entitlements that accumulate in certain instances over the life of their service.

A provision is also made in respect of post-employment health benefits to be provided to employees upon retirement. The post-employment benefit obligation is actuarially determined at the balance sheet date on a basis similar to that used for the pension scheme. Actuarial gains and losses are accounted for in a manner similar to that of the pension scheme.

Cumulative unrecognised gains and losses are also recognised in a manner similar to that applied for the defined-benefit pension scheme.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(m) Customer deposits:

Given the long-term nature of the customer relationship, customer deposits and construction advances are shown in the balance sheet as non-current liabilities (i.e., amounts not likely to be repaid within twelve months of the balance sheet date). Interest is credited annually at rates prescribed by the Licence.

(n) Revenue recognition:

Operating revenue represents income for the provision of electricity and related services. Income is recognised for billings made for these services and an estimate of electricity supplied prior to the end of the reporting period which is to be billed subsequently (referred to as "unbilled" revenues and included in accounts receivable).

(o) Capitalisation of borrowing costs:

Borrowing costs directly attributable to the construction of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

(p) General Consumption Tax (GCT):

The company's main operations are exempt from GCT and accordingly, so are its operating revenues. As a result, the company may not recover any GCT input tax incurred in the acquisition of goods or services and, consequently, such goods or services are recorded at cost plus GCT where incurred.

(q) Income taxes:

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is computed using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised (see note 23).

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(r) Foreign currencies:

Transactions in foreign currencies are converted at the rates of exchange ruling on the dates of those transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Jamaica dollars at the rates of exchange ruling at that date. Gains and losses arising from fluctuations in exchange rates are included in the income statement.

For the purposes of cash flow statements, realised foreign currency gains and losses are treated as cash items and included in cash flows from operating or financing activities along with movement in the relevant balances.

(s) Impairment:

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amounts:

The recoverable amount of the company's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount.

(t) Leases:

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(u) Segment reporting:

The company maintains an integrated operating structure and reports accordingly. Consequently, no segment disclosures are considered necessary.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

3. Statement of compliance, basis of preparation and significant accounting policies (cont'd)

(v) Related parties:

A party is related to the company if:

(i) directly or indirectly, the party:

- controls, is controlled by, or is under common control with the company;
- has an interest in the company that gives it significant influence over the company; or
- has joint control over the company.

(ii) the party is a member of the key management personnel of the company. Such personnel are persons having authority and responsibilities for planning, directing and controlling the activities of the company whether directly or indirectly and whether through an executive or non-executive role.

(iii) the party is a close member of the family of any individual referred to in (i) or (ii) above.

(iv) the party is a post-employment benefit plan for the benefit of employees of the company, or any entity that is a related party of the company.

The company has a related party relationship with its parent company, ultimate parent company, fellow subsidiaries, directors, key management personnel and the JPS Employees Superannuation Fund.

(w) Financial instruments:

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of these financial statements, financial assets have been determined to include cash and cash equivalents and accounts receivable. Similarly, financial liabilities include accounts payable, due to related companies, customer deposits and loans. Purchases and sales of financial instruments are accounted for at settlement dates.

(x) Determination of fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 20054. Power purchase contracts

The company has entered into agreements with independent power providers (IPPs) for the purchase of energy capacity and net energy output.

The major IPPs that have agreed to supply the company with electricity are as follows:

| | <u>Contract termination date</u> |
|--|----------------------------------|
| Jamaica Energy Partners (JEP) [see note 29] | October 2015 |
| The Jamaica Private Power Company Limited (JPPC) | January 2018 |
| Jamaica Aluminium Company Limited (JAMALCO) | December 2019 |
| Wigton Wind Farm Limited | May 2024 |

All agreements are subject to termination prior to the contract dates upon the occurrence of certain events of default as specified in the agreements, and are renewable for an additional period, provided the party seeking the extension gives written notice, ranging from two to six years, before the end of the initial term.

Certain agreements require payment for available energy capacity and for certain operating costs and overheads. Additionally, certain agreements require the company to provide a banker's guarantee in relation to contractual payments. The company has a financing arrangement with a financial institution, which guarantees access to funds by IPPs for contractually agreed payments. The facility was not accessed during the year.

Unexpired commitments under power purchase agreements, for energy capacity and certain operating charges, are payable as follows:

| | <u>US Dollars</u> | |
|----------------|-------------------|----------------|
| | <u>2005</u> | <u>2004</u> |
| | \$'000 | \$'000 |
| Within 1 year | 46,240 | 46,664 |
| From 1-2 years | 45,830 | 46,240 |
| From 2-5 years | 130,589 | 134,761 |
| Over 5 years | <u>207,323</u> | <u>248,981</u> |
| | <u>429,982</u> | <u>476,646</u> |

5. Cash and cash equivalents

At December 31, 2005, cash and cash equivalents include \$274 million (2004: \$110 million) restricted cash mainly for self-insurance sinking fund, Rural Electrification Programme (REP), house wiring fund and guarantee deposits on staff loans. Of this amount, \$180 million (2004: \$54 million) represents cash maintained as part of a self-insurance sinking fund administered under approval of the OUR (see note 2).

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 2005

| 6. <u>Accounts receivable</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|-------------------------------|-----------------------|-----------------------|
| Trade receivables, net | 5,299,546 | 4,641,290 |
| Unbilled revenue | 2,855,824 | 1,466,831 |
| Prepayments | 595,649 | 308,057 |
| Other receivables | <u>429,066</u> | <u>450,313</u> |
| | <u>9,180,085</u> | <u>6,866,491</u> |

Trade receivables are shown net of an allowance for impairment losses of \$785 million (2004: \$575 million).

| 7. <u>Inventories</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Fuel | 637,971 | 491,714 |
| Generation spare parts | 603,323 | 531,531 |
| Transmission, distribution and other spares | <u>811,607</u> | <u>595,328</u> |
| | <u>2,052,901</u> | <u>1,618,573</u> |

8. Short-term loans

At December 31, 2005, the company had two short term loans denominated in United States dollars, bearing interest at rates between 7.87% and 8.77%. At the end of the previous year, the company had one short term loan, bearing interest at 8.75%. These loans were all unsecured and US dollar denominated.

At December 31, 2005, net foreign currency exposure in short-term loans aggregated US\$22,000,000 (2004: US\$3,167,000).

| 9. <u>Accounts payable and provisions</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Trade payables (i) | 3,842,704 | 2,951,300 |
| Interest accrued on customer deposits and loans | 431,778 | 406,390 |
| Other payables and provisions (ii) | <u>480,962</u> | <u>251,742</u> |
| | <u>4,755,444</u> | <u>3,609,432</u> |

(i) Included in trade payables at December 31, 2005, is a net amount of \$192 million (2004: \$192 million) refundable to customers under the fuel clause of the company's tariff structure in effect to December 1998.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 20059. Accounts payable and provisions (cont'd)

(ii) Other payables and provisions include provisions as follows:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|-------------------------------------|-----------------------|-----------------------|
| Balance at beginning of year | 162,828 | 413,917 |
| Provisions made during the year | 378,816 | 104,762 |
| Provisions utilised during the year | <u>(166,529)</u> | <u>(355,851)</u> |
| Balance at end of year | <u>375,115</u> | <u>162,828</u> |
| Comprising provisions for: | | |
| Retroactive and bonus salaries | 328,305 | 124,328 |
| Legal claims in process (note 27) | <u>46,810</u> | <u>38,500</u> |
| | <u>375,115</u> | <u>162,828</u> |

Retroactive and bonus salaries are estimated based on salary rates at year-end. Actual rates could differ at final settlement.

10. Property, plant & equipment

| | Land & buildings & land rights \$'000 | Production (generation) plant & equipment \$'000 | Transmission & distribution plant & equipment \$'000 | General plant & machinery \$'000 | Computer equipment, office fixtures & fittings \$'000 | Construction work-in-progress \$'000 | Total \$'000 |
|-------------------------------------|---------------------------------------|--|--|----------------------------------|---|--------------------------------------|-------------------|
| At cost or valuation: | | | | | | | |
| January 1, 2005 | 1,783,321 | 33,862,965 | 46,211,122 | 3,201,781* | 1,715,027 | 1,771,318 | 88,545,534 |
| Additions | 40,200 | | 611,171 | | 128,596 | 1,364,440 | 2,144,407 |
| Transfers | 416,282 | 449,323 | 795,428 | 76,506 | | (1,737,539) | |
| Disposals/retirements & adjustments | | | | (573) | (1,678) | 53,818 | 51,567 |
| Revaluation | | <u>3,023,470</u> | <u>3,408,096</u> | | | | <u>6,431,566</u> |
| December 31, 2005 | <u>2,239,803</u> | <u>37,335,758</u> | <u>51,025,817</u> | <u>3,277,714</u> | <u>1,841,945</u> | <u>1,452,037</u> | <u>97,173,074</u> |
| At cost or deemed cost | 2,239,803 | 37,335,758 | 51,025,817 | 3,277,714 | 1,841,945 | 1,452,037 | 88,811,499 |
| At valuation | <u>2,239,803</u> | <u>37,335,758</u> | <u>51,025,817</u> | <u>3,277,714</u> | <u>1,841,945</u> | <u>1,452,037</u> | <u>97,173,074</u> |
| Depreciation: | | | | | | | |
| January 1, 2005 | 204,641 | 19,707,846 | 31,068,483 | 2,035,138* | 896,068* | | 53,912,176 |
| Charge for the year | 24,201 | 1,197,522 | 1,075,276 | 117,650 | 107,504 | | 2,522,153 |
| Disposals/retirements | | | | | (1,292) | | (1,292) |
| Revaluation | | <u>1,549,935</u> | <u>1,698,600</u> | | | | <u>3,248,535</u> |
| December 31, 2005 | <u>228,842</u> | <u>22,455,303</u> | <u>33,842,359</u> | <u>2,152,788</u> | <u>1,002,280</u> | | <u>59,681,572</u> |
| Net book values: | | | | | | | |
| December 31, 2005 | <u>2,010,961</u> | <u>14,880,455</u> | <u>17,183,458</u> | <u>1,124,926</u> | <u>839,665</u> | <u>1,452,037</u> | <u>37,491,502</u> |
| December 31, 2004 | <u>1,578,680</u> | <u>14,135,119</u> | <u>15,142,639</u> | <u>1,166,643*</u> | <u>818,959*</u> | <u>1,771,318</u> | <u>34,633,358</u> |

* Reclassified to conform with current year presentation.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 200510. Property, plant & equipment (cont'd)

- (a) Land and buildings and land rights include land aggregating approximately \$841 million (2004: \$800 million), at historical costs.
- (b) Allowances for funds used during construction for the year amounted to approximately \$49 million (2004: \$68 million). The capitalisation rate used for the year was 11.25% (2004: 12%).
- (c) The historical cost (net book value) for assets carried at valuation are noted below:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Production (generation) plant & equipment | 8,657,802 | 8,836,080 |
| Transmission & Distribution plant & equipment | <u>9,190,928</u> | <u>8,314,012</u> |
| | <u>17,848,730</u> | <u>17,150,092</u> |

11. Intangible assets

This represents acquired software costs capitalised as follows:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|----------------------|-----------------------|-----------------------|
| Cost: | | |
| At beginning of year | 141,220 | 132,157 |
| Additions | <u>1,158</u> | <u>9,063</u> |
| At end of year | 142,378 | 141,220 |
| Amortisation: | | |
| At beginning of year | 22,824 | 13,674 |
| Charge for the year | <u>9,492</u> | <u>9,150</u> |
| At end of year | 32,316 | 22,824 |
| Net book values | <u>110,062</u> | <u>118,396</u> |

12. Employee benefits

- (a) Pension scheme:

The company administers a defined-benefit pension scheme for its permanent employees. The assets of the scheme are under the control of trustees, with day-to-day management by company employees. Investment management services in respect of portions of scheme assets are also provided by Life of Jamaica Limited and Guardian Life Limited.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

12. Employee benefits (cont'd)

(a) Pension scheme (cont'd):

(i) Employee benefits (pension scheme):

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---------------------------------------|-----------------------|-----------------------|
| Present value of funded obligations | (2,638,500) | (2,360,000) |
| Fair value of scheme assets | 6,591,800 | 5,851,700 |
| Unrecognised actuarial gains | (1,135,822) | (1,040,300) |
| Unrecognised amount due to limitation | <u>(1,408,739)</u> | <u>(1,225,700)</u> |
| Asset recognised in balance sheet | <u>1,408,739</u> | <u>1,225,700</u> |

(ii) Movements in net asset recognised in the balance sheet:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Balance at beginning of year | 1,225,700 | 900,900 |
| Contributions paid | 106,590 | 118,700 |
| Credit recognised in the income statement | <u>76,449</u> | <u>206,100</u> |
| Balance at end of year | <u>1,408,739</u> | <u>1,225,700</u> |

(iii) Credit recognised in the income statement:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| Current service costs | 121,300 | 126,200 |
| Interest on obligations | 281,300 | 299,800 |
| Expected return on plan assets | (648,000) | (556,100) |
| Net actuarial loss/(gain) recognised during the year | 110,502 | (89,700) |
| Gains on curtailment | <u>(18,000)</u> | <u>(192,400)</u> |
| Total credit | <u>(152,898)</u> | <u>(412,200)</u> |
| Total credit recognised due to limitation | <u>(76,449)</u> | <u>(206,100)</u> |
| Actual return on plan assets | <u>662,100</u> | <u>1,258,200</u> |

(iv) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

| | <u>2005</u> | <u>2004</u> |
|--------------------------------|-------------|-------------|
| Discount rate | 12.5% | 12.5% |
| Expected return on plan assets | 11.0% | 11.0% |
| Future salary increases | 8.0% | 8.0% |
| Future pension increases | <u>3.0%</u> | <u>3.0%</u> |

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

12. Employee benefits (cont'd)

(b) Other post-employment benefit obligations:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Post-employment medical and life insurance benefits | 481,900 | 431,600 |
| Accumulated sick and vacation pay | <u>722,103</u> | <u>670,123</u> |
| | <u>1,204,003</u> | <u>1,101,723</u> |

(i) Post-employment medical and life insurance benefits:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---------------------------------------|-----------------------|-----------------------|
| Present value of unfunded obligations | 532,400 | 517,400 |
| Unrecognised actuarial losses | <u>(50,500)</u> | <u>(85,800)</u> |
| Liability recognised in balance sheet | <u>481,900</u> | <u>431,600</u> |

(ii) Movements in post-employment medical and life insurance benefits obligation:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| Balance at beginning of year | 431,600 | 292,000 |
| Contributions paid | <u>(10,500)</u> | <u>(10,600)</u> |
| Expense recognised in the income statement | <u>60,800</u> | <u>150,200</u> |
| Balance at end of year | <u>481,900</u> | <u>431,600</u> |

(iii) Expense recognised in the income statement:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Current service costs | 33,600 | 43,500 |
| Interest on obligations | 61,700 | 87,400 |
| Actuarial (gain)/loss recognised for the year | <u>(19,100)</u> | <u>57,800</u> |
| Gains on curtailments and/or settlements | <u>(15,400)</u> | <u>(38,500)</u> |
| | <u>60,800</u> | <u>150,200</u> |

(iv) Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

| | <u>2005</u> | <u>2004</u> |
|-----------------------|--------------|--------------|
| Discount rate | 12.5% | 12.5% |
| Medical claims growth | <u>11.5%</u> | <u>11.5%</u> |

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

13. Stated capital

Authorised:

Ordinary share capital:
315,733,000 Ordinary stock units at no par value (2004: \$0.50 each)
30,000,000,000 Ordinary shares at no par value (2004: \$0.50 each)

Cumulative Preference shares of no par value (2004: \$2.00 each)

567,000 7% "B" shares
66,500 5% "C" shares
1,049,000 5% "D" shares
514,000 6% "E" shares

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|----------------------------------|-----------------------|-----------------------|
| Issued and fully paid: | | |
| Ordinary share capital: | | |
| 315,733,000 Ordinary stock units | 157,867 | 157,867 |
| 21,512,462,000 Ordinary shares | <u>11,583,930</u> | <u>10,756,231</u> |
| | <u>11,741,797</u> | <u>10,914,098</u> |
| Cumulative preference shares: | | |
| 420,000 7% "B" shares | 840 | 840 |
| 66,500 5% "C" shares | 133 | 133 |
| 680,000 5% "D" shares | 1,360 | 1,360 |
| 300,000 6% "E" shares | <u>600</u> | <u>600</u> |
| | <u>2,933</u> | <u>2,933</u> |
| | <u>11,744,730</u> | <u>10,917,031</u> |

The cumulative preference shares are non-voting and are preferred only in respect of return of capital and any dividends in arrears on a winding up.

The Companies Act (the Act) requires that all preference shares be included in the balance sheet as part of stated capital with the return to preference shareholders, being dividends, paid out of retained earnings, while IFRS requires qualifying preference shares to be classified as liabilities, with the return to preference shareholders being classified as interest expense, charged in arriving at net profit or loss for the year. Due to the immateriality of issued preference share capital, such shares have not been reclassified, and as such, the company is in compliance with the Act and IFRS.

14. Share premium

In accordance with an agreement between the two major shareholders of the company, a working capital injection of approximately \$827,430,000 was required for the company to achieve a prescribed working capital balance as at March 31, 2001. The amounts accounted for as share premium were transferred to stated capital in accordance with the Companies Act, 2004.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 2005

| 15. <u>Capital reserve</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| Revaluation surplus, net of deferred tax (i) | 9,489,392 | 8,202,907 |
| Other reserves (ii) | <u>4,257</u> | <u>4,257</u> |
| | <u>9,493,649</u> | <u>8,207,164</u> |

(i) This represents the net surpluses arising on the revaluation of certain property, plant & equipment, net of deferred tax (see notes 18 and 23) and any surpluses arising in the course of the company's operations. Realised surpluses are transferred to retained earnings.

(ii) Other reserves materially comprise grants net of a past bonus issue of shares.

| 16. <u>Customer deposits</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Customer deposits for electricity service (i) | 1,242,481 | 1,196,444 |
| Customer advances for construction (ii) | <u>812,330</u> | <u>928,518</u> |
| | <u>2,054,811</u> | <u>2,124,962</u> |

(i) In general, the company requires a deposit from customers before providing service. The deposit is refundable upon termination of service subject to certain conditions. Interest is paid annually to customers and applied to their electricity accounts according to rates prescribed by the OUR (see note 2), which are broadly equivalent to rates applicable to savings deposits.

(ii) Customer advances for construction relate to non-interest-bearing deposits obtained by the company in relation to construction projects being undertaken by potential customers. These amounts are refundable subject to certain conditions.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 2005

| 17. <u>Long-term loans</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| (a) (i) RBTT Merchant Bank Limited (Trinidad & Tobago), 11.9% fixed rate, repayable 2006 [US\$80 million (2004: US\$80 million)] | 5,166,512 | 4,930,064 |
| (ii) RBTT Merchant Bank Limited (Trinidad & Tobago), 10.75% fixed rate, repayable 2006 [US\$51.4 million (2004: US\$51.4 million)] | 3,317,869 | 3,166,025 |
| (b) (i) RBTT Merchant Bank Limited (Trinidad & Tobago), 12% fixed rate, repayable 2010 [US\$18.2 million (2004: US\$22.5 million)] | 1,176,304 | 1,386,581 |
| (ii) RBTT Merchant Bank Limited (Trinidad & Tobago), 12% fixed rate, repayable 2011 [US\$23.6 million (2004: US\$27.9 million)] | 1,522,277 | 1,716,719 |
| (c) (i) Republic Bank Limited (Trinidad & Tobago), 10% fixed rate, repayable 2005 [US\$ Nil (2004: US\$118,000)] | - | 7,259 |
| (ii) Republic Bank Limited (Trinidad & Tobago), 9.5%, repayable 2006 [US\$254,000 (2004: US\$594,000)] | 16,439 | 36,602 |
| (d) Kreditanstalt fur Weideraufbau of Frankfurt/ Government of Jamaica (KFW/GOJ), 7% fixed rate, repayable 2030 [€3.9 million (2004: €3.9 million)] | 296,670 | 323,637 |
| (e) International Finance Corporation (IFC) variable rate, repayable 2015 [US\$45 million (2004: US\$45 million)] | 2,906,163 | 2,773,161 |
| (f) AIC Merchant Bank 8.75% fixed rate, repayable 2009 [US\$6.5 million (2004: US\$8.1 million)] | <u>420,296</u> | <u>501,326</u> |
| | 14,822,530 | 14,841,374 |
| | <u>(9,159,423)</u> | <u>(656,671)</u> |
| Less: Current portion | <u>5,663,107</u> | <u>14,184,703</u> |

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 200517. Long-term liabilities (cont'd)

- (a) (i)&(ii) The principal repayments on these loans are due in full in 2006. Interest is payable quarterly in arrears from the date of initial disbursement of each loan. The loans are secured by the generating assets of the company [see also notes (e) and (g)].
- (b) (i) This loan is repayable in twenty-eight quarterly instalments of US\$1,071,429 which commenced June 2003. The loan is secured by the generating assets of the company [see also notes (e) and (g)].
- (ii) This loan is repayable in twenty-eight quarterly instalments of US\$1,071,429 which commenced July 2004. The loan is secured by the generating assets of the company [see also notes (e) and (g)].
- (c) (i) This loan was repayable in twelve quarterly instalments of US\$120,835, which commenced May 2002; and was secured by certain transport equipment of the company.
- (ii) This loan was repayable in twelve quarterly instalments of US\$208,334, commencing July 2003, and is secured by certain transport equipment of the company. As a result of an additional principal payment made in July 2005, the remaining balance of the loan is repayable in eight quarterly instalments of US\$84,848 commencing October 2005.
- (d) This loan is on-lent by the Government of Jamaica (GOJ), and is subject to finalisation of the formal on-lending agreement. Under the terms of the original agreement with KFW the loan is repayable commencing in 2010 through 2030. Interest is payable semi-annually in arrears.
- (e) This loan is repayable in eighteen semi-annual instalments of US\$2,500,000, which are due to commence February 2007. The variable interest rate is based on LIBOR plus 7.5% per annum until February 2007 and a spread of 6% thereafter. As at December 31, 2005, the rate so determined was 11.56% (2004: 9.49%). The loan is secured by the assets of the company, under a security sharing and subordination agreement among IFC, RBTT Merchant Bank Limited and RBTT Trust Limited.
- (f) This loan is repayable in twenty quarterly instalments of US\$406,750, which commenced January 2005, and is secured by a registered 1st mortgage over the company's property at Knutsford Boulevard, Kingston 5, Jamaica.
- (g) Under the loan agreements with RBTT Merchant Bank Limited and IFC, the company is required to maintain certain agreed financial ratios during the loan tenures.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 200518. Deferred taxation

Deferred tax assets and liabilities arise in respect of:

| | Balance at January 1, <u>2005</u> \$'000 | Recognised <u>in income</u> \$'000 | Recognised <u>in equity</u> \$'000 | Balance at December 31, <u>2005</u> \$'000 |
|-------------------------------------|---|--|--|---|
| Employee benefits, net | (41,326) | (26,919) | - | (68,245) |
| Accounts receivable | 190,288 | 31,892 | - | 222,180 |
| Accounts payable and provisions | 135,463 | 8,463 | - | 143,926 |
| Unrealised foreign exchange losses | 931,405 | 267,501 | - | 1,198,906 |
| Property, plant & equipment | (4,544,458) | 109,187 | (1,061,011) | (5,496,282) |
| Tax value of losses carried forward | <u>1,801,419</u> | <u>(870,025)</u> | <u>-</u> | <u>931,394</u> |
| | <u>(1,527,209)</u> | <u>(479,901)</u> | <u>(1,061,011)</u> | <u>(3,068,121)</u> |

19. Operating revenue

The company's revenue arises materially from the supply of electricity services in accordance with the Licence (see notes 1 and 2).

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

(a) Operating profit before net finance costs, other income, expenses and taxation is stated after charging:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Directors' | | |
| - Fees | 2,442 | 2,829 |
| - Emoluments | 28,714 | 63,102 |
| - Pensions to former managing directors | 501 | 501 |
| Staff costs | 3,606,913 | 3,294,409 |
| Compensation for key management | | |
| - Short term benefits | 249,728 | 277,810 |
| - Post employment benefits | 4,534 | 4,166 |
| Audit fees (including GCT) | 8,500 | 7,935 |
| Depreciation and amortisation | <u>2,531,646</u> | <u>2,265,125</u> |

(b) The company has various ongoing transactions with related companies. These include the provision of technical support and related professional services and the acquisition of specialised equipment and spare parts. These transactions amounted to approximately US\$4.8 million (2004: US\$6.6 million).

All the above transactions were executed in the ordinary course of business and on terms similar to arms length transactions.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 2005

| 21. <u>Net finance costs</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| Interest expenses: | 447,848 | 78,677 |
| Short-term loans | 1,294,960 | 1,687,544 |
| Long-term loans | 122,425 | 65,720 |
| Customer deposits | 11,354 | 14,609 |
| Bank overdraft and other | 620,501 | 313,343 |
| Foreign exchange losses | 35,010 | 16,806 |
| Debt issuance fees and expenses | 2,532,098 | 2,176,699 |
| Less: Interest income | (73,771) | (131,196) |
| Interest capitalised during construction (note 10) | (48,962) | (68,332) |
| | <u>2,409,365</u> | <u>1,977,171</u> |

Interest income arises materially from treasury transactions entered into in the ordinary course of business.

22. Other income and expenses

(a) Other income comprises:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|--|-----------------------|-----------------------|
| Rental income | 22,134 | 26,757 |
| Miscellaneous proceeds from scrap sales or other settlements | 143,273 | 30,488 |
| | <u>165,407</u> | <u>57,245</u> |

(b) Other expenses comprise:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| One-off expenses: | | 652,445 |
| Redundancy costs | 86,770 | 725,354 |
| Hurricane restoration costs | 86,770 | 1,377,799 |
| | - | 194,616 |
| Loss on disposal of other property, plant & equipment | <u>86,770</u> | <u>1,572,415</u> |

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 200523. Taxation

- (a) Taxation is computed at 33
- ¹
- /
- ₃
- % of the company's results for the year, adjusted for tax purposes and comprises:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Current income tax expense | | |
| Deferred taxation on: | | |
| Origination and reversal of temporary differences | (390,124) | 29,557 |
| Benefit of tax losses recognised | <u>870,025</u> | <u>(14,105)</u> |
| | <u>479,901</u> | <u>15,452</u> |

There is no current taxation expense for the year as a result of accumulated taxation losses from previous years.

At December 31, 2005, taxation losses available for set-off against future taxable profits, subject to agreement by the Commissioner, Taxpayer Audit & Assessment, amounted to approximately \$2.8 billion (2004: \$5.4 billion). In his April 2005 budget presentation, the Minister of Finance and Planning announced that, instead of indefinitely, the carry forward of tax losses would be restricted to five years, with effect from January 1, 2006. Up to the reporting date, enabling legislation has not been passed into law.

- (b) Reconciliation of tax expense:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Profit/(loss) before taxation | <u>1,926,056</u> | <u>(126,454)</u> |
| Computed "expected" tax @ 33 ¹ / ₃ % | 642,018 | (42,151) |
| Tax effect of differences between profit/(loss) for financial statements and tax reporting purposes in respect of: | | |
| Investment allowances | (114,828) | (104,752) |
| Foreign exchange losses | (72,707) | 46,529 |
| Disallowed expenses and other items | <u>25,418</u> | <u>115,826</u> |
| Actual tax expense | <u>479,901</u> | <u>15,452</u> |
| Deferred tax charged directly to equity in relation to the revaluation of property, plant & equipment (see note 15) | <u>(1,061,011)</u> | <u>(931,286)</u> |

24. Loss per share/stock unit

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Profit/(loss) for the year | 1,446,155 | (141,906) |
| Less: Preference dividends (note 25) | <u>(170)</u> | <u>(170)</u> |
| | <u>1,445,985</u> | <u>(142,076)</u> |
| Number of shares/stock units [shown in thousands (see note 13)] | <u>21,828.195</u> | <u>21,828.195</u> |
| Profit/(loss) per share/stock unit | <u>6.62¢</u> | <u>(0.65¢)</u> |

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 2005

| 25. <u>Dividends</u> | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Ordinary dividends: | | |
| Interim dividend paid @ 0.0458 US¢ per share/stock unit | 616,843 | - |
| Interim dividend paid @ 0.0573 US¢ per share/stock unit | <u>777,968</u> | <u>-</u> |
| | 1,394,811 | - |
| Preference dividends: | | |
| 5-7% Cumulative preference shares (notes 13 and 24) | <u>170</u> | <u>170</u> |
| | <u>1,394,981</u> | <u>170</u> |

In 2005, there were two interim dividend payments on ordinary shares, on April 8, 2005 and August 5, 2005. The preference dividends were paid on a quarterly basis in both years.

26. Commitments

(a) Capital:

Commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately \$234 million (2004: \$407 million).

(b) In addition to its commitments under IPP contracts (note 4), the company had unexpired operating lease commitments at December 31, 2005 payable as follows:

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|----------------|-----------------------|-----------------------|
| Within 1 year | 413,338 | 482,701 |
| From 1-2 years | 413,058 | 482,701 |
| From 2-3 years | 413,002 | 482,701 |
| From 3-4 years | 11,250 | 404,516 |
| From 4-5 years | 10,828 | 12,100 |
| Over 5 years | <u>346,125</u> | <u>354,379</u> |
| | <u>1,607,601</u> | <u>2,219,098</u> |

Lease payments under operating leases including IPP contracts (note 4) recognised in the income statement for the year aggregated approximately \$3,090 million (2004: \$2,862 million).

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

27. Contingent liabilities

The company was contingently liable at December 31, 2005 in respect of various lawsuits alleging damages. In the majority of these lawsuits, the outcome cannot be determined with certainty at this time. However, at December 31, 2005, a provision of J\$46.8 million (2004: 38.5 million) was made (see note 9) in accordance with the recommendation of the company's attorneys.

28. Financial instruments

(a) Financial instrument risks:

Exposure to financial instrument risk arises in the ordinary course of the company's business. Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

(i) Credit risk:

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The company's credit risk relates primarily to accounts receivable, which is stated net of an allowance for doubtful balances.

As part of its management of credit risk, the company requires account deposits from certain customers. Additionally, management has processes in place for the prompt disconnection of services to, and recovery of amounts owed by, defaulting customers.

At December 31, 2005, the company had significant concentrations of credit risk in respect of amounts receivable from the Government of Jamaica and its affiliates aggregating \$740 million (2004: \$769 million).

(ii) Interest rate risk:

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The company materially contracts financial liabilities at fixed and floating interest rates. These primarily relate to bank overdrafts, customer deposits, certain trade payables and loans subject to interest rates fixed in advance, which may be varied by appropriate notice by the lenders.

The maturity profiles of the company's long-term loan liabilities are disclosed in note 17.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
December 31, 2005

28. Financial instruments (cont'd)

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The company incurs foreign currency risk primarily on purchases and borrowings that are denominated in a currency other than the Jamaica dollar. The currencies giving rise to foreign currency risk are the United States dollar (US\$) and Euro (€). The risk is partially mitigated by the effect of exchange rate adjustments under the company's tariff structure (see note 2).

The table below shows the company's foreign currency exposure, at balance sheet date:

| | 2005 | | | 2004 | | |
|---------------------------|------------------|----------------|---------------------|------------------|----------------|---------------------|
| | US\$ \$'000 | € \$'000 | J\$ \$'000 | US\$ \$'000 | € \$'000 | J\$ \$'000 |
| Cash and cash equivalents | 12,867 | | 830,969 | 21,145 | - | 1,303,103 |
| Accounts payable | (38,685) | (1,146) | (2,585,974) | (33,551) | (637) | (2,120,790) |
| Related companies | (530) | | (34,228) | (1,009) | - | (62,180) |
| Short-term loans | (22,000) | | (1,420,791) | (3,167) | - | (195,172) |
| Long-term loans | (224,923) | (3,879) | (14,822,513) | (235,579) | (3,879) | (14,841,374) |
| | <u>(273,271)</u> | <u>(5,025)</u> | <u>(18,032,537)</u> | <u>(252,161)</u> | <u>(4,516)</u> | <u>(15,916,413)</u> |
| Exchange rates (J\$) | <u>64.58</u> | <u>76.48</u> | | <u>61.63</u> | <u>83.43</u> | |

(iv) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The management of the company, in conjunction with its ultimate holding company, aims at maintaining flexibility in funding by keeping lines of funding available as well as by acquiring and maintaining prudent cash resources in appropriate currencies.

The company's primary exposure to liquidity risk relates to RBTT Merchant Bank Limited (Trinidad & Tobago), loans due in full in 2006 [note 17 (a)(i) & (ii)]. Management is in active discussions to refinance or replace this financing on terms at least as advantageous as currently exist.

JAMAICA PUBLIC SERVICE COMPANY LIMITEDNotes to the Financial Statements (Continued)
December 31, 200528. Financial instruments (cont'd)

(a) Financial instruments risk (cont'd):

(v) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer, or factors affecting all securities traded in the market.

At December 31, 2005, the company has no significant exposure to market risk.

(vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company manages this risk through budgetary measures, ensuring, as far as possible, that fluctuations in cash flows relating to monetary financial assets and liabilities are matched, to mitigate any significant adverse cash flows.

(b) Fair value disclosure:

(i) The amounts reflected in the financial statements for cash and cash equivalents, accounts receivable, related party balances, accounts payable, short-term loans and customer deposits for electricity service are assumed to approximate to their fair values. Long-term liabilities are stated at contracted settlement values which are considered to be broadly equivalent to fair value. Additionally, the cost of all monetary assets and liabilities has been appropriately adjusted to reflect estimated losses on realisation or discounts on settlement.

(ii) The fair value of refundable customer advances cannot practically be determined, as payment dates and amounts are not determinable.

29. Subsequent event

On January 12, 2006, the company entered into an agreement with Jamaica Energy Partners for expanded supply of generation capacity and energy output for an initial period coterminous with the pre-existing agreement (note 4).

JAMAICA PUBLIC SERVICE COMPANY LIMITED

SUPPLEMENTARY INFORMATION TO THE
FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

JAMAICA PUBLIC SERVICE COMPANY LIMITEDOperating & Maintenance, Selling, General and Administrative Expenses
Year ended December 31, 2005

| | <u>2005</u> \$'000 | <u>2004</u> \$'000 |
|---|-----------------------|-----------------------|
| Salaries and other payroll costs | 3,606,913 | 3,294,409 |
| Advertising and promotional expenses | 41,209 | 53,704 |
| Audit fees and expenses | 11,131 | 8,797 |
| Bad debt expense | 210,786 | 134,349 |
| Collection agencies commission | 89,867 | 63,076 |
| Communication license fees | 15,600 | 15,797 |
| Electricity | 119,883 | 103,721 |
| Fleet rental and maintenance costs | 388,836 | 365,735 |
| Fuel and lubricants | 78,959 | 54,474 |
| Haulage, rental and transportation | 2,267 | 8,484 |
| Injuries damages and settlements | 21,120 | 41,255 |
| Insurance expenses | 343,795 | 405,942 |
| JDF management fees | - | 18,661 |
| Legal and professional fees | 14,082 | 32,711 |
| Miscellaneous expenses | 32,451 | 32,173 |
| Office rental and operating lease costs | - | 18,201 |
| Office supplies | 37,700 | 45,012 |
| Other office expenses | 24,434 | 29,066 |
| Postage | 84,691 | 72,341 |
| Public relations and sponsorship | 44,521 | 30,798 |
| Regulatory fees | 65,297 | 50,859 |
| Repairs and maintenance expenses: | 78,592 | 56,775 |
| - Building | 312,344 | 318,073 |
| - Electrical & mechanical spares | 139,237 | 145,378 |
| - T&D equipment | 25,772 | 16,093 |
| Other general supplies and repairs | 29,588 | 19,348 |
| Safety expenses | 133,747 | 117,319 |
| Security expenses | 49,009 | 69,228 |
| Software expenses | 11,281 | 4,371 |
| Stamp duties | 109,640 | 68,251 |
| Telephone | 1,094,602 | 814,193 |
| Third party contracted services | 34,679 | 24,693 |
| Water | <u>84,121</u> | <u>72,301</u> |
| Water treatment expenses | <u>7,336,154</u> | <u>6,605,588</u> |

