**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

(Expressed in United States Dollars)

**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

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Year ended 31 December 2010


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# INDEPENDENT AUDITORS' REPORT

## To the Shareholders of Jamaica Public Service Company Limited

We have audited the accompanying financial statements of the Jamaica Public Service Company Limited ("the company"), which comprise the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at 31 December 2010 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.



A member firm of Ernst & Young Global Limited
Partners: Allison Peart, Linval Freeman

INDEPENDENT AUDITORS' REPORT, CONTINUED

**To the Shareholders of Jamaica Public Service Company Limited, Continued**

**Report on Additional Requirements of the Jamaican Companies Act**

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements are in agreement with the accounting records, and give the information required by the Jamaican Companies Act in the manner so required.

Ernst & Young

Chartered Accountants
Kingston, Jamaica

29 March 2011

**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

Statement of Financial Position
As at 31 December 2010
(Expressed in United States Dollars)

| | Notes | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant & equipment | 10 | 645,794 | 630,599 |
| Intangible assets | 11 | 5,139 | 4,897 |
| Employee benefits asset | 12(a) | 22,307 | 22,062 |
| | | 673,240 | 657,558 |
| **Current Assets** | | | |
| Cash and cash equivalents | 5 | 23,215 | 16,062 |
| Accounts receivable | 6 | 229,905 | 221,153 |
| Tax recoverable | | 1,191 | 2,547 |
| Inventories | 7 | 51,593 | 50,291 |
| | | 305,904 | 290,053 |
| **TOTAL ASSETS** | | 979,144 | 947,611 |

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## JAMAICA PUBLIC SERVICE COMPANY LIMITED

Statement of Financial Position
As at 31 December 2010
(Expressed in United States Dollars)

| | Notes | 2010 $'000 | 2009 $'000 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' Equity** | | | |
| Share capital | 13 | 261,918 | 261,918 |
| Capital reserve | 14 | 41,357 | 41,357 |
| Retained earnings | | 92,496 | 96,490 |
| | | 395,771 | 399,765 |
| **Current Liabilities** | | | |
| Short-term loans | 8 | 26,641 | 47,858 |
| Current portion of long-term loans | 16 | 24,317 | 24,175 |
| Accounts payable and provisions | 9 | 128,696 | 115,975 |
| Corporation tax payable | | 11,290 | 9,711 |
| Due to related companies | | 41 | 154 |
| | | 190,985 | 197,873 |
| **Non-Current Liabilities** | | | |
| Customer deposits | 15 | 28,833 | 27,919 |
| Long-term loans | 16 | 292,279 | 250,213 |
| Deferred taxation | 17 | 63,023 | 63,376 |
| Employee benefit obligations | 12(b) | 8,253 | 8,465 |
| | | 392,388 | 349,973 |
| **Total Liabilities** | | 583,373 | 547,846 |
| **TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES** | | 979,144 | 947,611 |

The financial statements on pages, 3 to 48, were approved by the Board of Directors on 29 March 2011 and signed on its behalf by:

Chairman
Tomofumi Fukuda

Director
Seiji Kawamura

**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

Statement of Comprehensive Income
Year ended 31 December 2010
(Expressed in United States Dollars)

| | Notes | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|---|
| **Operating Revenue** | 18 | 942,567 | 793,558 |
| **Cost of Sales:** | | | |
| Fuel | | (578,379) | (465,900) |
| Purchased power (excluding fuel) | 4 | ( 71,843) | ( 73,552) |
| | | (650,222) | (539,452) |
| **Gross Profit** | | 292,345 | 254,106 |
| **Operating Expenses:** | | | |
| Operating & maintenance, selling, general & administrative expenses | | (153,047) | (128,112) |
| Depreciation and amortisation | | ( 46,015) | ( 43,136) |
| | | (199,062) | (171,248) |
| **Operating Profit Before Net Finance Costs, Other Income, Other Expenses and Taxation** | 19 | 93,283 | 82,858 |
| **Net Finance Costs:** | | | |
| Foreign exchange gains/(losses) | | 7,207 | ( 9,414) |
| Other finance costs | | ( 41,079) | ( 36,286) |
| Finance income | | 2,484 | 2,666 |
| | 20 | ( 31,388) | ( 43,034) |
| Other income | 21(a) | 4,942 | 18,064 |
| Other expenses | 21(b) | ( 8,464) | ( 999) |
| **Profit Before Taxation** | | 58,373 | 56,889 |
| Taxation expense | 22 | ( 18,364) | ( 14,670) |
| **Profit For The Year** | | 40,009 | 42,219 |
| **Total Comprehensive Income Attributable to Shareholders** | | 40,009 | 42,219 |
| **Earnings Per Share/Stock Unit** | 23 | 0.18¢ | 0.19¢ |

**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

Statement of Changes in Shareholders' Equity
Year ended 31 December 2010
(Expressed in United States Dollars)

| | Share capital $'000 (note 13) | Capital reserve $'000 (note 14) | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balances at 31 December 2008** | 261,918 | 41,357 | 82,273 | 385,548 |
| Comprehensive income for the year | - | - | 42,219 | 42,219 |
| Dividends (see note 24) | - | - | ( 28,002) | ( 28,002) |
| **Balance at 31 December 2009** | 261,918 | 41,357 | 96,490 | 399,765 |
| Comprehensive income for the year | - | - | 40,009 | 40,009 |
| Dividends (see note 24) | - | - | ( 44,003) | ( 44,003) |
| **Balance at 31 December 2010** | 261,918 | 41,357 | 92,496 | 395,771 |

**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

Statement of Cash Flows
Year ended 31 December 2010
(Expressed in United States Dollars)

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Profit for the year | 40,009 | 42,219 |
| Adjustments for: | | |
| Depreciation and amortisation | 46,015 | 43,136 |
| Amortisation of debt issuance costs | ( 357) | ( 1,327) |
| Unrealised foreign exchange gains | ( 1,322) | ( 1,712) |
| Interest expense | 38,400 | 34,752 |
| Other interest income | ( 1,124) | ( 1,601) |
| Interest capitalised | ( 1,360) | ( 1,065) |
| Income tax expense | 18,717 | 9,711 |
| Deferred tax (credit)/expense | ( 353) | 4,958 |
| Employee benefits, net | ( 7,256) | ( 12,581) |
| Cash generated before changes in working capital and deposits | 131,369 | 116,490 |
| Accounts receivable | ( 7,818) | ( 51,741) |
| Inventories | ( 1,302) | ( 6,362) |
| Accounts payable | 1,368 | 34,272 |
| Due to related companies | ( 113) | ( 7) |
| Customer deposits and advances | 8,571 | 5,101 |
| Cash generated from operations | 132,075 | 97,753 |
| Taxes paid | ( 15,782) | - |
| Net cash provided by operating activities | 116,293 | 97,753 |
| **Cash Flows From Investing Activities** | | |
| Purchase of property, plant & equipment | ( 59,392) | ( 48,260) |
| Purchase of intangible assets | ( 700) | ( 1,862) |
| Interest received | 1,083 | 1,512 |
| Net cash used by investing activities | ( 59,009) | ( 48,610) |
| **Cash Flows From Financing Activities** | | |
| Short-term loans received | 27,159 | 57,608 |
| Repayment of short-term loan | ( 48,376) | ( 63,000) |
| Long-term loans received | 85,962 | 64,412 |
| Repayment of long-term loans | ( 43,939) | ( 47,451) |
| Interest paid | ( 38,377) | ( 33,718) |
| Dividends paid | ( 32,560) | ( 25,504) |
| Net cash used by financing activities | ( 50,131) | ( 47,653) |
| Net increase in cash and cash equivalents | 7,153 | 1,490 |
| Net cash and cash equivalents at beginning of year | 16,062 | 14,572 |
| **Net Cash And Cash Equivalents At End Of Year** | 23,215 | 16,062 |

## 1. Corporate structure and nature of business

The company is incorporated in Jamaica and is an 80% subsidiary of MaruEnergy JPSCO (Barbados) SRL, formerly Mirant JPSCO (Barbados) SRL, which is incorporated in Barbados. MaruEnergy JPSCO (Barbados) SRL is wholly owned by Marubeni TAQA Caribbean Limited (MTC), formerly MaruEnergy Caribbean Limited, which is incorporated in the Bahamas. On 18 March 2009, MTC became jointly owned by Marubeni Corporation, which is incorporated in Japan, and Abu Dhabi National Energy Company PJSC (TAQA), which is incorporated in the United Arab Emirates, upon the sale by Marubeni Corporation of one-half of its shareholding in MTC to TAQA. (see note 28)

A further 19.9% of the issued ordinary shares/stock units is held by the Accountant General and the Development Bank of Jamaica collectively on behalf of the Government of Jamaica (GOJ), and the remaining 0.1% is held by individuals. In accordance with a Shareholder's Agreement dated 23 March 2001 (amended 16 July 2001) between GOJ and Mirant Corporation and adopted by Marubeni Corporation on 9 July 2007, the majority shareholder (MTC) has the right to appoint six members of the Board of Directors while the GOJ has the right to appoint three. Additionally, certain significant decisions of the Board of Directors require a unanimous vote of the appointed Directors.

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 30 March 2001, by the Minister of Mining and Energy.

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.

## 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. Since the expiration of this initial three year period, the company has the right, together with other persons, to compete for the right to develop new generation capacity. The Licence was extended in August 2007 for an additional period of six years upon the sale of the company by Mirant Corporation to Marubeni Corporation.

Schedule 3 of the Licence defines the rates for electricity and the mechanism for rate adjustments.

## 2. Regulatory arrangements and tariff structure (continued)

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.

These rates are determined in accordance with the tariff regime, which provides 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 31 May 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 operations (transfer to self-insurance sinking fund).

## 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 Jamaican Companies Act.

### (b) Changes in accounting standards and interpretations:

#### i) Current year changes:

The accounting policies adopted are consistent with those of the previous financial year except that the company has adopted the following amended IFRSs and IFRIC (International Financial Reporting Interpretations Committee) interpretations as of 1 January 2010:

- IAS 39: Financial Instruments: Recognition and Measurement – Eligible Hedged Items
- IFRIC 17: Distributions of Non-cash Assets to Owners
- IFRIC 18: Transfers of Assets from Customers
- IFRS 2: Share-based Payment: Group Cash settled Share-based Payment Transactions

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(b) Changes in accounting standards and interpretations (continued):**

**i) Current year changes (continued):**

- IFRS 3: Business Combinations (Revised) and IAS 27: Consolidated and Separate Financial Statements (Amended)

The adoption of these amended Standards and Interpretations is deemed not to have an impact on the financial statements or performance of the company.

**Improvements to IFRSs**

In April 2009 the IASB issued omnibus amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the company:

**IAS 7: Statement of Cash Flows** States that only expenditure that results in recognizing an asset can be classified as a cash flow from investing activities.

**IAS 17: Leases** The specific guidance on classifying land as a lease has been removed so that only the general guidance remains.

Other amendments to IFRSs resulting from the IASB's improvements projects that are either not applicable to the company or did not have any impact on the accounting policies, financial position or performance of the company are as follows:

- IFRS 2: Share-based Payment
- IFRS 5: Non-current Asset Held for Sale and Discontinued Operations
- IFRS 8: Operating Segments
- IAS 1: Presentation of Financial Statements
- IAS 34: Interim Financial Reporting
- IAS 36: Impairment of Assets
- IAS 38: Intangible Assets
- IAS 39: Financial Instruments: Recognition and Measurement
- IFRIC 9: Reassessment of Embedded Derivatives
- IFRIC 16: Hedges of a Net Investment in a Foreign Operation

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(b) Changes in accounting standards and interpretations (continued):**

**ii) Future changes:**

The company has not adopted early the following new and revised IFRS's and IFRIC interpretations that have been issued but are not yet effective or are likely to have a significant impact on the company's operations:

**IAS 24** ***Related Party Disclosures (Amendment)***
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

**IAS 32** ***Financial Instruments: Presentation – Classification of Rights Issues (Amendment)***
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the company after initial application.

**IFRS 9** ***Financial Instruments: Classification and Measurement***
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the company's financial assets. The company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(b) Changes in accounting standards and interpretations (continued):**

**ii) Future changes (continued):**

**IFRIC 14** ***Prepayments of a Minimum Funding Requirement (Amendment)***
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the company.

**IFRIC 19** ***Extinguishing Financial Liabilities with Equity Instruments***
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the company.

***Improvements to IFRSs (issued in May 2010)***
The IASB issued improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they will become effective for annual periods commencing on or after either 1 July 2010 or 1 January 2011. The IFRSs and IFRIC amended are as follows:

- IFRS 3: Business Combinations
- IFRS 7: Financial Instruments: Disclosures
- IAS 1: Presentation of Financial Statements
- IAS 27: Consolidated and Separate Financial Statements
- IAS 34: Interim Financial Reporting
- IFRIC 13: Customer Loyalty Programmes

The company expects no impact on its financial position or performance from the adoption of these amendments.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(c) Changes in accounting policy:**

**Change in method for recognising actuarial gains**

In the previous year, the company, as a part of its review of accounting policies, changed the method used to recognize actuarial gains in the valuation of the pension fund from the corridor to the immediate recognition method. The immediate recognition method results in the recognition of actuarial gains on the valuation of the pension fund during the period in which they occur. This methodology is consistent with the thrust of the IASB in its project paper on Post Employment Benefits where it indicates a dislike for the corridor method and outlines its intent to recognize all changes in the value of the plan assets in the period in which they occur. The change was accounted for retrospectively.

**(d) Basis of measurement:**

These financial statements are presented in United States dollar, which is the functional and presentation currency of the company.

The financial statements are prepared under the historical cost basis, modified for the inclusion of land at valuation and the measurement at deemed cost for specialised plant and equipment. Deemed cost represents the fair value at the date of transition to IFRS.

**(e) 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 applicable.

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**

The amounts recognised in the statement of financial position and statement of comprehensive income for pension is determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, expected rates of salary and pension increases, the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligation.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(e) Use of estimates and judgements (continued):**

**(i) Pension (continued)**

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. 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 individually significant receivables with similar characteristics, such as credit risks.

**(iii) Lease arrangements**

Management evaluates all purchase arrangements to assess whether they contain leases [see notes 3(u) & 4].

**(iv) Unbilled revenue**

Unbilled revenue at each month-end is estimated consistently using certain objective indicators such as heat rate, system losses rate, fuel rate and IPP charges, other non fuel rates and unbilled quantity.

**(v) Deferred tax**

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which losses can be utilized. The amount of deferred tax assets that is recognized is based upon the likely timing and estimated levels of future taxable profits.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(e) Use of estimates and judgements (continued):**

**(vi) Property, plant and equipment**

Management exercises judgement in determining whether the costs incurred can accrue significant future economic benefits to the company to enable the value to be treated as a capital expense.

Further judgement is applied in the annual review of the useful lives of all categories of property, plant and equipment and the resulting depreciation thereon.

**(f) 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 statement of financial position date.

**(g) Accounts receivable:**

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

**(h) 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.

**(i) Accounts payable:**

Trade and other payables are stated at amortised cost.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(j) Provisions:**

A provision is recognised in the statement of financial position 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.

**(k) Property, plant & equipment and intangible assets:**

In accordance with the Licence, additions to property, plant and 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.

Specialized, plant and equipment are stated at deemed cost at the IFRS transition date of 1 January 2003, less accumulated depreciation and impairment losses, while all other property, plant and equipment are stated at cost except for land, which is stated at revalued cost. Land was revalued as at 31 December 2008 using the Comparative Cost Basis.

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

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

**(l) Depreciation and amortisation:**

Land and land rights are not depreciated.

Other property, plant and equipment and intangible assets are depreciated or 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% |

Computer software is amortised at 6.65% per annum.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(m) Employee benefits:**

Assets and liabilities in respect of the defined benefit pension plan has 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.

**(i) Pension assets:**

The company participates in two trusteed pension plans (a defined-benefit and a defined contribution pension plan), the assets of which are held separately from those of the company, and remain under the control of the appointed trustees.

Obligations for contributions to the defined contribution pension plan are recognised as an expense in the statement of comprehensive income as incurred.

The defined benefit pension plan 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.

The company's net obligation in respect of the defined benefit pension plan is calculated at each statement of financial position 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. To the extent that the obligation is less than the fair value of the plan assets, the asset recognised is restricted to the discounted value of future benefits available to the company in the form of future refunds or reductions in contributions. The discount rate applied is the yield at statement of financial position 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.

In calculating the company's obligation in respect of the plan at the statement of financial position date, actuarial gains or losses are recognised in the statement of comprehensive income in the accounting period in which they occur.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(m) Employee benefits (continued):**

**(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 statement of financial position 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. The provision includes estimated employer's contributions arising out of leave-vesting.

**(n) Customer deposits:**

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

**(o) 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).

**(p) Borrowings:**

**(i) 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 statement of comprehensive income in the period in which they are incurred.

**(ii) Debt issuance costs:**

These represent legal, accounting and financing fees associated with securing certain long-term loans, which are being amortised on an effective rate basis over the lives of the loans.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(p) Borrowings (continued):**

**(iii) 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 statement of comprehensive income over the period of the borrowing using the effective interest method.

**(q) General Consumption Tax (GCT):**

The Government through an amendment to the GCT Act gazetted in 2009, imposed GCT at the rate of 10% on electricity with effect from 1 February 2010. The amendment to the Act also prevented the company from recovering input GCT incurred in the acquisition of goods or services and, consequently, such goods or services are recorded at cost plus GCT where incurred.

**(r) Income taxes:**

Taxation on the profit or loss for the year comprises current and deferred tax. Taxation is recognised in the statement of comprehensive income, 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 statement of financial position 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 statement of financial position 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.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(r) Income taxes (continued):**

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.

**(s) 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 statement of financial position date are translated to United States dollars at the rates of exchange ruling at that date. Gains and losses arising from fluctuations in exchange rates are included in the statement of comprehensive income.

For the purposes of statement of cash flows, 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.

**(t) Impairment:**

The carrying amounts of the company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated at each statement of financial position 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 statement of comprehensive income.

**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.

**3. Statement of compliance, basis of preparation and significant accounting policies (continued)**

**(t) Impairment (continued):**

**Calculation of recoverable amounts (continued):**

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.

**(u) Leases:**

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

**(v) Segment reporting:**

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

**(w) 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's key related party relationships are with its parent company, ultimate parent company, fellow subsidiaries, directors, key management personnel and its two pension plans.

## 3. Statement of compliance, basis of preparation and significant accounting policies (continued)

### (x) Financial instruments and fair values:

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 and provisions, due to related companies, customer deposits and loans. Purchases and sales of financial instruments are accounted for at settlement dates.

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 are best evidenced by a quoted market price, if one exists (see note 27 (c)).

### (y) Comparative balances

Where necessary, comparative figures have been reclassified or restated to conform with changes in presentation to the current year. In particular, they relate to amounts disclosed for unexpired commitments for energy capacity and certain operating charges, power purchase contracts, accounts receivable, accounts payable and provisions, employee benefits and amounts disclosed for cash and cash equivalents. These changes are not considered material to the financial statements.

## 4. 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 main IPP arrangements are:

| | Contract termination date |
|---|---|
| Jamaica Energy Partners (JEP) | February 2026 |
| 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.

## 4. Power purchase contracts (continued)

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.

The contracts, which have been assessed as operating leases, gave rise to unexpired commitments for energy capacity and certain operating charges payable as follows:

| | **2010** | **2009** |
|---|---|---|
| | $'000 | $'000 |
| Within 1 year | 48,289 | 46,295 |
| From 1-2 years | 44,436 | 48,289 |
| From 2-5 years | 138,408 | 135,813 |
| Over 5 years | 431,937 | 478,968 |
| | 663,070 | 709,365 |

## 5. Cash and cash equivalents

At 31 December 2010, cash and cash equivalents include amounts restricted to use in the manner specified as follows:

| | **2010** | **2009** |
|---|---|---|
| | $'000 | $'000 |
| Self-insurance sinking fund* | 13,606 | 5,654 |
| Deposit guarantees on staff loans, IPP contracts etc. | 466 | 458 |
| | 14,072 | 6,112 |

* This represents cash maintained as part of the self-insurance sinking fund administered under the direction of the OUR (see note 2).

## 6. Accounts receivable

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Trade receivables, net (i) & (ii) | 127,320 | 105,318 |
| Unbilled revenue | 88,389 | 90,577 |
| Prepayments | 5,033 | 7,204 |
| Other receivables | 9,163 | 18,054 |
| | 229,905 | 221,153 |

(i) Trade receivables are shown net of an allowance for impairment losses as follows:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Balance at beginning of year | 16,923 | 4,877 |
| Impairment loss recognized | 16,327 | 13,085 |
| Amounts written off during the period | ( 2,596) | ( 1,039) |
| Balance at end of year | 30,654 | 16,923 |

(ii) The aging of trade receivables at the reporting date was:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Gross Receivable | Gross Impairment | Gross Receivable | Gross Impairment |
| | $'000 | $'000 | $'000 | $'000 |
| Due 0-30 days | 85,717 | - | 76,854 | - |
| Past due 31-60 days | 8,198 | - | 9,049 | - |
| Past due 61-90 days | 5,552 | - | 6,923 | 202 |
| More than 90 days | 58,507 | 30,654 | 29,415 | 16,721 |
| Trade accounts receivable | 157,974 | 30,654 | 122,241 | 16,923 |

## 7. Inventories

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Fuel | 10,111 | 13,467 |
| Generation spare parts | 20,530 | 18,796 |
| Transmission, distribution and other spare | 20,952 | 18,028 |
| | 51,593 | 50,291 |

## 8. Short-term loans

This comprises three short term loans denominated in United States dollars and bearing variable rates ranging from six month LIBOR plus 2% to LIBOR plus 6.75%. The 2009 balances comprised five short term loans denominated in United States dollars and bearing both fixed and variable rates. The variable rate loans aggregated $35,000,000 and had rates ranging from LIBOR plus 4.5% and LIBOR plus 8.35% while the fixed rate loans aggregated $12,858,000 and bore interest between a rate of 4% and 10% per annum.

The loans are unsecured and repayable within seven months of statement of financial position date.

## 9. Accounts payable and provisions

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Trade payables | 91,744 | 90,749 |
| Interest accrued on customer deposits and loans | 16,550 | 16,527 |
| Dividend payable | 16,441 | 4,998 |
| Other payables and provisions (i) | 3,961 | 3,701 |
| | 128,696 | 115,975 |

### (i) Other payables and provisions include provisions as follows:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Balance at beginning of year | 2,004 | 1,105 |
| Provisions made during the year | 13,192 | 1,305 |
| Provisions utilised during the year | (14,353) | ( 406) |
| Balance at end of year | 843 | 2,004 |

Comprising provisions for:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Retroactive and bonus salaries | 133 | 1,082 |
| Legal and other claims in process (see note 26) | 710 | 922 |
| | 843 | 2,004 |

## 10. Property, plant & equipment

| | Land, buildings & land rights | Production (generation) plant & equipment | Transmission and distribution plant & equipment | General plant & machinery | Computer equipment, office fixtures & fittings | Construction work-in-progress | Total |
|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **At cost or valuation:** | | | | | | | |
| 31 December 2008 | 116,651 | 576,715 | 840,906 | 114,831 | 66,805 | 56,617 | 1,772,525 |
| Additions | 328 | - | 21,924 | - | 3,555 | 33,988 | 59,795 |
| Transfers | ( 1,000) | 32,598 | 12,917 | 2,917 | ( 125) | (47,307) | - |
| Disposals/retirements & adjustments | ( 233) | 267 | ( 10,062) | ( 529) | 86 | - | ( 10,471) |
| 31 December 2009 | 115,746 | 609,580 | 865,685 | 117,219 | 70,321 | 43,298 | 1,821,849 |
| Additions | 77 | 482 | 11,131 | 261 | 51 | 49,909 | 61,911 |
| Transfers | 1,033 | 21,225 | 30,276 | 1,083 | 1,544 | (55,161) | - |
| Disposals/retirements & adjustments | ( 62) | ( 88) | ( 762) | ( 246) | ( 1) | - | ( 1,159) |
| 31 December 2010 | 116,794 | 631,199 | 906,330 | 118,317 | 71,915 | 38,046 | 1,882,601 |
| **Depreciation:** | | | | | | | |
| 31 December 2008 | 12,097 | 399,981 | 591,307 | 97,067 | 48,634 | - | 1,149,086 |
| Charge for the year | 792 | 19,409 | 17,458 | 2,779 | 2,324 | - | 42,762 |
| Disposals/retirements | - | - | 112 | ( 712) | 2 | - | ( 598) |
| 31 December 2009 | 12,889 | 419,390 | 608,877 | 99,134 | 50,960 | - | 1,191,250 |
| Charge for the year | 827 | 21,126 | 18,577 | 2,468 | 2,592 | - | 45,590 |
| Disposals/retirements | ( 1) | ( 1) | ( 11) | ( 19) | ( 1) | - | ( 33) |
| 31 December 2010 | 13,715 | 440,515 | 627,443 | 101,583 | 53,551 | - | 1,236,807 |
| **Net book values:** | | | | | | | |
| 31 December 2010 | 103,079 | 190,684 | 278,887 | 16,734 | 18,364 | 38,046 | 645,794 |
| 31 December 2009 | 102,857 | 190,190 | 256,808 | 18,085 | 19,361 | 43,298 | 630,599 |

## 10. Property, plant & equipment (continued)

(a) Land, buildings and land rights include land, at cost or valuation, aggregating approximately $73.9 million (2009: $73.7 million). Land was revalued during 2008 resulting in a revaluation surplus of $41.3 million.

(b) Interest capitalised during construction for the year amounted to approximately $1.4 million (2009: $1.1 million). The capitalisation rate used for the year was 4.435% (2009: 3.887%).

(c) The composite rate of depreciation for the year was approximately 4.2% (2009: 4.1%).

## 11. Intangible assets

This represents acquired software costs capitalised as follows:

| | **2010** | **2009** |
|---|---|---|
| | $'000 | $'000 |
| **Cost:** | | |
| At beginning of year | 6,754 | 4,892 |
| Additions | 700 | 1,515 |
| Adjustment | - | 347 |
| At end of year | 7,454 | 6,754 |
| **Amortisation:** | | |
| At beginning of year | 1,857 | 885 |
| Charge for the year | 458 | 405 |
| Adjustment | - | 567 |
| At end of year | 2,315 | 1,857 |
| **Net book value** | 5,139 | 4,897 |

Additions include projects-in-progress at 31 December 2010 aggregating $0.4 million (2009: $0.3 million).

## 12. Employee benefits

### (a) Defined benefit pension plan

The company administers a defined-benefit pension plan for its permanent employees. The assets of the plan are under the control of trustees and are managed by certain approved investment fund managers. Administrative services are provided by Sagicor Life of Jamaica Limited.

#### (i) Employee benefits (defined benefit pension plan):

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Present value of funded obligations | (47,521) | (29,660) |
| Fair value of plan assets | 92,135 | 73,784 |
| Unrecognised amount due to limitation | (22,307) | (22,062) |
| Asset recognised in statement of financial position | 22,307 | 22,062 |

#### (ii) Movements in funded obligations:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Balance at beginning of year | (29,660) | (55,241) |
| Benefits paid | 4,429 | 1,739 |
| Current service and interest costs | ( 6,748) | (9,329) |
| Annuities purchased | 349 | 21,193 |
| Gain (loss) on curtailment/settlement | 413 | (4,443) |
| Actuarial (loss) gain | (16,118) | 10,794 |
| Exchange (loss) gain | ( 186) | 5,627 |
| Balance at end of year | (47,521) | (29,660) |

## 12. Employee benefits (continued)

### (a) Defined benefit pension plan (continued):

#### (iii) Movements in plan assets:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Fair value of plan assets at beginning of year | 73,784 | 97,832 |
| Contributions paid | 3,826 | 923 |
| Expected return on plan assets | 11,400 | 11,529 |
| Benefits paid | ( 4,429) | (1,739) |
| Annuities purchased (1) | ( 349) | (10,324) |
| Annuities purchased (2) | - | (10,867) |
| Refund to company | ( 349) | (10,324) |
| Actuarial gain | 5,040 | 6,724 |
| Exchange gain (loss) | 3,212 | (9,970) |
| Fair value of plan assets at end of year | 92,135 | 73,784 |

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Plan assets consist of the following: | | |
| Equities | 27,123 | 14,360 |
| Fixed income securities | 65,012 | 56,403 |
| Real estate | - | 3,021 |
| | 92,135 | 73,784 |

#### (iv) Expense (credit) recognised in the statement of comprehensive income:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Current service costs | 1,474 | 1,877 |
| Interest on obligations | 4,784 | 6,810 |
| Expected return on plan assets | (11,400) | (11,529) |
| Net actuarial loss (gain) recognised during the year | 11,077 | (17,520) |
| Past service costs | | - |
| Annuities purchased (1) | ( 349) | (10,324) |
| (Gain) loss on curtailment /settlement | ( 413) | 4,443 |
| Total expense (credit) | 5,173 | (26,243) |
| Net credit recognised due to limitation | 2,587 | (13,122) |
| Actual return on plan assets | 16,440 | 18,253 |

## 12. Employee benefits (continued)

### (a) Defined benefit pension plan (continued):

The credit is recognised in operating & maintenance, selling, general & administrative expenses in the statement of comprehensive income.

**(v) Principal actuarial assumptions at the statement of financial position date (expressed as weighted averages):**

| | 2010 | 2009 |
|---|---|---|
| Discount rate | 11% | 16.0% |
| Expected return on plan assets | 10% | 15.0% |
| Future salary increases | 7% | 10.0% |
| Future pension increases | 2% | 4.0% |

Assumptions regarding future mortality are based on PA(90)M and PA(90)F tables with ages reduced by six years. The expected long-term rate of return is based on the assumed long-term rate of inflation.

The company's estimated contribution for the 12 months subsequent to the year end is $1.9 million.

### (b) Other employee benefit obligations:

(i) Other employee benefit obligations comprise:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Accumulated sick and vacation pay | 8,253 | 8,465 |

(ii) Prior to 2009, other employee benefit obligations included post-employment medical and life insurance. These obligations were discharged in 2009 as follows:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Balance at beginning of year | - | 9,168 |
| Income recognised in the statement of comprehensive income | - | (8,282) |
| Exchange gains | - | ( 886) |
| Balance at end of year | - | - |

## 12. Employee benefits (continued)

### (c) Historical information

#### (i) Defined benefit pension plan:

| | 2010 $'000 | 2009 $'000 | 2008 $'000 | 2007 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| Present value of the defined benefit obligations | (47,521) | (29,660) | (55,241) | (49,149) | ( 50,165) |
| Fair value of plan assets | 92,135 | 73,784 | 97,832 | 122,174 | 116,281 |
| Surplus | 44,614 | 44,214 | 42,591 | 73,025 | 66,116 |
| Experience adjustments arising on plan liabilities | ( 1,122) | ( 1,629) | ( 2,201) | ( 1,813) | ( 2,116) |
| Experience adjustments arising on plan assets | 5,040 | 6,724 | (20,838) | 2,235 | 6,101 |

#### (ii) Post-employment medical and life insurance obligation benefit:

| | 2010 $'000 | 2009 $'000 | 2008 $'000 | 2007 $'000 | 2006 $'000 |
|---|---|---|---|---|---|
| Present value of the post-employment benefit obligation | - | - | 8,218 | 8,746 | 8,889 |
| Experience adjustments arising on plan liabilities | - | - | 792 | 1,055 | 188 |

### (d) Defined contribution pension plan:

The company's contribution to the defined contribution pension plan for the year aggregated $334,000 (2009: $408,000). These are recognised in operating & maintenance, selling, general and administrative expenses in the statement of comprehensive income.

## 13. Share capital

Authorised:

Ordinary share capital:

| | |
|---|---|
| 315,733,190 | Ordinary stock units at no par value |
| 30,000,000,000 | Ordinary shares at no par value |
| 30,315,733,190 | |

Cumulative preference shares of no par value

| | |
|---|---|
| 567,000 | 7% "B" shares |
| 66,500 | 5% "C" shares |
| 1,049,000 | 5% "D" shares |
| 514,000 | 6% "E" shares |
| 2,196,500 | |

| | | **2010** $'000 | **2009** $'000 |
|---|---|---|---|
| Stated capital: | | | |
| Issued and fully paid: | | | |
| Ordinary share capital: | | | |
| 315,733,190 | Ordinary stock units | 5,684 | 5,684 |
| 21,512,462,056 | Ordinary shares | 256,102 | 256,102 |
| 21,828,195,246 | | 261,786 | 261,786 |
| Cumulative preference shares: | | | |
| 420,000 | 7% "B" shares | 38 | 38 |
| 66,500 | 5% "C" shares | 6 | 6 |
| 680,000 | 5% "D" shares | 61 | 61 |
| 300,000 | 6% "E" shares | 27 | 27 |
| 1,466,500 | | 132 | 132 |
| | | 261,918 | 261,918 |

## 13. Share capital (continued)

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 Jamaican Companies Act (the Act) requires that all preference shares be included in the statement of financial position 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. Capital reserve

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Revaluation surplus | 41,357 | 41,357 |

This represents the net surplus arising on the revaluation of land during the previous financial year.

## 15. Customer deposits

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Customer deposits for electricity service (i) | 18,745 | 17,549 |
| Customer advances for construction (ii) | 10,088 | 10,370 |
| | 28,833 | 27,919 |

(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.

## 16. Long-term loans

| | | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|---|
| (a) | Kreditanstalt fur Weideraudfbau of Frankfurt/ Government of Jamaica (KFW/GOJ), 7% fixed rate, repayable 2030 [€3.9 million] | 5,150 | 5,548 |
| (b) | International Finance Corporation (IFC) variable rate, repayable 2015 [$45 million] | 25,000 | 30,000 |
| (c) | International Finance Corporation (IFC) variable rate, repayable 2020 [$20 million] | 19,264 | - |
| (d) | National Commercial Bank 13.25% fixed rate, repayable 2012 [J$3.6B] | 22,095 | - |
| (e) | Deutsche Bank as trustees of the holders of the 11% Senior notes due 2016 [$180 million] | 175,176 | 174,578 |
| (f) | FirstCaribbean International Bank (FCIB) variable rate, repayable 2012 [$35 million] | 29,052 | 34,470 |
| (g) | Espirito Santo Bank 6.5% fixed rate, repayable 2015[$2.453 million] | 2,326 | - |
| (h) | NCB Syndicated Loan variable rate, repayable 2012 [$5.9 million] | 4,976 | 5,814 |
| (i) | First Global Financial Services 11% fixed rate, repayable 2010 [$12.6 million] | - | 12,605 |
| (j) | First Global Financial Services 10.4% fixed rate, repayable 2011 [$11.5 million] | 11,452 | 11,373 |
| (k) | Peninsula Corporation 7.9% fixed rate, repayable 2012 [$14.95 million] | 14,950 | - |
| (l) | Citibank NA 7.15% fixed rate, repayable 2012 [$5 million] | 5,000 | - |
| (m) | Export Development Canada variable rate, repayable 2015 [$2.155 million] | 2,155 | - |
| | | 316,596 | 274,388 |
| | Less: Current portion | ( 24,317) | ( 24,175) |
| | | 292,279 | 250,213 |

[These amounts represent the original principal value of loans received.]

## 16. Long-term loans (continued)

(a) 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.

(b) This loan is repayable in eighteen semi-annual instalments of $2,500,000, which commenced 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, 2010, the rate so determined was 6.51% (2009: 6.78%). The loan is secured by the assets of the company.

(c) This loan is unsecured and repayable in eighteen semi-annual instalments of $1,111,111, commencing March 2012. The variable interest rate is based on LIBOR plus 5%, and the rate so determined as at 31 December 2010 was 5.303%. Interest is paid semi-annually commencing March 2011. The amount due is stated net of debt issuance costs of $736,000 associated with the issue.

(d) This is an unsecured loan which is repayable in full at maturity on May 31, 2012. The 13.25% fixed interest is repayable in quarterly instalments. The amount due is stated net of debt issuance costs of $34,000 associated with the issue.

(e) This represents unsecured 11% Senior Notes issued on the US bond market and is tradable in Portal, a subsidiary of Nasdaq Stock Market, Inc. The Notes are payable in full on maturity at 6 July 2016. Interest payments are to be made on 6 January and 6 July annually with record dates of 23 December and 22 June, respectively, and interest rates of 11% for 180/360 of principal amounts outstanding as at record dates. No collateral is required. Prior to 2009, 35% of principal may be redeemed due to an equity offering; change of control and/or special mandatory redemption.

The amount due in respect of Senior Notes is stated net of debt issuance costs associated with the issue, as follows:

| | **2010** $'000 | **2009** $'000 |
|---|---|---|
| **Cost:** | | |
| At beginning of year | 6,871 | 5,882 |
| Additions/ adjustment | - | 989 |
| At end of year | 6,871 | 6,871 |
| **Amortisation:** | | |
| At beginning of year | 1,449 | 994 |
| Amortisation charge for the year, net | 598 | 455 |
| At end of year | 2,047 | 1,449 |
| | 4,824 | 5,422 |

**16. Long-term loans (continued)**

(f) This loan is repayable in four (4) semi-annual instalments of $2.8M and the balance at maturity. As at 31 December 2010, the interest rate determined was 9.25%. No collateral is required. The amount due is stated net of debt issuance costs of $348,000 associated with the issue.

(g) This is an unsecured loan facility for which the utilization of the funds was restricted to capital expenditure on goods originating in the United States. The amounts were drawn down on various dates. Principal and interest are repayable semi-annually for each draw-down. The balance will be fully paid in August 2015. The amount due is stated net of debt issuance costs of $452,000 associated with the issue.

(h) This loan is repayable in semi-annual instalments of $421K and the balance at maturity. As at 31 December 2010, the rate determined was 9.09%. No collateral is required. The amount due is stated net of debt issuance costs of $81,000 associated with the issue.

(i) This loan was unsecured and repayable in full at maturity. The 11% fixed interest was repayable in six (6) quarterly instalments until December 2010.

(j) This loan is unsecured and repayable in full at maturity. The 10.4% fixed interest is payable in eight (8) quarterly instalments until December 2011. The amount due is stated net of debt issuance costs of $98,000 associated with the issue.

(k) This loan is unsecured and repayable by bullet payment at maturity. The 7.9% fixed interest is payable in quarterly instalments until March 2012.

(l) This loan is unsecured with principal and interest repayable in full at maturity on 12 January 2012.

(m) This loan is unsecured and attracts interest at the rate of 6 month LIBOR plus 1.60%. The utilization of the funds was restricted to capital expenditure on goods originating in Canada. The principal amounts were drawn on various dates with interest and principal repayable semi-annually for each draw-down. The interest rate as at December 31, 2010 was 2.0588%.

Appropriate waivers relating to mandatory redemptions arising from change of control were received in respect of certain loans during the previous year.

## 17. Deferred taxation

Deferred tax (liabilities) assets relate to:

| | Balance at 1 January 2010 $'000 | Recognised in statement of comprehensive income $'000 | Balance at 31 December 2010 $'000 |
|---|---|---|---|
| Employee benefits, net | ( 4,533) | (152) | (4,685) |
| Accounts receivable | 506 | (236) | 270 |
| Accounts payable and provisions | 5,781 | ( 22) | 5,759 |
| Unrealised foreign exchange gains | ( 571) | 130 | ( 441) |
| Property, plant & equipment | (62,488) | 753 | (61,735) |
| Unamortised debt issuance costs | ( 2,071) | (120) | ( 2,191) |
| | (63,376) | 353 | (63,023) |

## 18. Operating revenue

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

## 19. Disclosure of expenses (income) and related party transactions

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

| | 2010 $'000 | 2009 $'000 |
|---|---|---|
| Directors' remuneration: | | |
| Fees | 41 | 50 |
| Emoluments | 260 | 246 |
| Pensions to former managing directors | 7 | 7 |
| Compensation for key management: | | |
| Short term benefits | 2,406 | 1,102 |
| Staff costs | 71,638 | 52,728 |
| Audit fees (including GCT): | | |
| Current year | 166 | 112 |
| Prior year | 46 | 70 |
| Depreciation and amortisation | 46,015 | 43,136 |
| Pension expense (credit) | 3,356 | (21,404) |

(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 $1.5 million (2009: $1.2 million). All the above transactions were executed in the ordinary course of business.

## 20. Net finance costs

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Foreign exchange gains (losses), net | 7,207 | ( 9,414) |
| Other finance costs: | | |
| Short-term loans | ( 2,835) | ( 4,358) |
| Long-term loans | (31,925) | (27,799) |
| Customer deposits | ( 2,806) | ( 2,025) |
| Bank overdraft and other | (834) | ( 570) |
| Debt issuance costs and expenses | ( 2,679) | ( 1,534) |
| | (41,079) | (36,286) |
| Finance income: | | |
| Interest income | 1,124 | 1,601 |
| Interest capitalised during construction (note 11) | 1,360 | 1,065 |
| | 2,484 | 2,666 |
| | (31,388) | (43,034) |

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

## 21. Other income and expenses

(a) Other income comprises:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Rental income | 444 | 371 |
| Insurance proceeds | 2,120 | 301 |
| Refund of surplus in IPP Debt Service Reserve Account | - | 2,708 |
| Post Retirement Benefit Obligation discharged | - | 8,282 |
| Miscellaneous proceeds from scrap sales and other settlements | 2,378 | 6,402 |
| | 4,942 | 18,064 |

## 21. Other income and expenses (continued)

(b) Other expenses comprise:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Restructuring cost | (7,000) | - |
| Hurricane restoration costs | (1,089) | - |
| Miscellaneous expenses | ( 375) | (999) |
| | (8,464) | (999) |

## 22. Taxation

(a) Taxation is computed at 33⅓% of the company's results for the year, adjusted for tax purposes and comprises:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Current income tax expense | (16,894) | ( 9,712) |
| Prior year under-accrual | ( 1,823) | - |
| Origination and reversal of temporary differences | 353 | ( 3,753) |
| Benefit of tax losses recognised | - | ( 1,205) |
| Taxation expense | (18,364) | (14,670) |

(b) Reconciliation of tax expense:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Profit before taxation | 58,373 | 56,889 |
| Computed "expected" tax @ 33⅓% | (19,458) | (18,963) |
| Tax effect of differences between profit for financial statements and tax reporting purposes in respect of: | | |
| Investment allowances | 3,821 | 3,487 |
| Prior year under-accrual | ( 1,823) | - |
| Other disallowed items | ( 904) | 806 |
| Taxation expense | (18,364) | (14,670) |

## 23. Earnings per share/stock unit

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Profit for the year | 40,009 | 42,219 |
| Less: Preference dividends (see note 24) | ( 3) | ( 2) |
| | 40,006 | 42,217 |
| Number of shares/stock units [shown in thousands (see note 13)] | 21,828,195 | 21,828,195 |
| Earnings per share/stock unit | 0.18¢ | 0.19¢ |

## 24. Dividends

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Ordinary dividends: | | |
| Interim dividend declared | 44,000 | 28,000 |
| Preference dividends: | | |
| 5-7% Cumulative preference shares (see notes 13 and 23) | 3 | 2 |
| | 44,003 | 28,002 |
| Ordinary dividend per share /stock unit | 0.202 ¢ | 0.128 ¢ |

The preference dividends were paid on a quarterly basis in both years.

## 25. Commitments

Commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately $4 million (2009: $6 million).

In addition to its commitments under IPP contracts (see note 4), the company had unexpired operating lease commitments at 31 December 2010 payable as follows:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| Within 1 year | 8,693 | 8,521 |
| From 1-2 years | 9,498 | 8,681 |
| From 2-3 years | 9,872 | 9,488 |
| From 3-4 years | 152 | 9,862 |
| From 4-5 years | 152 | 142 |
| Over 5 years | 3,944 | 4,268 |
| | 32,311 | 40,962 |

## 25. Commitments (continued)

Lease payments under operating leases including IPP contracts (see note 4) recognised in the statement of comprehensive income for the year aggregated approximately $71.8 million (2009: $80.7 million).

## 26. Contingent liabilities

The company was contingently liable at 31 December 2010 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 31 December 2010, a provision of $0.7 million (2009: $0.9 million) was made (see note 9) in accordance with the recommendation of the company's attorneys or based on management's best estimate.

## 27. Financial instruments

### (a) Financial risk management:

The company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the company's exposure to each of the above risks arising in the ordinary course of the company's business, the company's objectives, policies and processes for measuring and managing risk, and the company's management of capital.

The Board of Directors, in managing the business of the company, oversees the company's risk management framework. Key management has responsibility for monitoring the company risk management policies in their specified areas and report quarterly to the Board of Directors on their activities.

The company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk limits and controls, and to monitor risk and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions. The company, through training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

## 27. Financial instruments (continued)

### (a) Financial risk management (continued)

The company's parent company has monitoring oversight of the risk management policies and is assisted in these functions by the company's internal audit department. The internal audit department undertakes both regular and ad-hoc reviews of risk management controls and procedures, the result of which are reported to the Board of Directors.

#### (i) Credit risk:

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the company's trade receivables, 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.

The company establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. The loss allowance is determined based on historical payment statistics for similar financial assets and an assessment of the debtor's ability to settle debt.

At 31 December 2010, the company had significant concentrations of credit risk in respect of amounts receivable from the Government of Jamaica and its affiliates aggregating $24.98 million (2009: $26.27 million).

#### (ii) 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 company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

## 27. Financial instruments (continued)

### (a) Financial risk management (continued)

#### (ii) Liquidity risk (continued)

Key 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. For example, the company's treasury department receives and monitors information from other departments regarding the liquidity profile of their financial assets and liabilities and maintains a portfolio of short-term liquid assets and loans to ensure that sufficient liquidity is maintained within the company as a whole. As at 31 December 2010, the company had unutilised lines of credit aggregating $36 million (2009: $28 million).

An analysis of the contractual maturities of the company's financial liabilities is presented below. The analysis provided is by estimating timing of the amounts recognised in the statement of financial position.

| | Contractual undiscounted cash flows | | | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying Amount | Total cash outflow | Less than 1 year | 1-2 years | 3-5 years | 6-10 years | More than 10 years |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **31 December 2010:** | | | | | | | |
| Accounts payable and provisions | 128,696 | 128,696 | 128,696 | - | - | - | - |
| Loans | 343,237 | 343,237 | 50,958 | 73,717 | 30,060 | 185,728 | 2,774 |
| Due to related companies | 41 | 41 | 41 | - | - | - | - |
| Customer deposits | 28,833 | 28,833 | - | - | - | 6,761 | 22,072 |
| Total financial liabilities | 500,807 | 500,807 | 179,695 | 73,717 | 30,060 | 192,489 | 24,846 |
| **31 December 2009:** | | | | | | | |
| Accounts payable and provisions | 115,975 | 115,975 | 115,975 | - | - | - | - |
| Loans | 322,246 | 322,246 | 72,033 | 23,249 | 43,782 | 179,214 | 3,968 |
| Due to related companies | 154 | 154 | 154 | - | - | - | - |
| Customer deposits | 27,919 | 27,919 | - | - | - | 6,454 | 21,465 |
| Total financial liabilities | 466,294 | 466,294 | 188,162 | 23,249 | 43,782 | 185,668 | 25,433 |

Contracted off-balance cash payments in respect of independent power purchase agreements are disclosed in note 25.

## 27. Financial instruments (continued)

### (a) Financial risk management (continued)

#### (iii) Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the company's assets, the amount of its liabilities and/or the company's income. Market risk arises in the company due to fluctuations in the value of assets and liabilities.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the company's exposures to market risks and its objectives, policies and processes for managing these risks have not changed significantly over the prior period. For each of the major components of market risk the company has policies and procedures in place which detail how each risk is managed and monitored. The management of each of these major components of market risk and the exposure of the company at the reporting date to each major risk are addressed below.

Derivative financial instruments are not presently used to reduce exposure to fluctuations in interest and foreign exchange rates.

At 31 December 2010, the company had no exposure to market risk relating to changes in equity prices.

- *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 contracts financial liabilities at fixed or floating interest rates. These primarily relate to loans, customer deposits, certain trade payables and bank overdrafts.

  The maturity profiles and interest rates of the company's long-term loans are disclosed in note 16, the details of short-term loans in note 8 and of customer deposits in note 15.

  Interest bearing financial assets relate to cash and cash equivalents and repurchase agreements.

## 27. Financial instruments (continued)

### (a) Financial risk management (continued)

#### (iii) Market risk (continued)

- *Interest rate risk (continued):*

At 31 December 2009, the interest profile of the company's interest-bearing financial instruments was:

| | Carrying amount | |
|---|---|---|
| | **2010** | **2009** |
| | $'000 | $'000 |
| Fixed rate instruments: | | |
| Financial assets | 18,933 | 18,820 |
| Financial liabilities | (236,149) | (238,738) |
| Variable rate instruments: | | |
| Financial liabilities | (125,833) | (101,057) |

Fair value sensitivity analysis for fixed rate instruments:

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect the statement of comprehensive income.

Cash flow sensitivity analysis for variable rate instruments:

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

| | **2010 Effect on profit or loss** | | **2009 Effect on profit or loss** | |
|---|---|---|---|---|
| | 100bp increase | 100bp decrease | 100bp increase | 100bp decrease |
| Cash flow sensitivity (net) | (1,258) | 1,258 | (1,011) | 1,011 |

## 27. Financial instruments (continued)

### (a) Financial risk management (continued)

#### (iii) Market risk (continued)

- *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 United States dollar. The currencies giving rise to significant foreign currency risk are the Jamaica dollar (J$) and Euro (€).

  The company manages foreign exchange exposure by maintaining adequate liquid resources in appropriate currencies and by managing the timing of payments on foreign currency liabilities.

  The table below shows the company's foreign currency exposure, at the statement of financial position date:

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | J$ | € | US$ | J$ | € | US$ |
| | $'000 | $'000 | $'000 | $'000 | $'000 | '000 |
| Cash and cash equivalents | 542,734 | - | 6,321 | 84,868 | - | 947 |
| Trade and other receivables | 19,215,673 | - | 223,799 | 19,030,903 | - | 212,398 |
| Accounts payable and provisions | ( 4,078,527) | (2,325) | ( 50,623) | (2,191,826) | (2,027) | (27,362) |
| Long-term loans | (1,900,000) | (3,879) | ( 27,279) | - | (3,879) | (5,548) |
| Customer deposits | (2,475,555) | - | ( 28,833) | (2,501,548) | - | (27,919) |
| | 11,304,325 | (6,204) | 123,385 | 14,422,397 | (5,906) | 152,516 |

## 27. Financial instruments (continued)

### (a) Financial risk management (continued)

#### (iii) Market risk (continued):

- *Foreign currency risk (continued)*:

  Sensitivity analysis:
  A 5% strengthening of the United States dollar (the company's principal foreign currency) against the Jamaica dollar and the Euro would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Equity** | **Profit/loss** | **Equity** | **Profit/loss** |
| | $'000 | $'000 | $'000 | $'000 |
| J$ | (6,583) | (6,583) | (8,048) | (8,048) |
| Euro (€) | 414 | 414 | 422 | 422 |
| Total | (6,169) | (6,169) | (7,626) | (7,626) |

  A 5% weakening of the United States dollar against the Euro and the Jamaican dollar, respectively, at year end would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### (iv) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the company's processes including regulatory risk, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within the company.

## 27. Financial instruments (continued)

### (b) Capital risk management:

Capital risk is the risk that the company fails to comply with mandated regulatory requirements, resulting in a breach of its operating Licence and the possible adverse effects on its tariff structure in accordance with its Licence (see note 2). The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the operational requirements set by the regulators;
- To safeguard the company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- To maintain creditor and market confidence; and
- To maintain a strong capital base to support the development of its business.

There were no changes in the company's approach to capital management during the year.

### (c) Fair value disclosure:

(i) The amounts reflected in the financial statements for cash and cash equivalents, accounts receivable, related party balances, accounts payable and provisions, and short-term loan are assumed to approximate to their fair values. Long-term loans 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 customer deposits and refundable customer advances cannot practically be determined, as payment dates and amounts are not determinable. However, as customer deposits attract interest rates broadly equivalent to bank savings rates, no fair value adjustment is considered necessary.

## 28. Subsequent event

On 13 January 2011 TAQA re-sold its 50% ownership in MTC to Marubeni Corporation resulting in Marubeni Corporation reverting to its 80% ownership of the company.