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## VISION

We are the people leading the energy revolution, unleashing Jamaica's growth and prosperity.

## MISSION

Through inspired and committed employees and innovative technologies, we deliver an energy solution to empower every Jamaican, fuel the growth of businesses, and support national development.

## Corporate Profile

Jamaica Public Service Company Limited (JPS) is an integrated electric utility company and the sole distributor of electricity in Jamaica. The Company is engaged in the generation, transmission and distribution of electricity, and also purchases power from seven Independent Power Producers.

In April 2011, Marubeni Corporation entered into a Purchase and Sale Agreement with Korea East-West Power (EWP), for joint ownership of majority shares (80%) in the Jamaica Public Service Company Ltd (JPS). The Government of

Jamaica and a small group of minority shareholders own the remaining shares.

During 2017, JPS incorporated a new subsidiary, South Jamaica Energy Holdings Limited, through which the Company holds investments in other projects.

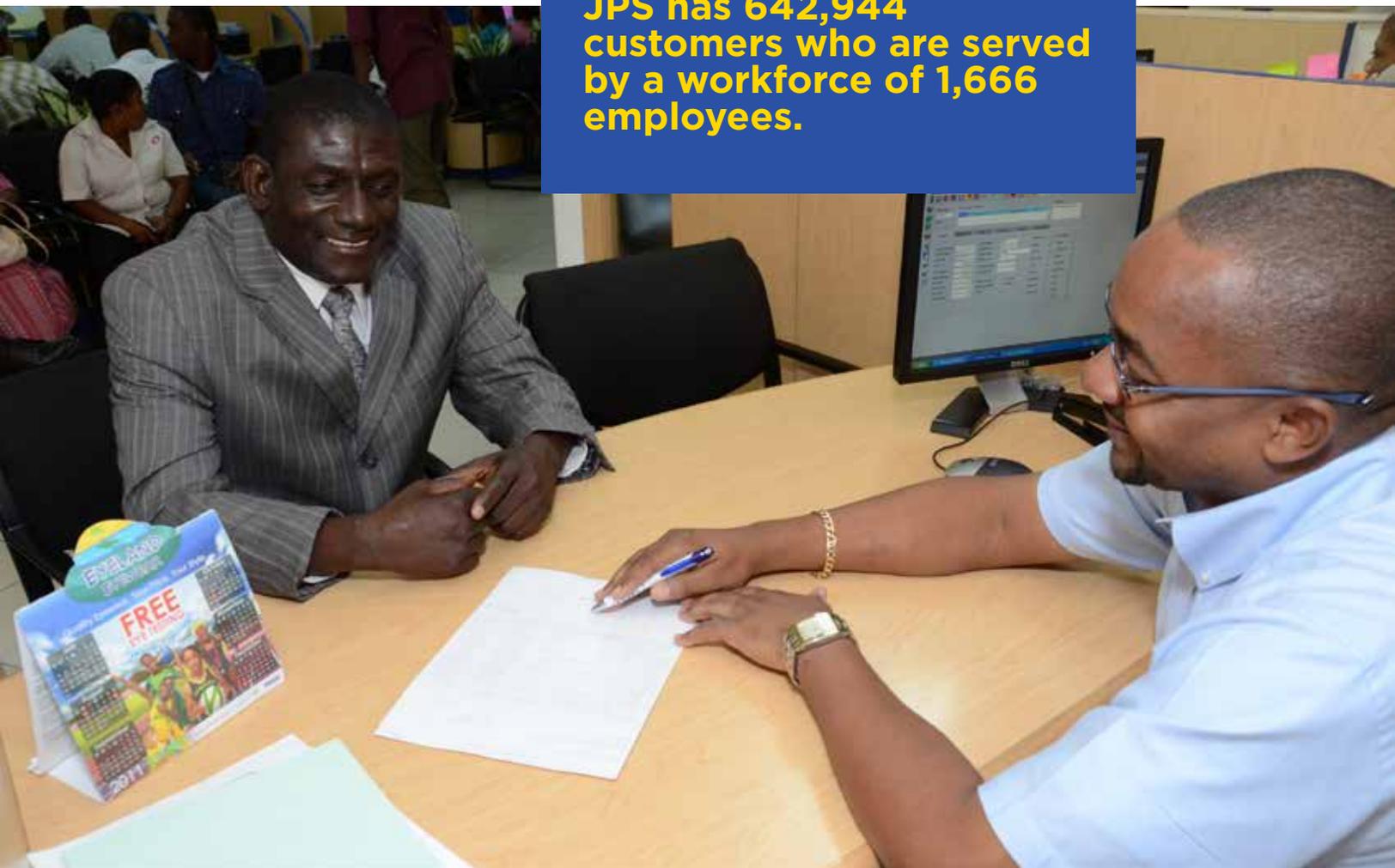
JPS currently has 642,944 customers who are served by a workforce of 1,666 employees.

The Group owns and operates: 4 power stations, 9 hydroelectric plants, and 1 wind farm.

Along with the provision of electricity, JPS is a key partner in national development. The Group has a vibrant corporate social responsibility portfolio and makes significant contributions in the areas of education and youth development. JPS also has a strong environmental focus and carries out its operations in an environmentally friendly manner.

The Office of Utilities Regulation (OUR), is the independent regulatory agency with responsibility for the electricity sector.

**JPS has 642,944 customers who are served by a workforce of 1,666 employees.**



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Bogue Power Plant

Like many other utilities around the world, in 2017 JPS faced the effects of continued disruptions in the energy industry, with the emergence of new technologies, and changing customer behaviour. It was a year of transition for JPS, as we positioned ourselves to negotiate the changes in the industry as well as the changes in our own operating environment. Despite the challenges, JPS made significant headway in executing on our strategy to support national development through fuel diversity, smart grid technology and the provision of unique customer solutions.

## Financial Performance

In 2017, JPS achieved a net profit of \$24.2 Million, which was a marginal increase of \$0.2 Million over the previous year. A combination of factors contributed to the relatively flat performance, which was below projections for the period.

Earnings from operating revenues increased by \$124.3 million or 17% to \$836.9 million in comparison to 2016, primarily as a result of a 32% increase in fuel costs recovered from customers as well as a 1% increase in energy sales. Cost of sales for the year was \$549.0 million. This represented an increase of \$121.2 million or 28% compared to 2016, mainly as a result of the increase in the price of fuel during the period. Actual production (net generation) for 2017 was 4,363 GWh, representing a marginal increase of 0.3% when compared to the 4,349 GWh produced in 2016. The Group was able to benefit from a slight decrease in system losses over the prior year, with losses in 2017 being 26.5% of net generation as opposed to 26.9% for 2016.

However, there was a 4% increase in operating expenses (excluding depreciation and amortisation expenses), which moved from \$142.7 million in the 2016 to \$149.0 million in 2017. As a result, earnings before interest, tax, depreciation and amortisation decreased by 2%, to \$138.9 million in 2017 from \$142.0 million in 2016. Depreciation and amortisation expenses decreased over the prior year, from \$77.6 million to \$76.6 million. This resulted in total operating expenditure of \$225.6 million being incurred in 2017, compared to \$220.3 million in 2016.

Of note, is the fact that net finance costs decreased by 12%, from \$39.8 million in 2016 to \$34.9 million in 2017. The reduction in net finance costs were primarily as a result of the revaluation of the Jamaican dollar against its US dollar counterpart.

However, the resulting gains were offset by an increase in loan financing expenses due to an increase in the loan portfolio during the year.

Taxation expense for 2017 was \$5.4 million, compared to \$8.9 million in 2016. This was primarily due to JPS benefitting from an increase in tax investment allowances earned as a result of the increased capital expenditure for the year.

## Capital Investment

During 2017, JPS continued to demonstrate its commitment to the modernisation of our Generation, Transmission and Distribution assets, with capital expenditure reaching its highest level, exceeding \$110 million for the year. As part of our strategy to strengthen the grid and lay the foundation for future developments, JPS intentionally went over and above anything that had been done before, to ensure that we would be able to further improve on the quality of the service delivered to customers, and to benefit from even greater efficiencies in our operations.

The Group's investment in its power plants, including the Bogue Power Plant in St. James, and the Rockfort Power Plant in Kingston, will facilitate even greater efficiencies in its generation operations in the future. JPS also invested in the installation of 36,000 LED streetlights across the country, significantly improving lighting on public thoroughfares. Investments were also made in building out a smarter grid network; upgrading the Duncans Substation on the northern side of the island; implementing voltage upgrade initiatives in several parishes; and in the installation of more Distribution Automation switches on the national grid, among other projects to enhance service reliability.

## More Fuel Diversification

During the year, JPS incorporated a new subsidiary, South Jamaica Energy Holdings Limited (SJEH), through which it increased its investment in South Jamaica Power Company Limited (SJPC). SJPC is a joint venture with MaruEnergy JPSCO 1 SRL, EWP (Barbados) 1 SRL and the Petrocaribe Development Fund, for the construction and operation of a 190MW power plant at Old Harbour Bay. The groundbreaking for this new power plant on Jamaica's south coast, was a key milestone for JPS, and for the country's fuel diversification plans.

The new plant will operate on Natural Gas (NG), and will play a pivotal role in reducing Jamaica's dependence on oil for electricity generation. The inclusion of NG in the fuel mix for power generation is expected to result in the stabilisation of fuel costs over the long term, while enhancing energy security and the integration of more renewables on the grid. The improved technology will lower generation costs, as well as Jamaica's exposure to the volatility of world oil prices. The natural gas plant will replace some of the generating units that operate on heavy fuel oil, resulting in much cleaner and more environmentally-friendly energy.

JPS signed two Power Purchase Agreements (PPAs) during the year, to facilitate even greater fuel diversification. The Group signed a PPA with New Fortress South Power Holdings, for the purchase of electricity from a new NG-fired 94MW power plant to be built in central Jamaica. A partnership was also established with Eight Rivers Energy Company for the purchase of power from a new 37MW Solar Power Plant, being built in western Jamaica.

## Generation Performance

In the meantime, JPS continued its drive to improve efficiency across its operations. This resulted in the Generation operations recording Thermal Heat Rate at 11,330kJ/kWh in 2017, the second lowest annual performance on record - the lowest being 10,822kJ/kWh in 2014. Despite a number of significant forced outages - on JPS units as well as on units belonging to Independent Power Producers (IPPs) - the Generation fleet achieved an equivalent availability factor (EAF) of 87%, meeting the target for the year.

Generation production in 2017 was 4,363,079 MWh, which was 26,655 MWh above target. The increase in generation production can be attributed to the higher than normal temperatures experienced in Jamaica during the summer months. Total production of 490,755 MWh was achieved from hydros, wind and solar. These renewable sources represent 12% of the energy produced for the grid in 2017, with JPS accounting for approximately half of the total renewables produced.

## Improved Reliability

JPS delivered more reliable power to our customers in 2017, when compared to 2016. There was a 7% improvement in System Average Interruption Duration Index (SAIDI) and a 5% improvement in System Average Interruption Frequency Index (SAIFI), as a result of a number of targeted initiatives. The focus was primarily on increased automation and greater utilisation of technology across the Energy Delivery operations. JPS continued the roll-out of Distribution Automation switches, and accelerated the installation of Single Phase Tripping Reclosers. In addition, Communication-Enabled Fault Circuit Indicators and Dropout Reclosers (Tripsavers II) were installed as part of efforts to improve reliability. Several feeders were targetted for fuse coordination, and 330 kilometres of Medium Voltage Covered Conductor was installed.

## System Losses

In 2017, JPS made tangible headway in its continuing battle with system losses, ending the year with losses at 26.5%, slightly below the 26.9% losses recorded at the end of 2016.

The fight against system losses in 2017 was primarily aimed at reducing Non-Technical Losses (NTL). Several initiatives were implemented to aid in the reduction of NTL, including: RAMI, CAMI, Smart Meter, and Total Meter installations. These initiatives were coupled with the Advanced Automated Theft Detection Analytical Tool (AATDAT) to assist in directing the various operations of the Strike Force Team.

The Total Meter project will play a pivotal role in the medium- to long-term plan to reduce losses. The plan is to install 'Total' meters (sub-feeder meters) at each pole-mounted transformer location so that the level of losses can be measured and analysed. This project was part of the overall strategy of using measurements and empirical data to identify and target losses in a more manageable way. Over 1,000 sub-feeder meters were installed in 2017, with the early payoffs including: more targetted investigations and audits; increased probability of effectively finding and correcting irregularities; and better tracking and monitoring of energy losses through breach detection.

The intention is to make greater use of analytics in the fight against losses. With the creation of a smarter grid network, JPS will be better able to capitalize on the opportunities for loss reduction presented by the advanced technology infrastructure.

During the year, JPS completed its Community Renewal projects in five high-loss communities, which were targetted primarily because of the challenging socio-economic circumstances faced by the residents. The completed projects were in communities in the parishes of Kingston, St Catherine, and Westmoreland. These included Majesty Gardens, Ellerslie Gardens, Tawes Meadows, Russia Ph1 and Goldsmith Villa. More than 1,300 new customers were connected, with Billed Sales in these communities amounting to approximately 1,331 MWh.

## Service Excellence & Stakeholder Engagement

Throughout 2017, JPS continued its efforts to improve the customer experience through the introduction and expansion of innovative customer solutions. As at the end of 2017, more than 5,000 persons were actively using the new prepaid service, which many found to be an effective energy management tool. JPS provided more ways for customers to get information, through a range of channels that were not only convenient, but also at a reduced cost to both customers and to JPS. These included the JPS Mobile App, as well as online communication channels.

JPS made a concerted effort to reach out to customers and form partnerships with key groups, in order to increase customer engagement and get feedback on areas for improvements. Our efforts resulted in the organization winning six awards in the annual Private Sector Organization of Jamaica and the Jamaica Customer Service Association (PSOJ/ JaCSA) Awards. These included the Large Company Award for Service Excellence.

Our focus on energy education and the development of Jamaica's youth continued through the work of the JPS Foundation. More than 2,000 students were engaged through the Foundation's Energy Education programme, which targeted secondary and tertiary levels. More than 400 JPS Volunteers on Location to Serve (VOLTS) contributed 1,852 hours to community projects across the island.

## Business Development

JPS took a bold step in 2017 in establishing a Business Development Division, as part of our core strategy to provide every type of energy solution, whether traditional, renewable, or co-generative in nature, as well as to support energy efficiency programmes that enable customers to save. Today's customers expect solutions that address their need for reliable and more affordable energy. JPS' failure to appropriately respond to these needs will result in a loss of customer value. The Business Development arm of JPS therefore serves the purpose of identifying additional ways to serve our market, to provide a wider range of options for energy use and to drive innovative pursuits that will grow our business.

## Realignment for Greater Efficiency

In the latter half of 2017, we turned our attention to delivering even greater value to our customers through improved efficiencies in our operations. A number of changes were made to the organization structure, which has placed JPS in a position to deliver better value to shareholders, customers and other stakeholders. The realignment exercise has resulted in a structure that addresses the needs of the business at this time, while ensuring cleaner lines of business.

We give our commitment to all our stakeholders that we will stay focused on energy security, affordability and sustainability, as we work to support Jamaica's National Energy Policy and long-term development plans.



Seiji Kawamura  
Chairman

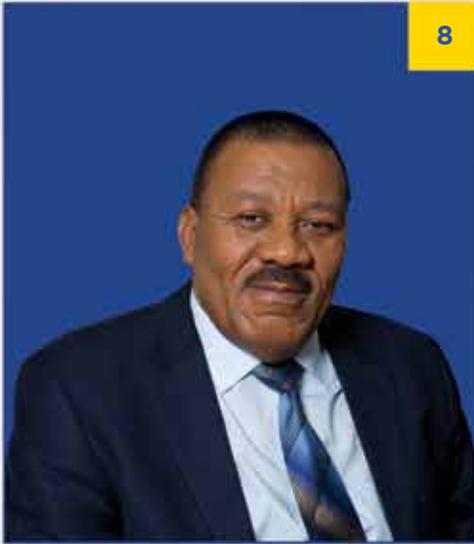


Emanuel DaRosa  
President & CEO

## Board of Directors



1. Seiji Kawamura - Chairman
2. Chang Sup Jo
3. Masao Imazato
4. Heuiwon Ahn
5. Fitzroy Vidal
6. Hon. Charles Johnston, C.D.
7. Minna Israel



8. Colin Williams
9. Suzette Buchanan
10. Mo Majeed (Alternate Director)
11. Dong Uk Kim (Alternate Director)
12. Ha Kyong Song (Alternate Director)
13. Kengo Aoki (Alternate Director)
14. Tatsuya Ozono (Resigned April 3, 2017)





- 1 - Emanuel DaRosa, President and CEO
- 2 - Gary Barrow, Chief Technology Officer
- 3 - Sheree Martin, Senior Vice President, Business Development
- 4 - Leisa Batiste, Acting Chief Financial Officer
- 5 - Blaine Jarrett, Senior Vice President, Energy Delivery



6 - Joseph Williams, Senior Vice President, Generation and Special Projects

7 - Katherine Francis, General Counsel and Corporate Secretary

Senior Vice President, Safety Risk & Legal

8 - Ramsay McDonald, Senior Vice President, Customer Service

9 - Kelly Tomblin, former President & CEO (Resigned July 7, 2017)

10 - Dan Theoc, former Chief Financial Officer (Resigned November 3, 2017 )

11 - Keith Garvey, former SVP Customer Service & Communication (Resigned November 1, 2017)

# Management Discussion and Analysis

## Results of Operations

(Expressed in United States Dollars)

During 2017, earnings from operating revenues increased by \$124.3 million or 17% to \$836.9 million in comparison to 2016, primarily as a result of a 32% increase in fuel costs recovered from customers as well as a 1% increase in energy sales (3,207 GWh in 2017 as opposed to 3,179 GWh in 2016).

Cost of sales for the year was \$549.0 million, which reflected an increase of \$121.2 million or 28% compared to the prior year. This is mainly as a result of the increase in the price of fuel over the past year. Actual production (net generation) for 2017 was 4,363 GWh as compared to 4,349 GWh in 2016 representing a marginal increase of 0.3%. The Group was able to benefit from a slight decrease in system losses over the prior year, with losses in 2017 being 26.5% of net generation as opposed to 26.9% for 2016.

Based on this performance, the Group has experienced a marginal increase in Gross Profit by 1% with 2017 being \$287.9 million as compared to \$284.7 million for 2016.

During the year, there was a 4% increase in operating expenses (excluding depreciation and amortisation expenses) of \$6.3 million, moving from \$142.7 million in the prior year to \$149.0 million in 2017, which is primarily due to an increase in payroll costs, third party services, bad debt and office and other expenses. As a result, earnings before interest, tax, depreciation and amortisation decreased by 2% to \$138.9 million in 2017 from \$142.0 million in 2016. Depreciation and amortisation expenses decreased over the prior year, from \$77.6 million to \$76.6 million. This has resulted in total operating expenditure of \$225.6 million being incurred in the current year as compared to \$220.3 million in 2016.

Net finance costs decreased by \$4.9 million or 12% from \$39.8 million in 2016 to \$34.9 million in the current year. The reduction in net finance costs were primarily as a result of the revaluation of the Jamaican dollar as compared to the US dollar especially during the second half of the year, resulting in the Group earning \$2.0 million in foreign exchange gains for 2017 as compared to \$4.8 million in foreign exchange losses in the prior year. These gains were offset by an increase in loan financing

expenses due to an increase in the loan portfolio during the year.

Other income earned for the year decreased from \$10.4 million in 2016 to \$4.8 million in 2017. This is primarily as a result of project development fees and a reduction in the provisions made for certain expenses in the prior year which did not recur in 2017.

During the year, the company incorporated a new subsidiary, South Jamaica Energy Holdings Limited (SJEH), through which it increased its investment in South Jamaica Power Company Limited (SJPC). SJPC is a joint venture with MaruEnergy JPSCO 1 SRL, EWP (Barbados) 1 SRL and the Petrocaribe Development Fund, for the construction and operation of a power plant. The plant will be located in Old Harbour and is currently under construction. The Group's share of the loss in the joint venture for the year was approximately \$0.4 million.

Taxation expense for the current year was \$5.4 million as compared to \$8.9 million in 2016. This was primarily due to the Group benefitting from an increase in tax investment allowances earned as a result of the increased capital expenditure for the year. Overall capital expenditure increased from \$62.4 million in 2016 to \$110.6 million for the current year.

Based on the foregoing, the Group has achieved a net profit after tax of \$24.2 million for 2017, representing a marginal \$0.2 million increase over the prior year. These profits result in a return on equity of approximately 6.1% for 2017 which is a reduction over the 6.6% earned in 2016.

## Liquidity

Cash inflows from operating activities decreased from \$117.1 million in 2016 to \$132.1 million in 2017. These cash flows are derived principally from billings to customers, which the Group uses to meet its cash needs for operating expenses, routine capital expenditure, debt service obligations and shareholder returns. These inflows from operating activities were offset by the cash outflows from investing and financing activities. Cash outflows from investing activities increased from \$61.4 million in 2016 to \$123.9 million in 2017 due to the Group's expanded capital investment programme.

Cash outflows from financing activities decreased from \$52.7 million in 2016 to \$7.6 million in 2017, due to additional financing obtained during the period to cover its operational and capital needs.

These cash flows resulted in an improvement in the cash position over the year with net cash & cash equivalents increasing from \$8.7 million in 2016 to \$9.3 million as at December 31, 2017.

## Capital Investment

The Group continues to make significant investments in the modernisation of its generation, transmission & distribution assets. During the year, the Group, increased its level of capital investment to \$110.6 million as compared to \$62.4 million in the prior year. In particular, The Group made significant investments in its roll out of its Smart LED and Smart Metering Programme as well as its enhancement of its transmission and distribution system.

The Group has been able to maintain a strong capital structure with total capitalisation, as measured by Debt and Equity, totaling \$828.8 million as at December 31, 2017 representing an 8% increase over the \$764.3 million in the prior year. The Group's gearing ratio has increased slightly to 46% in 2017 from 45% in 2016. As a result of the increase in the Group's debt portfolio, interest cover decreased during the year from 4.22 times for 2016 to 3.87 times for 2017.

## Risk management

### Overview

JPS has a comprehensive risk management framework to monitor, evaluate and manage the principal risks assumed in conducting its activities, which include credit, liquidity, market and operational risks. Risk is managed through a framework of principles, organisational structures, and risk measurement and monitoring activities that are aligned to the Groups's activities.

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

Board of Directors on their activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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.

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, which is stated net of an allowance for doubtful balances.

As part of its management of credit risk, the Group 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 Group establishes an allowance for impairment losses that represents its best estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a 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 debtors' ability to settle the debt.

### Liquidity Risk

Liquidity risk, also referred to as funding risk, is the risk that the Group 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.

# Management Discussion and Analysis Cont'd

The Group'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.

Key management of the Group 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.

## 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 Group's assets, the amount of its liabilities and/or the Group's income. Market risk arises in the Group 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 Group's exposures to market risks and its objectives, policies and processes for managing these risks have not changed significantly over the prior year. For each of the major components of market risk, the Group has policies and procedures in place which detail how each risk is managed and monitored.

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

### 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 Group incurs foreign currency risk primarily on the settlement of accounts receivable, accounts payable 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 Jamaican dollar (J\$) and the Euro (€).

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

### Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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, generally accepted standards of corporate behaviour and force majeure events.

The Group'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. These risk management activities include:

- the management and control of significant operational risks by each department;
- the active involvement of an independent internal audit department in assessing significant risks identified;
- the use of insurance to ensure that assets and personnel are adequately covered.

A critical tool used in the management of operational risk is Insurance. The company ensures that its assets and personnel are adequately covered through a variety of policies, including personnel, property damage and business interruption. The regulatory tariff mechanism also contributes to the adequacy of our asset coverage by means of provisions for damage to our transmission and distribution assets and certain force majeure occurrences.

### The power of giving

Senior Vice President, Customer Service, Ramsay McDonald, (3rd left), hands over a contribution of several items, to one of the wards at the Bustamante Hospital for Children.



### Feeling the energy on Labour Day

JPS Volunteer, Andre Latchman helps to give the Salvation Army School for the Blind a facelift.



### Outreach at Salvation Army School for the Blind

JPS Volunteers On Location To Serve (VOLTS), Phillip Jarrett and Corinne McCalla, get busy with a paint job at the Salvation Army School for the Blind, on Labour Day.



## 2017 Performance Highlights

In 2017, JPS welcomed a new Chairman and a new Chief Executive Officer, as it continued the implementation of its strategy to advance Jamaica's fuel diversification agenda and modernize the electricity grid, while improving customer engagement. The Group made a record investment of US\$110.6 Million on capital projects, to strengthen the country's electricity infrastructure and improve service to customers. This included investment in the expansion and upgrading of power generation facilities, and the roll-out of a smart grid network.

### Transforming Jamaica's Energy Landscape

Following the introduction of Liquefied Natural Gas (LNG) at its Bogue Power Station in 2016, in 2017 JPS took additional steps to reduce Jamaica's dependence on oil for electricity production. Through its joint venture company, South Jamaica Power Company (SJPC), JPS broke ground for a new 190 MW power plant, which will operate on LNG. This new plant will replace JPS' Old Harbour Bay Power Plant, significantly contributing to the modernization of the JPS generation fleet.

Consistent with the country's vision for fuel diversification, JPS signed a Power Purchase Agreement with New Fortress South Power Holdings, for the purchase of electricity from a new LNG-fired 94MW power plant to be built in central Jamaica. JPS also signed an agreement with Eight Rivers Energy Company for the purchase of power from a new 37MW Solar Power Plant, being built in western Jamaica. The plant will be the largest solar facility on the island, and is expected to contribute to substantial reductions in carbon emissions from power generation.

As it continued to embrace the introduction of more renewables to the grid, JPS sought and received approval from the regulators for a grid scale energy storage project. The 24.5 MW hybrid energy storage solution, which will be completed in 2018, will help to secure grid stability and reliability, in the face of increasing intermittent renewable energy.

#### Ground breaking for the 190MW Power Plant

Prime Minister, the Most Hon. Andrew Holness (4th right), participates in the groundbreaking exercise for the 190 MW power plant at Old Harbour Bay in St. Catherine, on April 7. Also participating (from left) are: former Chief Financial Officer, Dan Theoc; Shadow Minister of National Physical Planning and Development with NHT, Anthony Hylton; CEO East-West Power Company, Yong Jin Kim; former President and CEO of JPS, Kelly Tomblin; Science, Energy and Technology Minister, Hon. Hiromichi Mizuno.



## Modernizing the Grid

JPS continued its investment in the development of a smart grid, with the installation of several components of the smart grid infrastructure during the year. The Group expanded its Smart City pilot project, with the installation of AMI meters in the New Kingston commercial district in the island's capital city, along with the implementation of a web portal energy management solution and the testing of a smart parking application.

Additionally, JPS installed a total of 22,000 smart meters in communities across the island. The smart meter roll-out is critical to the development of the smart grid, which also includes the installation of smart devices that are able to communicate with each other, enabling self-healing capabilities and facilitating quicker response from the utility. In addition, these devices provide data points for grid analysis and stability.

With the worldwide lighting industry transitioning to Smart LED (Light Emitting Diode) Street Lighting, JPS continued to lead the Caribbean in this regard. The Smart Streetlight project was launched in 2017, and 36,000 Smart LED Streetlights were installed as part of a plan to replace 105,000 High Pressure Sodium (HPS) streetlights on a phased basis. In addition to improved public safety, Smart Streetlights are expected to deliver tangible benefits to the country, in the form of lowered energy costs, improved efficiency, and a reduction in the carbon emissions from power consumption.

Also, as part of ongoing efforts to enhance service reliability and strengthen the grid, JPS invested in several projects to upgrade its Transmission & Distribution system. These included voltage standardization initiatives in sections of the island, and the installation of Distribution Automation switches across the network. The installation of these switches is also an important part of the creation of a smarter grid..

### Let's talk electric vehicles!

Dr. Camron Gorguinpour, shares his observations on the viability of electric vehicles, at the "Let's Talk Electric Vehicles," Seminar. Listening keenly are (l-r): JPS Chairman, Seiji Kawamura; JPS President & CEO, Emanuel DaRosa; JPS Senior Vice President, Business Development, Sheree Martin; and Chief of Party, USAID Caribbean Clean Energy Programme, Daniel Potash.



## 2017 Performance Highlights

### Reaching for Service Excellence

JPS maintained its focus on customer service excellence in 2017, with the ongoing training of its front-line staff and contractors, in its Customer Service “DNA” Programme. Regular monitoring and measurement of performance against established service standards, and the recognition of team members for outstanding performance, ensured that service excellence remained a top priority across the organization. The Company also sought to reward positive customer behaviour, with the promotion of its MyJPS Rewards programme, which provides benefits for persons who pay their bills consistently in full and on time.

JPS’ efforts did not go unnoticed. The Company was recognised for its continued emphasis on service excellence by the Private Sector Organization of Jamaica and the Jamaica Customer Service Association. The Company received the Large Company Award for Service Excellence, as well as five Category Awards at the annual PSOJ/JaCSA Awards event. The Category Awards were for the following areas: Monitoring and Measurements; Leadership and Strategy; Customer Service Charter and Standards; Recognition and Award; and International Benchmarks.

### Improving Stakeholder Engagement

As promised in its Mission Statement, JPS continued to reach out to customers to “provide an energy solution to empower every Jamaican.” This included the increased installation of Pay As You Go (prepaid) service, and the addition of customers through its Community Renewal work, which seeks to empower vulnerable residents to get access to legal electricity. Some of this work included assistance with house wiring, public education on energy management, and the installation of innovative “ready boards” to facilitate power supply in homes that cannot accommodate regular electrical wiring.

JPS also expanded the channels for customers to access information from the Company. The JPS Mobile App was given a boost, and greater focus was placed on customer service delivery via online platforms – including Webchat, Facebook and Twitter. The Company also established a consistent presence in the traditional media, enabling customers to interact with its representatives on popular radio discussion programmes. Through its innovative PowerSmart Energy Challenge reality TV show, the Company engaged Jamaicans in the sharing of conservation and energy efficiency information.



**Emanuel and Wes Shake on it**  
JPS President and CEO, Emanuel DaRosa (left) seals the deal with a hand shake, after signing a Power Purchase Agreement, with Founder and Chairman of New Fortress Energy, Wes Edens. The deal will see JPS purchasing power from the 94 MW LNG Power Plant to be built on the ground of the JAMALCO bauxite operations in Clarendon.

In 2017, greater emphasis was placed on involving key stakeholders in conversations on the future of energy - in Jamaica, and globally. JPS introduced its Let's Talk series, with symposiums on Renewable Energy and Electric Vehicles. These events brought together industry players, policy makers, and other partners who shared their varying perspectives and tentatively agreed on a way forward for the country. A record number of stakeholders participated in JPS' 2017 Women in Energy conference, which turned the spotlight on leadership in the energy industry.

### Investing in the Development of Team Members

Through its Learning and Development Institute (LDI), JPS continued to invest in the training of employees in both technical and non-technical areas. Of significance, was the launch of a new training programme for the Company's engineers, through a partnership with Siemens Power Technologies International (PTI) - the training arm of US-based technology giant, Siemens Industry Incorporated.

The JPS/Siemens PTI Engineering Programme will conclude in 2020, and will cover Smart Grid Operations, Renewable Energy Integration and Information Technology Systems, as well as other areas. The programme is being delivered at the equivalent of the Master's Degree level. JPS also completed training for its second cohort of high potential leaders, participating in its strategic innovative leadership development programme, dubbed: iLead. An acronym for Leadership, Excellence and Development, the programme operationalizes JPS' Vision of people leading the energy revolution, and creates the baseline for succession planning within the organization. Continued investment in honing of the skills and talents of its people, remains at the core of JPS' strategy to play a key role in Jamaica's development.

#### iLead graduating class 2017

JPS President & CEO, Emanuel DaRosa (4th right), joins the most recent iLead graduates in a celebratory moment. They are: (left to right - front row) Ricardo Case; Peter Baker; LeVar Allen; Shanique Donaldson-McIntosh; Emanuel DaRosa; Daniel Tomlinson; Roger Kennedy; Ruthlyn Johnson; (back row) Blaine Jarrett; Michael Samuels; Ramsay McDonald and Ruben Thomas.



## Pictorial Highlights

From strategic partnerships to modernise the energy sector, to innovations in service delivery and community outreach initiatives, JPS continued to lead Jamaica's energy revolution in 2017. Here are some of the highlights:



### Customer Experience Wins Awards

Members of the JPS Customer Experience Team, pose with the awards the Company received, at the Private Sector of Jamaica/Jamaica Customer Service Awards Ceremony, held in May. JPS received five Category Awards and the Overall Award for Service Excellence - six out of a possible nine Customer Service awards. Team members here are (l-r): Chadene Bernard, Sasha-Gaye Frazer, Courtney Whyte, Tisona Johnson, Asha-Kai Faulkner, Charmaine Campbell, Gina Tomlinson-Williams, Levor DaCosta and Dabria Brown.



### Regularization Strides in Majesty Gardens

Community Renewal Manager, Marilyn McDonald is pleased to share a moment with Resident of Majesty Gardens, Raphael (right), in the celebration of a regularization milestone in that community. Majesty Gardens moved from having 3 customers to 466, partially with the assistance of ready boards being used in some households. Also enjoying the celebratory moment is Dane McLean, Project Officer at the Jamaica Social Investment Fund.



### SJPC signs contract with TSK to construct 190MW Power Plant

(l-r) Former JPS President & CEO, Kelly Tomblin; former Managing Director of South Jamaica Power Company (SJPC), Dan Theoc; TSK President, Joaquin Garcia; and TSK General Manager of Power, Francisco Martin sign the Engineering, Procurement and Construction (EPC) contract for the construction of the highly anticipated 190MW Power Plant to be built in Old Harbour Bay. They are assisted by JPS Project Director, David Cooke.



**Self-serve is in the house!**

Parish Manager for St. Andrew South and St. Thomas, Ann-Marie Myrie-Chambers (centre), tries out the brand new self-serve kiosk, the first to be assembled and installed by JPS team members, at the Customer Service Office at Ruthven Road, St. Andrew. Looking on with great interest are (l-r): Parish Manager, St. Andrew North, Detommie Sergeant; and Customer Care Manager, St. Catherine, Debronette Dixon.



**Official Opening of CARILEC Engineers' Conference**

Minister of Energy, Dr. the Hon. Andrew Wheatley cuts the ribbon to officially declare open, the Caribbean Electric Utility Services Corporation (CARILEC) Engineers' Conference. Sharing in the moment are (l-r): JPS Chief Technology Officer, Gary Barrow; CARILEC Executive Director, Dr. Cletus Bertin; CARILEC Chairman, Collin Cover; and JPS Chairman, Seiji Kawamura. The Engineers' Conference was co-hosted by JPS.



**Hot Discussion on Solar Energy**

Mayor of Savanna-La-Mar, His Worship Councillor Bertel Moore (left), listens intently to JPS Manager for Special Projects, Generation, Dionne Nugent (3rd right), as she makes a point about renewable energy. The occasion was the signing of the Power Purchase Agreement between JPS and Eight Rivers Renewable Energy Company, which will be building a 37 MW solar power plant in Paradise, Westmoreland. Also listening carefully to the discussion are (l-r): Project Manager at Eight Rivers, Wayne Grant; International Development Manager, Neon, Paolo Cartagena; JPS Manager, Grid Interconnection, Errington Case; and JPS Legal Counsel, Teri-Ann Gibbs.



**JPS plays its part on International Coastal Clean-up Day**

Members of the JPS Volunteers On Location To Serve (VOLTS) help to clean up the Old Harbour Bay Beach, on International Coastal Clean-up Day. This observance is one of the biggest volunteer events in the world.

# Directors' Report

The Directors of the Jamaica Public Service Company Limited submit herewith their Annual Report with the Audited Financial Statements for the year ended December 31, 2017:

	<b><u>The Company</u></b>	<b><u>The Group</u></b>	
	Year ended December 31, 2017 (Twelve months) US\$'000	Year ended December 31, 2016 (Twelve months) US\$'000	Year ended December 31, 2017 (Twelve months) US\$'000
<b>OPERATING REVENUES</b>			
Profit before Taxation	30,031	32,992	29,677
Taxation expense	(5,444)	(8,941)	(5,444)
Net Profit attributable to shareholders	24,587	24,051	24,233
Dividends on Preference Shares:			
-Classes 'B' through 'E'	1.3	1.3	1.3
-Class 'F'	2,334	1,751	2,334
-Class 'G'	0	1,065	0
Dividends on Ordinary Shares	0	0	0

## Dividends:

The dividends for the year on the preference shares for Classes B-E have been paid in full; dividends for the Class F preference shares have all been paid in full except for the fourth (4th) quarter of 2017; no dividends were declared or paid on the ordinary stocks and shares for the year 2017.

## Auditors:

In accordance with Section 154 of the Companies Act, a resolution proposing the appointment of the Auditors and for the Directors to fix the Auditors' remuneration will be put to the Annual General Meeting.

## Directors:

Mr. Tatsuya Ozono resigned from the Board during the year under review as he was leaving the jurisdiction. The Board wishes to express its sincere appreciation to Mr. Tatsuya Ozono for his sterling contribution to the Company during his tenure on the Board.

In accordance with Articles 62, 86 and 123 of the Company's Articles of Incorporation, Messrs. Heuiwon Ahn, and Ha Kyoung Song, having been appointed to the Board since the last Annual General Meeting shall cease to hold office and being eligible, offer themselves for election. In addition, in accordance with Articles 117 and 119 of the Company's Articles of Incorporation, Directors Minna Israel and Fitzroy Vidal having been appointed to the Board shall cease to hold office and being eligible, offer themselves for re-election.

The Directors wish to thank the Management and staff of the Company for their performance during the year under review.

## Registrar

Cumulative Preference Shares  
and Ordinary Stock & Shares  
Jamaica Central Securities  
Depository Limited  
40 Harbour Street  
Kingston  
Jamaica WI

## Registered Office

6 Knutsford Boulevard  
Kingston 5  
Jamaica WI

## Auditors

KPMG  
6 Duke Street  
Kingston  
Jamaica WI

## Attorneys-at-Law

Livingston Alexander & Levy  
Attorneys-at-Law  
72 Harbour Street  
Kingston

Clinton Hart & Co.  
Attorneys-at-Law  
58 Duke Street  
Kingston

Hylton Powell  
Attorneys-at-Law  
11a Oxford Road  
Kingston 5

Nunes Scholefield DeLeon & Co  
Attorneys-at-Law  
6a Holborn Road  
Kingston 5

Symone Mayhew  
Attorney-at-Law  
17 Herb McKinley Drive  
Kingston 6

Hart Muirhead Fatta  
Attorneys-at-Law  
Victoria Mutual Building  
2nd Floor  
53 Knutsford Boulevard  
Kingston 5

## Bankers

National Commercial Bank  
Jamaica Limited  
3rd Floor, 32 Trafalgar Road  
Kingston 10  
Jamaica WI

Citibank, N.A.  
63 Knutsford Boulevard  
Kingston 5

Bank of Nova Scotia  
Jamaica Limited  
ScotiaBank Centre  
Cnr Duke & Pt Royal Streets  
Kingston, Jamaica



JPS Linemen on the job

# Ten Largest Shareholders' Listings

As At December 31, 2017

## JPS Preference B Shares (7%)

Rank	Name of Shareholder	No. of Units
1	Philip Harvey-Lewis	130,666
2	Security Brokers Limited	81,005
3	Everard Smith	79,585
4	Jamaica Mutual Life Assurance Company	16,567
5	Crown Life Insurance Company	10,000
6	John Headcock	7,410
7	National Utility Fund	5,600
8	Kimberly Burrowes	5,597
9	Estate George H Scott	5,000
10	Uranie Ferro	4,950

## JPS Preference C Shares (5%)

Rank	Name of Shareholder	No. of Units
1	Everard Smith	7,206
2	Security Brokers Limited	6,917
3	Philip Harvey-Lewis	6,728
4	Renata Headcock	4,460
5	Jamaica Mutual Life Assurance Company	3,610
6	Herma Sassoon (Deceased)	1,900
7	Uranie Ferro	1,800
8	Prudential Stockbrokers Ltd	1,628
9	Buck Security Brokers Ltd	1,566
10	Leycester H. Lyon	1,500

## JPS Preference D Shares (5%)

Rank	Name of Shareholder	No. of Units
1	Everard Smith	155,719
2	Philip Harvey-Lewis	82,817
3	Security Brokers Limited	64,470
4	Jamaica Mutual Life Assurance Society	62,400
5	Crown Life Insurance Company Ltd	20,000
6	Grethel Forrester-Benjamin	20,000
7	Prudential Stock Brokers Ltd	18,185
8	Ronald W. Kuper	13,600
9	Uranie Ferro	9,202
10	Winston G. Headcock	9,085

# Ten Largest Shareholders' Listings Cont'd

As At December 31, 2017

## JPS Preference E Shares (6%)

Rank	Name of Shareholder	No. of Units
1	Everard Smith	116,767
2	Security Brokers Ltd	30,000
3	Susan Headcock	30,000
4	Jamaica Mutual Life Assurance Society Staff S/A Fund	11,060
5	Field Nominees Limited	10,000
6	Jamaica Mutual Life Assurance Society	8,250
7	Estate Charles O. Edwards (Deceased)	5,000
8	Imperial Optical Company (WI) Ltd	5,000
9	Berkeley Properties Ltd	3,613
10	Winston G. Headcock	3,400

## JPS Preference F Shares (9.5%)

Rank	Name of Shareholder	No. of Units
1	National Insurance Fund	350,000
2	GraceKennedy Limited Pension Fund	250,000
3	JPS Employees Superannuation Fund	246,361
4	PAM Pooled Equity Fund	178,450
5	NCB Insurance Company Limited	149,900
6	Ideal Portfolio Services Limited	126,737
7	ATL Pension Fund Trustee Nominee Limited	100,000
8	Sagicor Life Jamaica Limited	98,643
9	SJIML A/C 3119	98,137
10	Victoria Mutual Pension Management	93,000

## JPS Ordinary Stocks

Rank	Name of Shareholder	No. of Units
1	EWP (Barbados) 1, SRL	155,366,792
2	MaruEnergy JPSCO I, SRL	155,366,792
3	National Investment Bank of Jamaica Ltd	2,183,237
4	R.S Gamble and Son Ltd	108,139
5	Faith A. Myers	74,394
6	Melle Marguerite Simard (Deceased)	59,514
7	Frank Renfrette	45,462
8	John George	43,396
9	Agnes Theresa Fong Yee	31,410
10	Renee Rosier Joel	29,757

## JPS Ordinary Stocks

Rank	Name of Shareholder	No. of Units
1	EWP (Barbados) 1 SRL	8,575,911,306
2	MaruEnergy JPSCO 1, SRL	8,575,911,306
3	Accountant General	2,386,573,897
4	Accountant General	1,974,065,546

Good Corporate Governance is fundamental to the core values, culture and business practices of Jamaica Public Service Company Limited (JPS). The Directors of the Board of JPS are fully cognizant of their legal and corporate governance responsibilities and they undertake these with honesty, probity and integrity. The Board works together with Management to set the “tone at the top” for all employees to emulate, particularly as it pertains to doing the right thing in our business. The Board through its work and the work of its Committees monitor and ensure the effectiveness of the Company’s corporate governance practices and approves changes, as needed.

For JPS, compliance is a key tenet of its strategic risk management framework as risk management is the basis of any successful entity and is the foundation upon which JPS must continue to grow as a true first class corporate brand fulfilling its Vision and Mission of providing a solution for every Jamaican for the growth and prosperity of Jamaica. JPS has established corporate governance principles which guide Management decisions, as well as its core system of processes and procedures by which all employee decisions and actions must be carried out. The Board has responsibility, along with the President and his Executive Leadership Team, for managing the Company’s day to day operations, with material issues going before the Board for consideration and decision. Management is responsible for the execution of an agreed upon strategy and for all operational matters. Management is also supported in its work by Committees of the Board.

The Company’s corporate governance framework is based on its constitutive documents and best practice. The Board, members of the Executive and the Legal & Compliance Division work together to ensure that the Company’s governance practices are consistent and compliant with all applicable legislation, regulations, standards and codes.

Our Corporate Governance Guidelines are available on our website at: [www.myjpsco.com](http://www.myjpsco.com).

## Board Oversight

The Board of Directors is committed to and is ultimately accountable for enhancing stakeholder value by providing an advisory role in consultation with Management regarding the strategic and operational direction of the Company. In addition, the Board provides oversight in monitoring Company performance. The responsibilities of the Board are separate and distinct from those of Management.

The Board meets approximately once per quarter. However special meetings are convened as needed especially when urgent and critical issues are required to be addressed between scheduled meetings. From time to time, members of the Board regularly meet with key members of the senior management team to consider critical financial issues and matters of strategic importance to the Company.

## Composition of the Board

The Company’s Directors have diverse skill sets, strong experience and varied backgrounds which include local and international experience in engineering, finance and audit, strategic management, banking, human resources, education, and risk management. They are recognized as strong leaders in their respective fields of work. The Company’s Directors take care in ensuring that decisions are made after fulsome discussion and careful deliberation of all relevant information.

## Munro Wind Farm



**THE TABLE BELOW HIGHLIGHTS THE RESPECTIVE SKILL SETS OF THE BOARD OF DIRECTORS:**

BOARD EXPERTISE	INDEPENDENT(I) NON-INDEPENDENT (NI)	GENERAL MANAGEMENT	FINANCE & AUDIT	STRATEGIC MANAGEMENT	BANKING	ENGINEERING	H.R. & EDUCATION	LEGAL	RISK MANAGEMENT
Seiji Kawamura	NI		✓	✓	✓				
Chang Sup Jo	NI	✓							✓
Minna Israel	I		✓		✓		✓		✓
Heuiwon Ahn	NI	✓		✓	✓		✓		✓
Masao Imazato	NI	✓	✓	✓	✓				✓
Charles Johnston	I	✓	✓	✓	✓			✓	✓
Colin Williams	NI	✓	✓				✓		✓
Suzette Buchanan	NI	✓		✓					
Fitzroy Vidal	NI			✓		✓			✓
Ha Kyoung Song (Alternate Director)	NI			✓		✓			✓
Mo Majeed (Alternate Director)	NI	✓	✓	✓		✓			✓
Dong Uk Kim (Alternate Director)	NI	✓		✓					
Kengo Aoki (Alternate Director)	NI	✓		✓		✓			

As at December 31, 2017, the Board comprised of nine (9) directors and four (4) alternate directors and is chaired by Mr. Seiji Kawamura, a representative from one of our majority shareholders, MaruEnergy JPSCO I Srl. Two (2) of our nine (9) directors are independent of the Company. The Board is represented as follows:

- o Three (3) directors represent MaruEnergy JPSCO I, Srl
- o Three (3) directors represent EWP (Barbados) 1, Srl
- o Three (3) directors represent the Government of Jamaica

CURRENT DIRECTORS
Seiji Kawamura- Chairman <sup>1</sup>
Chang Sup Jo
Masao Imazato <sup>2</sup>
Heuiwon Ahn <sup>3</sup>
Minna Israel (Independent Director)
Colin Williams
Suzette Buchanan
Charles Johnston (Independent Director)
Fitzroy Vidal
Ha Kyoung Song (Alternate Director) <sup>4</sup>
Dong Uk Kim (Alternate Director)
Kengo Aoki (Alternate Director)
Mo Majeed (Alternate Director) <sup>5</sup>
Tatsuya Ozono <sup>6</sup>

1. Appointed Chairman April 13, 2017
2. Appointed April 13, 2017
3. Appointed October 13, 2017
4. Appointed Alternate Director October 13, 2017
5. Appointed April 13, 2017
6. Resigned April 3, 2017

The only director compensation paid is to non-shareholder members of the Board who receive a fixed amount equivalent to US\$1,000 for attendance at each Board or Committee meeting, and any other meeting requiring a director's attendance. Shareholder representatives receive no compensation.

## Nomination, Appointment, Term, Election and Retirement of Directors

The Company is satisfied that the current slate of Directors have the appropriate skills, experience and capabilities to meet the challenges faced by the Company. In selecting members of the Board, consideration is given to guideline similar to those recommended by the Private Sector Organization of Jamaica. All Directors automatically retire from the Board at the end of a three-year appointment. Each year at the Annual General Meeting, the Board recommends and the shareholders elect the retiring directors or new directors as the case may be in accordance with the Company's Articles of Incorporation. There are no Executive Directors on the Board of the Company.

## Director Orientation and Training Opportunities

Directors are afforded continuous education about the Company, technological developments in the electricity industry, new energy products and business opportunities in the Energy Sector. All Directors have access to and are encouraged to meet with the Chairman, the President & Chief Executive Officer and key members of the Executive Team. Members of the Executive Leadership team often present to the Board not only on the Company's operations but also on a variety of topics in an effort to keep Directors apprised of developments in the energy sector. This affords Directors, an opportunity to pose questions to and interact with senior management on key topics.

## Conflicts of Interest

In adherence to the Company's Articles of Incorporation, various statutory requirements on the disclosure of Directors' interest as well as the Company's Code of Ethics, members of the Board who have interest in proposals being considered by the Board, including where such interest arises through close family members, must make a

declaration to that effect. Directors have the same obligation as employees to abide by all tenets of the Company's Code of Ethics and must complete the Annual Code of Ethics Questionnaire.

## COMMITTEES OF THE BOARD

### Audit Committee

JPS has an established Audit Committee, the primary responsibilities of which are to assist the Board of Directors in carrying out its duties as they relate to the organization's accounting policies, internal controls and financial reporting practices.

Members of the Audit Committee as at December 31, 2017 are:

- Ms. Minna Israel - Chairman (Independent)
- Mr. Colin Williams
- Mr. Ha Kyoung Song

Other invitees to the Committee's meeting include:

- Mr. Seiji Kawamura - Board Chairman
- Mr. Emanuel DaRosa - President & CEO and/or other executives or managers as are required.
- Mrs. Leisa Batiste-Whyte - Acting CFO
- Ms. Katherine P.C. Francis - Corporate Secretary/Ms. Kim Robinson - Assistant Secretary

Representatives of the Company's external auditor attend Committee meetings as needed.

The Charter of the Company's Audit Committee is reviewed from time to time and where appropriate may be revised and approved by the Board. The Committee has oversight responsibility for the Company specifically in relation to the following areas:

- The integrity of the financial reporting of the Company and associated system of internal controls and accounting policies;
- Ensuring compliance with legal and regulatory requirements and governance of general internal controls and policies;
- The performance of the internal Audit and external auditors; and
- Risk management.

Prior to the adjournment of Audit Committee meetings, the Chair of the Committee has the option to meet independently with the Internal Auditors to discuss any areas of concern.

The Audit Committee reviewed and recommended for approval (where relevant) the following items during the year:

- Management accounts for the Company
- Audited Financial Statements
- Engagement Letter of the External Auditors
- External Audit Fees
- Internal Audit Reports
- Regulatory Examination Reports and Management Response
- Connected Party list and transactions
- Compliance Reports
- Management Letter from the External Auditor.

## **Operations Committee<sup>7</sup>**

The Board established an Operations Committee the primary responsibility of which is to assist the Board of Directors in the performance of its functions and to provide technical advice and strategic guidance to Management with respect to the day-to-day operations of the Company subject to, of course, the powers, authority, direction and control of the Board.

The establishment of the Operations Committees is consistent with current corporate board practices in Jamaica. This is an efficient approach to the conduct of business as it facilitates a thorough examination of essential details by the Committee, who can then effectively address critical operational issues that may arise at Board meetings.

Members of the Operations Committee as at December 31, 2017 are:

- Mr. Mo Majeed (Chairman)
- Mr. Seiji Kawamura
- Mr. Ha Kyoung Song
- Mr. Fitzroy Vidal
- Prof. Audley Darmand (Shareholder Representative)
- Mr. Hyung Soo Kim (Shareholder Representative)

Other invitees to the Committee's meeting include:

- Mr. Emanuel DaRosa - President & CEO
- Ms. Katherine P.C. Francis -Corporate Secretary/Kim Robinson - Assistant Secretary
- Members of the Executive Leadership Team

## Section of the Maggotty Hydro Dam



<sup>7</sup>Mr. Mo Majeed was appointed Chairman of the Operations Committee April 13, 2017 consequent on the resignation of Mr. Tatsuya Ozono who was leaving the jurisdiction.

## Corporate Governance Cont'd

The table below highlights the attendance record of Board and Committee members at meetings during the year 2017:

ATTENDANCE RECORD FOR DIRECTORS				
NAME OF DIRECTORS	ANNUAL GENERAL MEETING	BOARD MEETING	AUDIT COMMITTEE	OPERATIONS COMMITTEE
<b>TOTAL NUMBER OF MEETINGS HELD</b>	1	8	5	7
Seiji Kawamura (Chairman)*	1	7		6
Chang Sup Jo	1	7		
Masao Imazato**	1	4		
Heuiwon Ahn***	1	2		
Charles Johnston	1	6		
Minna Israel	1	7	5	
Fitzroy Vidal		7		7
Suzette Buchanan		8		
Colin Williams	1	8	5	
Mo Majeed (Alternate Director)****	1	4		6
Ha Kyoung Song (Alternate Director)	1	8	5	7
Kengo Aoki (Alternate Director)	1	8		1
Dong Uk Kim (Alternate Director)*****	1	2		
Tatsuya Ozono*****		4		1
Dr. Audley Darmand *****				6
Mr. Hyung Soo Kim *****				7

- \*appointed Chairman April 13, 2017
- \*\*appointed April 13, 2017 & resident overseas
- \*\*\*appointed October 13, 2017 & resident overseas
- \*\*\*\*appointed April 13, 2017 & resident overseas
- \*\*\*\*\*resident overseas
- \*\*\*\*\*resigned April 3, 2017
- \*\*\*\*\*Government of Jamaica Representative
- \*\*\*\*\*EWP (Barbados) 1, Srl Representative

## CORPORATE COMPLIANCE- JPS CODE OF ETHICS & BUSINESS CONDUCT

The Company has in place a Code of Ethics and Business Conduct, which guides employees in the right way to do business at the Company. It is a core component of the Company's Compliance Programme, which endeavours to ensure that employees work in accordance with principles of good corporate governance. The Code also specifically addresses the issues of sexual harassment, the Protected Disclosure or 'Whistle Blower' Legislation and the Company's attendant policies. In order to foster the confidence of its shareholders, employees, investors and the general public, it goes beyond the legal and regulatory framework in Jamaica and reflects internationally recognised principles and practices. In addition, the Company provides employees with a Code of Ethics & Business Conduct Questionnaire, which is completed by employees on a yearly basis and there is also a Declaration of Interest Form for persons to disclose any potential or actual conflict of interest. The Company regularly reviews and updates its Code of Conduct confirming its commitment to demonstrably lead and promote good corporate governance and the highest standards of ethical and business conduct.

The Board of Directors, the Management and all employees of the Company are required to observe the Company's Code of Ethics and Business Conduct and in this regard, annual certification of due compliance is required and this is achieved through the annual Questionnaire. The Code of Ethics and Business Conduct provides guidance on key topics of business ethics including but not limited to:

- Guidelines on how to avoid conflicts of interest
- Guidelines on how to conduct business honestly and with integrity
- Keeping the Company's transactions, communications and information accurate, confidential and secure and all customers' safe; and
- The need to treat persons fairly and equitably – whether customers, suppliers, employees or others who deal with the Company.

Although the Code provides standards of conduct for many situations, it does not cover all the possible situations that may arise. Accordingly, all stakeholders are expected to conduct themselves in accordance with their legal responsibilities and in a manner consistent with the spirit and letter of this Code and avoid even the perception of improper behaviour

### Management

As regards the Management of the Company, the Majority Shareholders select the President & Chief Executive Officer in accordance with the Company's Articles of Incorporation and they conduct the performance review of the President. Members of the Management team are selected by the President & CEO in conjunction with the Board and persons with a high standard of expertise and significant experience in the particular area are sought and engaged.

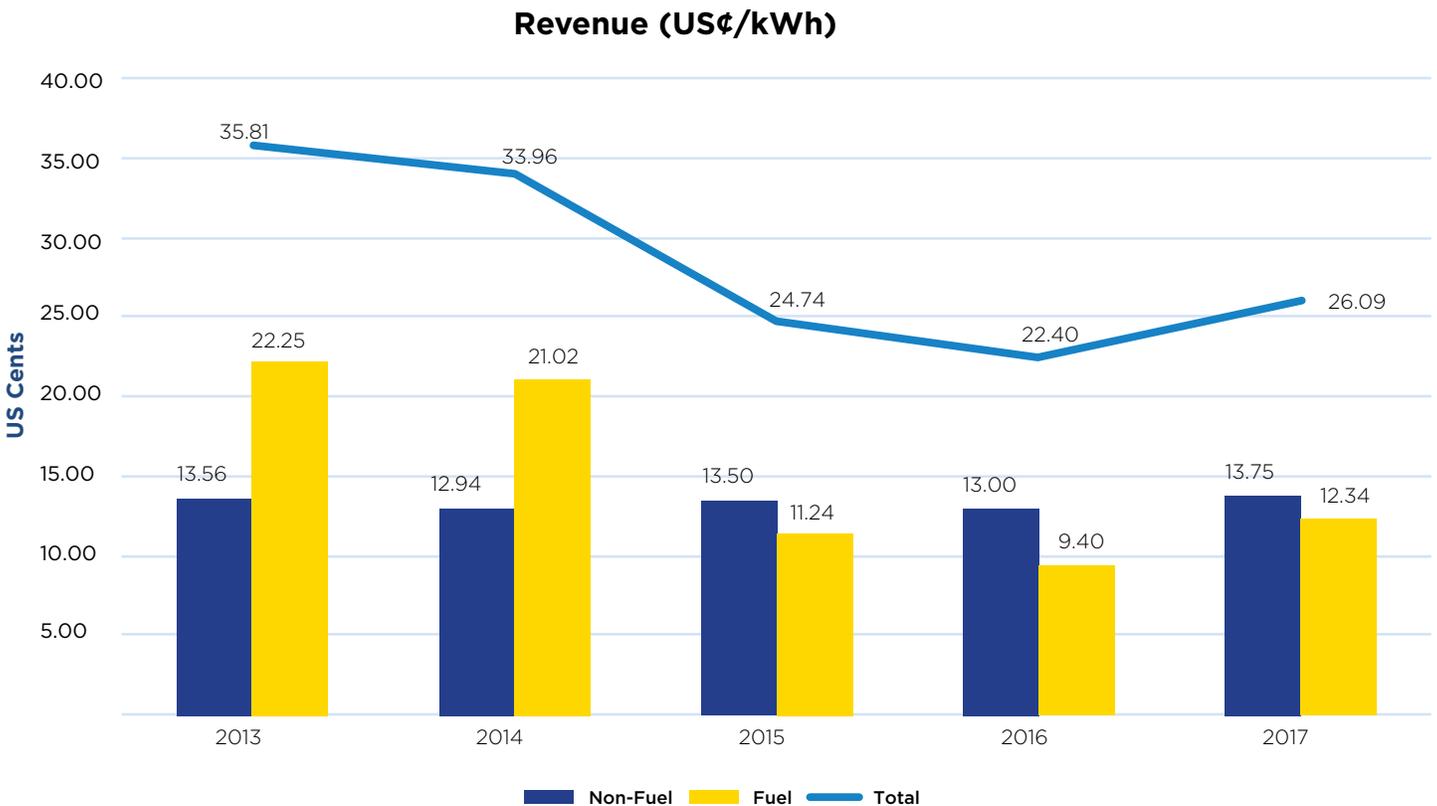
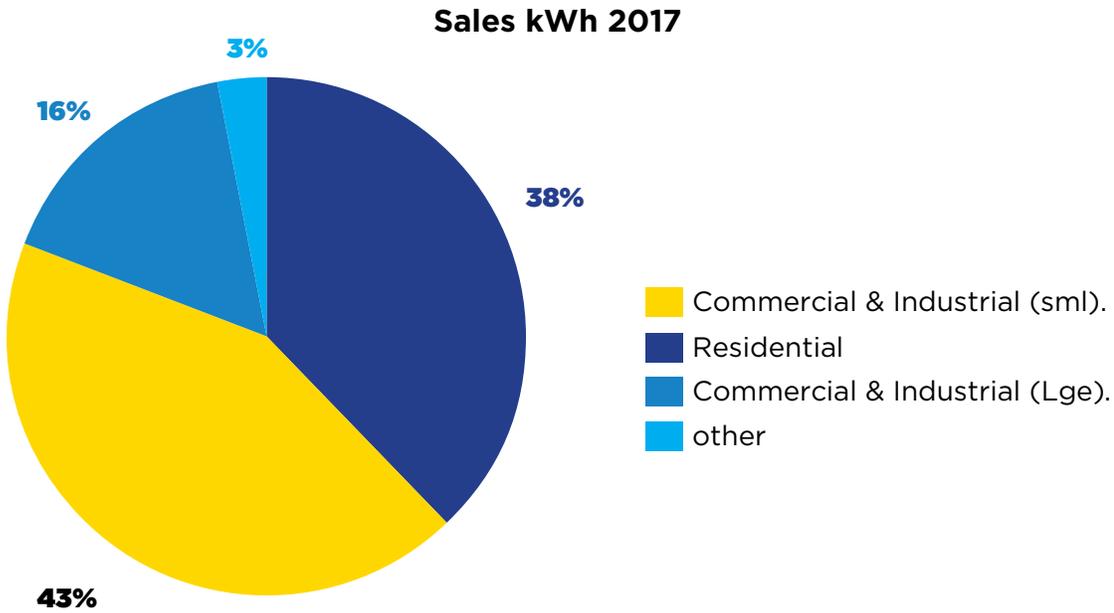


Emancipation Park

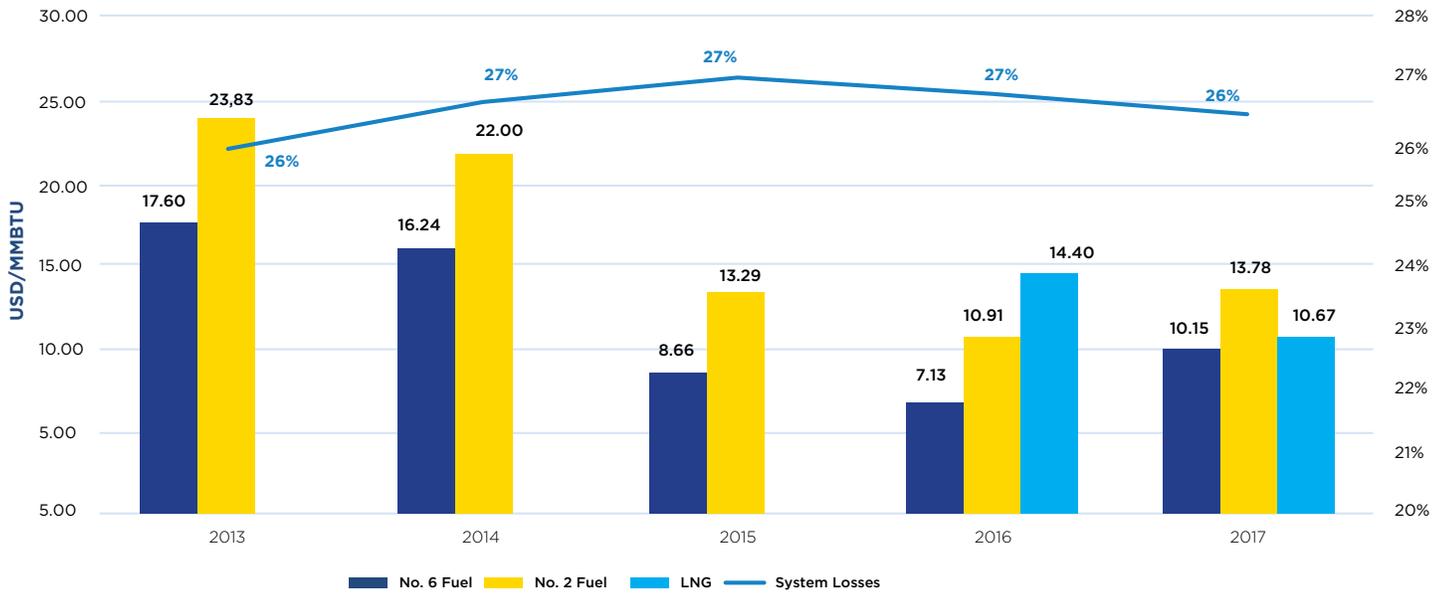
Rockfort Power Plant



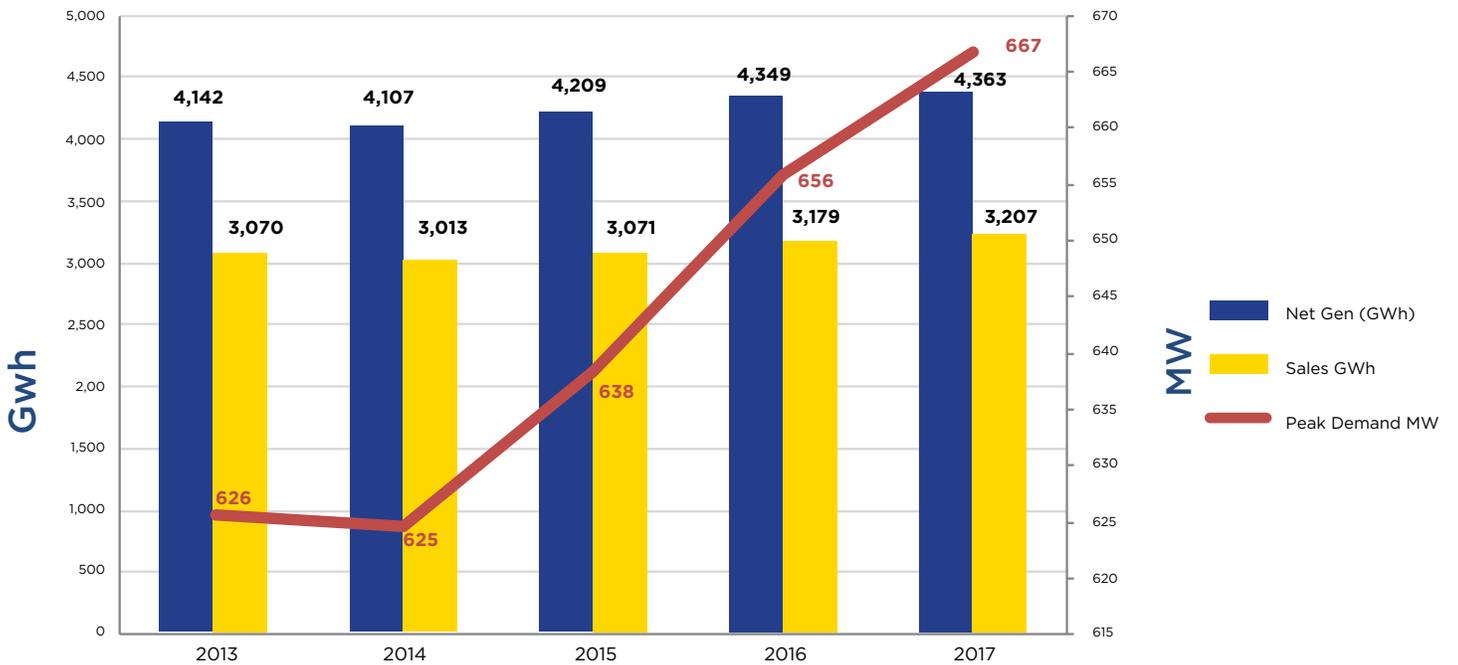
	Dec-31-17	Dec-31-16	Dec-31-15	Dec-31-14	Dec-31-13
<b>OPERATING REVENUES (\$000's)</b>					
Residential	317,205	283,459	286,954	372,909	387,731
Commercial & Industrial (Sml.)	363,187	304,727	335,472	456,977	497,543
Commercial & Industrial (Lge.)	134,104	104,136	115,543	167,650	185,760
Other	22,373	20,212	21,850	25,703	28,350
<b>TOTAL</b>	<b>836,869</b>	<b>712,534</b>	<b>759,819</b>	<b>1,023,240</b>	<b>1,099,383</b>
<b>AVERAGE NO. OF CUSTOMERS</b>					
Residential	574,458	564,242	536,462	531,363	541,691
Commercial & Industrial (Sml.)	67,874	66,750	62,517	62,294	64,559
Commercial & Industrial (Lge.)	162	157	150	150	150
Other	450	419	401	389	254
<b>TOTAL</b>	<b>642,944</b>	<b>631,568</b>	<b>599,530</b>	<b>594,196</b>	<b>606,654</b>
<b>NET GENERATION AND PURCHASES (MWh)</b>					
Steam & Slow Speed Diesel	1,466,690	1,668,268	1,530,023	1,460,626	1,499,305
Hydro	156,754	118,893	128,951	135,956	123,715
Gas Turbines	91,897	64,386	64,655	84,495	103,632
Combined Cycle Plant	820,466	705,634	806,279	769,622	615,502
Purchases	1,827,273	1,792,097	1,679,413	1,656,758	1,799,490
<b>TOTAL</b>	<b>4,363,079</b>	<b>4,349,278</b>	<b>4,209,321</b>	<b>4,107,457</b>	<b>4,141,644</b>
Losses & Unaccounted for (MWh)	1,155,940	1,169,970	1,137,973	1,094,478	1,071,955
Systems losses as a percentage of Net Generation	26.5%	26.9%	27.0%	26.6%	25.9%
Heat Rate (Kj/kWh)	9,061	9,554	9,591	9,625	9,884
Heat Rate JPS Thermal (Kj/kWh)	11,330	11,571	11,333	10,822	11,433
<b>ENERGY SALES (MWh)</b>					
Residential	1,068,594	1,077,148	1,016,428	981,730	996,429
Commercial & Industrial (Sml.)	1,381,376	1,380,791	1,360,131	1,347,514	1,366,797
Commercial & Industrial (Lge.)	646,669	625,219	602,618	589,236	605,402
Other	110,500	96,150	92,172	94,499	101,060
<b>TOTAL</b>	<b>3,207,139</b>	<b>3,179,308</b>	<b>3,071,349</b>	<b>3,012,979</b>	<b>3,069,688</b>
<b>AVERAGE USE &amp; REVENUE per residential customer</b>					
Annualised kWh Consumption/Customer	1,860	1,909	1,895	1,848	1,839
Annualised Revenues/Customer	552	502	535	702	716
U.S Dollars per kWh	0.3	0.3	0.3	0.4	0.4
Average billing exchange rate for period	128.57	125.10	117.00	110.85	100.14
U.S. Cents per kWh	29.68	26.32	28.23	37.98	38.91



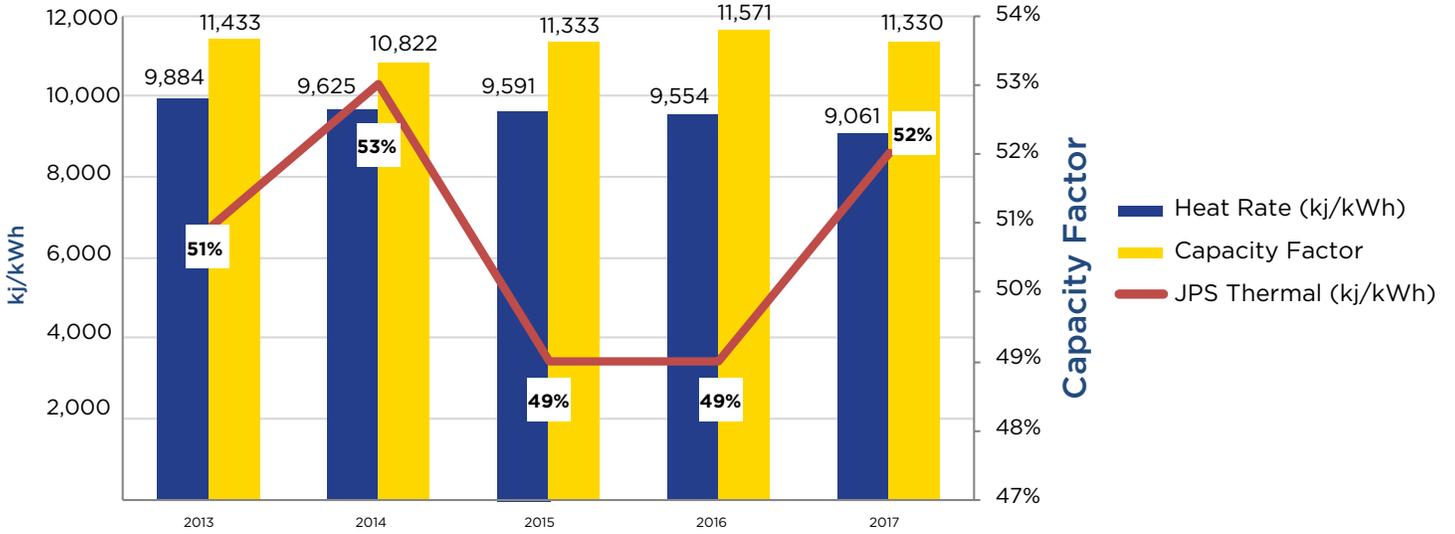
## Fuel Price & System Losses



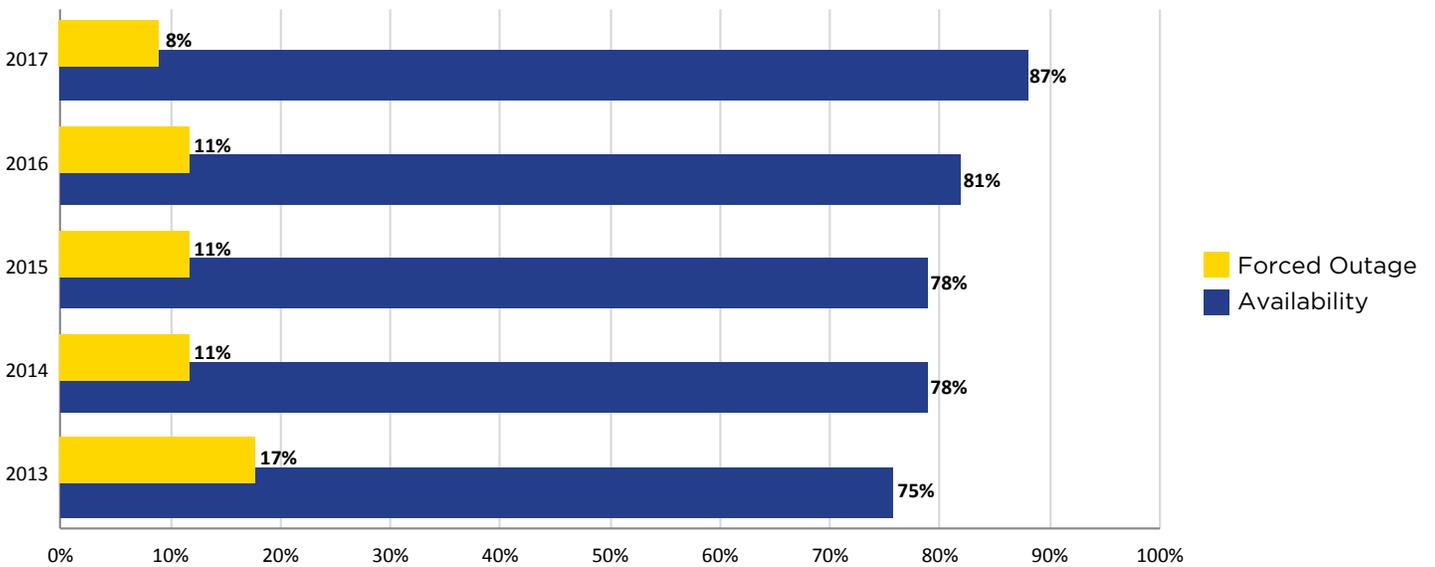
## Electricity Demand



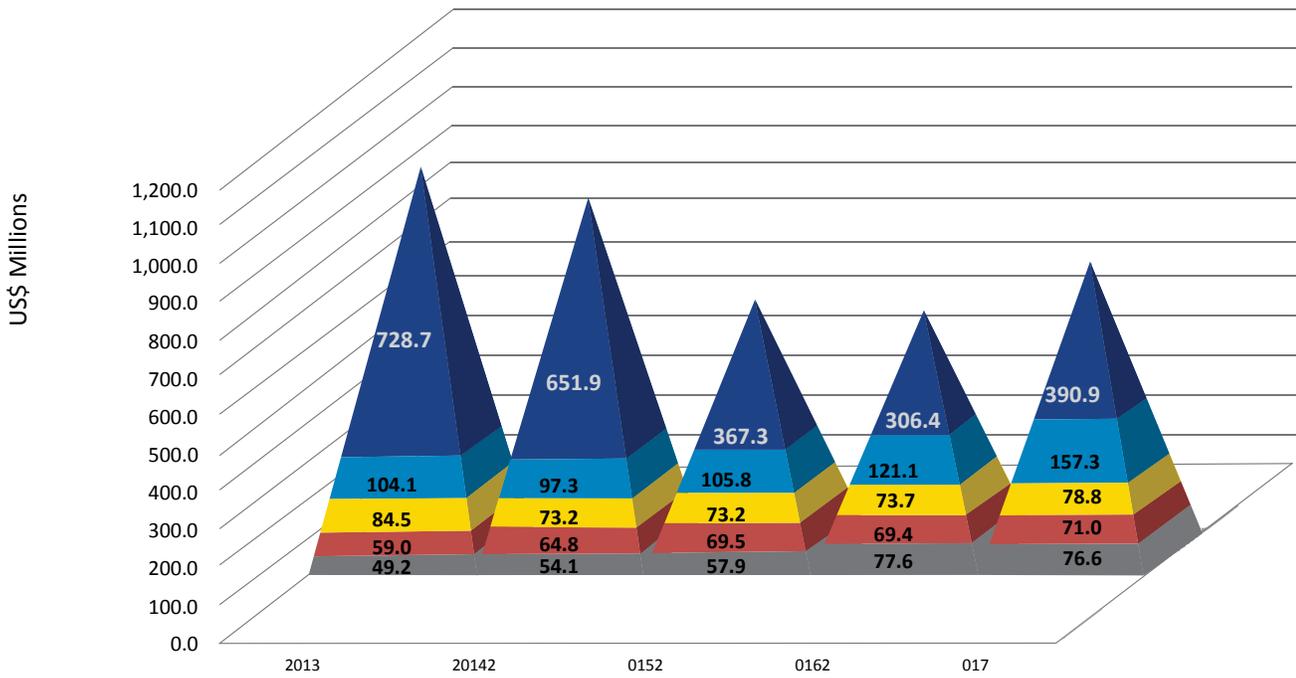
### Heat Rate & Capacity Factor



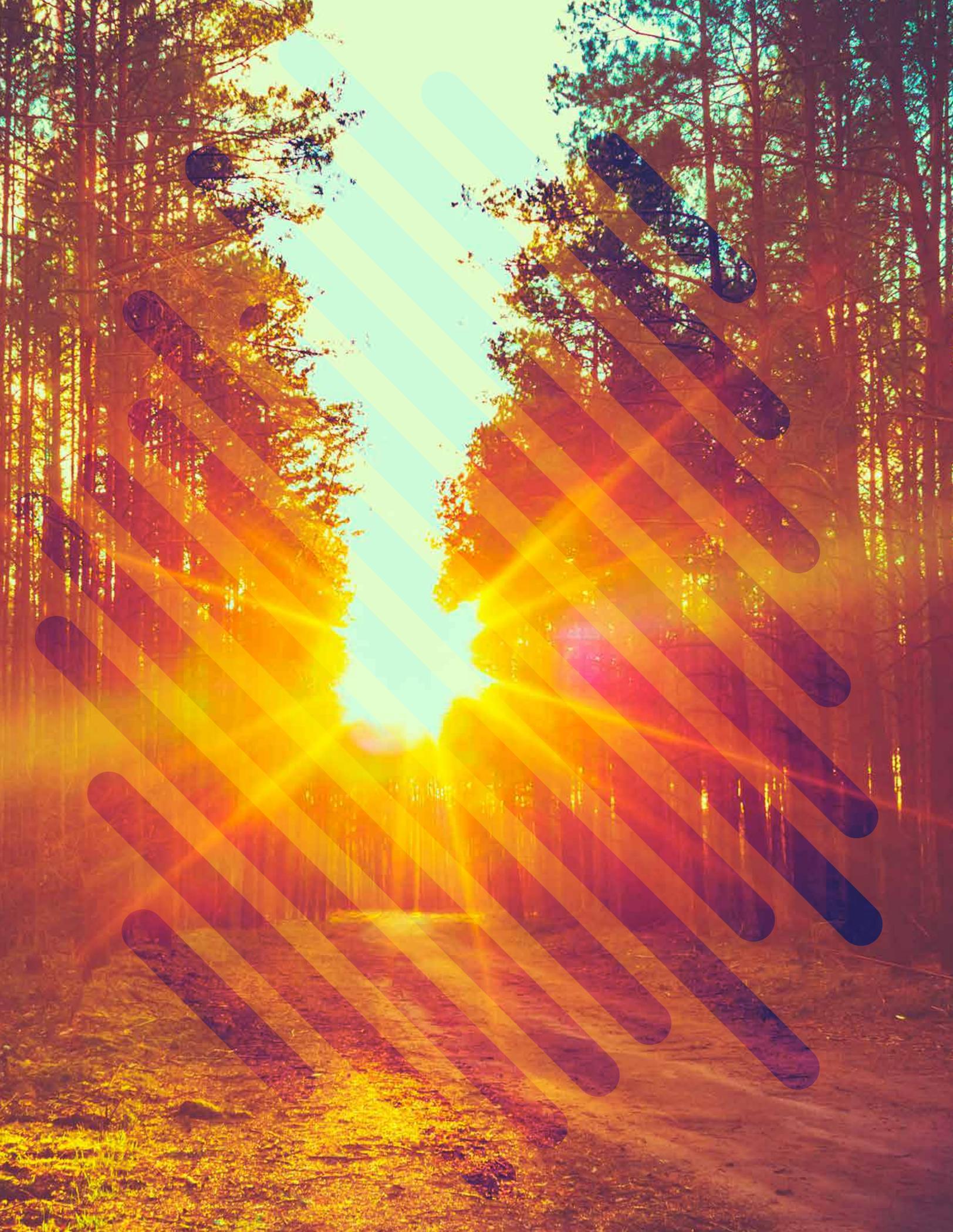
### Availability & Forced Outage Factor



## Expenses



- Fuel
- Purchased Power
- Other
- Staff Cost
- Depreciation and Amortisation



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## INDEPENDENT AUDITORS' REPORT

To the Members of  
JAMAICA PUBLIC SERVICE COMPANY LIMITED

### **Report on the Audit of the Financial Statements**

#### *Opinion*

We have audited the financial statements of Jamaica Public Service Company Limited (“the Company”), comprising the separate financial statements of the company and the consolidated financial statements of the company and its subsidiary (“the Group”), set out on pages 48 to 104, which comprise Company’s and Group’s statements of financial position as at December 31, 2017, the company’s and group’s statements of profit or loss and other comprehensive income, changes in shareholders’ equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company and group as at December 31, 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

#### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
JAMAICA PUBLIC SERVICE COMPANY LIMITED

### **Report on the Audit of the Financial Statements (continued)**

#### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **Recoverability of trade receivables**

The Group has significant overdue balances with government and residential customers. There is significant judgment involved in determining the levels of allowance for impairment on these balances, because of the uncertainty involved in estimating the timing and amount of future collections.

#### **How the matter was addressed in our audit**

Our audit procedures in response to this matter, included:

- Testing the Group's manual and automated controls over the recording and ageing of receivables.
- Testing subsequent receipts for selected customer accounts.
- Challenging the collection rates used by management in determining its estimate by testing historical collection experience and performing an independent calculation of these rates.
- Evaluating the adequacy of the allowance for impairment recognised in respect of the Group's receivables by testing the underlying data used and re-performing the calculation.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
**JAMAICA PUBLIC SERVICE COMPANY LIMITED**

### **Report on the Audit of the Financial Statements (continued)**

#### *Key Audit Matters (continued)*

#### **Revenue recognition - unbilled revenue**

The Group recognises revenue as electricity is delivered to its customer. Management estimates energy consumption between the date of the last meter reading and the end of the reporting period. Detailed financial models utilising estimates of the electricity and fuel consumption of the Group's customers and applicable tariff rates are used in determining the estimated unbilled revenue.

The matter involves significant management judgment to estimate the customer electricity and fuel consumption between the last meter reading date and the end of the reporting period.

#### **How the matter was addressed in our audit**

Our audit procedures in response to this matter, included:

- Testing the Group's key controls over the determination of the estimate of unbilled revenue.
- Assessing the adequacy of the Group's unbilled revenue model by comparing it against industry norms and regulatory requirements.
- Testing the assumptions used in determining the estimate by:
  - Testing the volume data; and
  - Comparing the prices applied by management to actual fuel and independent power providers costs incurred.
- Performing an independent calculation of the estimate of unbilled revenues on a meter read cycle basis, and comparing our results to management's reported amount.

#### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
JAMAICA PUBLIC SERVICE COMPANY LIMITED

### **Report on the Audit of the Financial Statements (continued)**

#### *Other Information (continued)*

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company and the group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the group's financial reporting process.

#### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
JAMAICA PUBLIC SERVICE COMPANY LIMITED

**Report on the Audit of the Financial Statements (continued)**

*Auditors' Responsibilities for the Audit of the Financial Statements (continued)*

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at page 47, forms part of our auditors' report.

**Report on additional matters as required by 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, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

The principal on the audit resulting in this independent auditors' report is Sandra Edwards.

KPMG

Chartered Accountants  
Kingston, Jamaica

March 28, 2018

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of  
JAMAICA PUBLIC SERVICE COMPANY LIMITED

### **Appendix to the Independent Auditors' report**

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

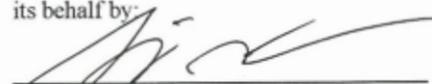
# Group Statement of Financial Position

December 31, 2017

(Expressed in United States Dollars)

	Notes	Company		Group
		2017 \$'000	2016 \$'000	2017 \$'000
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	710,937	678,065	710,937
Intangible assets	6	24,547	21,479	24,547
Investment in subsidiary	7(a)	-	-	-
Investment in joint venture	7(b)	-	-	15,646
Employee benefits asset	8(a)(i)	41,730	32,167	41,730
Other asset	9	-	89	-
		<u>777,214</u>	<u>731,800</u>	<u>792,860</u>
<b>Current assets</b>				
Cash and cash equivalents	10	12,203	8,650	12,203
Restricted cash	11	38,443	34,714	38,443
Accounts receivable	12	217,218	156,091	217,218
Due from related parties	18(a)(i)	16,795	10,360	795
Inventories	13	41,405	32,143	41,405
Corporation tax recoverable		1,730	-	1,730
		<u>327,794</u>	<u>241,958</u>	<u>311,794</u>
<b>Total assets</b>		<u>1,105,008</u>	<u>973,758</u>	<u>1,104,654</u>
<b>Shareholders' equity</b>				
Share capital	14	261,786	261,786	261,786
Capital reserve	15	4,760	4,145	4,760
Capital redemption reserve	16	3,000	3,000	3,000
Retained earnings		<u>154,601</u>	<u>126,480</u>	<u>154,247</u>
		<u>424,147</u>	<u>395,411</u>	<u>423,793</u>
<b>Current liabilities</b>				
Bank overdraft	10	2,924	-	2,924
Accounts payable and provisions	17	191,104	135,978	191,104
Corporation tax payable		-	660	-
Due to related parties	18(a)(ii)	133	2,966	133
Short-term loans	20(a)	23,000	-	23,000
Current portion of long-term loans	20(b)	<u>36,341</u>	<u>59,622</u>	<u>36,341</u>
		<u>253,502</u>	<u>199,226</u>	<u>253,502</u>
<b>Non-current liabilities</b>				
Customers' deposits	19	27,150	24,294	27,150
Long-term loans	20(b)	317,704	284,582	317,704
Preference shares	21	24,688	24,688	24,688
Deferred taxation	22	40,624	38,061	40,624
Decommissioning provision	23	9,234	-	9,234
Employee benefits obligation	8(b)	<u>7,959</u>	<u>7,496</u>	<u>7,959</u>
		<u>427,359</u>	<u>379,121</u>	<u>427,359</u>
<b>Total liabilities</b>		<u>680,861</u>	<u>578,347</u>	<u>680,861</u>
<b>Total shareholders' equity and liabilities</b>		<u>1,105,008</u>	<u>973,758</u>	<u>1,104,654</u>

The financial statements on pages 48 to 104, were approved by the Board of Directors on March 28, 2018, and signed on its behalf by:

  
Seiji Kawamura Chairman

  
Chang Sup Jo Director

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

## JAMAICA PUBLIC SERVICE COMPANY LIMITED

# Group Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2017

(Expressed in United States Dollars)

	Notes	Company		Group
		2017 \$'000	2016 \$'000	2017 \$'000
Operating revenue	24	836,869	712,534	836,869
Cost of sales	25(a)	(548,967)	(427,792)	(548,967)
Gross profit		287,902	284,742	287,902
Operating expenses	25(b)	(225,558)	(220,337)	(225,558)
Operating profit		<u>62,344</u>	<u>64,405</u>	<u>62,344</u>
Finance income		4,241	2,825	4241
Finance costs		( 39,173)	( 42,639)	( 39,173)
Net finance costs	25(c)	( 34,932)	( 39,814)	( 34,932)
Other income	26(a)	4,817	10,376	4,817
Other expenses	26(b)	( 2,198)	( 1,975)	( 2,198)
		30,031	32,992	30,031
Share of loss in joint venture	7(b)	-	-	( 354)
Profit before taxation		30,031	32,992	29,677
Taxation	27	( 5,444)	( 8,941)	( 5,444)
Profit for the year		<u>24,587</u>	<u>24,051</u>	<u>24,233</u>
Other comprehensive income				
Items that will never be reclassified to profit or loss:				
Gain on revaluation of property, plant and equipment		615	-	615
Remeasurement gains on defined benefit plan	8(a)(iv)	5,300	6,703	5,300
Tax on remeasurement gains on defined benefit plan	22	( 1,766)	( 2,234)	( 1,766)
Other comprehensive gain, net of tax		<u>4,149</u>	<u>4,469</u>	<u>4,149</u>
Total comprehensive income attributable to shareholders		<u>28,736</u>	<u>28,520</u>	<u>28,382</u>
Earnings per share	28	<u>0.11¢</u>	<u>0.11¢</u>	<u>0.11¢</u>

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED  
**Company Statement of Changes  
 in Shareholders' Equity**

Year ended December 31, 2017

(Expressed in United States Dollars)

	Share capital \$'000 (Note 14)	Capital reserve \$'000 (Note 15)	Capital redemption reserve \$'000 (Note 16)	Retained earnings \$'000	Total \$'000
Balance at December 31, 2015	<u>261,786</u>	<u>4,145</u>	<u>-</u>	<u>100,960</u>	<u>366,891</u>
Total comprehensive income for the year:					
Profit for the year	-	-	-	24,051	24,051
Other comprehensive income:					
Remeasurement losses on defined benefit plan, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,469</u>	<u>4,469</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,520</u>	<u>28,520</u>
Transfer to capital redemption reserves	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>( 3,000)</u>	<u>-</u>
Balance at December 31, 2016	<u>261,786</u>	<u>4,145</u>	<u>3,000</u>	<u>126,480</u>	<u>395,411</u>
Total comprehensive income for the year:					
Profit for the year	-	-	-	24,587	24,587
Other comprehensive income:					
Revaluation gain	-	615	-	-	615
Remeasurement losses on defined benefit plan, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,534</u>	<u>3,534</u>
Total comprehensive income for the year	<u>-</u>	<u>615</u>	<u>-</u>	<u>28,121</u>	<u>28,736</u>
Balance at December 31, 2017	<u>261,786</u>	<u>4,760</u>	<u>3,000</u>	<u>154,601</u>	<u>424,147</u>

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED

## Group Statement of Changes in Shareholders' Equity

Year Ended December 31, 2017

(Expressed in United States Dollars)

	Share capital \$'000 (Note 14)	Capital reserve \$'000 (Note 15)	Capital redemption reserve \$'000 (Note 16)	Retained earnings \$'000	Total \$'000
Balance at December 31, 2015	<u>261,786</u>	<u>4,145</u>	<u>-</u>	<u>100,960</u>	<u>366,891</u>
Total comprehensive income for the year:					
Profit for the year	-	-	-	24,051	24,051
Other comprehensive income:					
Remeasurement losses on defined benefit plan, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,469</u>	<u>4,469</u>
Total comprehensive income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,520</u>	<u>28,520</u>
Transfer to capital redemption reserves	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>( 3,000)</u>	<u>-</u>
Balance at December 31, 2016	<u>261,786</u>	<u>4,145</u>	<u>3,000</u>	<u>126,480</u>	<u>395,411</u>
Total comprehensive income for the year:					
Profit for the year	-	-	-	24,233	24,233
Other comprehensive income:					
Revaluation gain	-	615	-	-	615
Remeasurement losses on defined benefit plan, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,534</u>	<u>3,534</u>
Total comprehensive income for the year	<u>-</u>	<u>615</u>	<u>-</u>	<u>27,767</u>	<u>28,382</u>
Balance at December 31, 2017	<u>261,786</u>	<u>4,760</u>	<u>3,000</u>	<u>154,247</u>	<u>423,793</u>

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

# Statement of Cash Flows

Year Ended December 31, 2017

(Expressed in United States Dollars)

	Notes	Company		Group
		2017	2016	2017
		\$'000	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit for the year		24,587	24,051	24,233
Adjustments for:				
Depreciation and amortisation	5,6	76,589	77,607	76,589
Loss on disposal of property, plant and equipment		( 74)	26	( 74)
Amortisation of debt issuance costs		3,442	2,946	3,442
Amortisation of other asset		89	527	89
Unrealised foreign exchange gains		( 5,432)	( 757)	( 5,432)
Interest expense		37,712	34,900	37,712
Interest income	25(c)	( 2,078)	( 881)	( 2,078)
Interest capitalised	25(c)	( 2,163)	( 1,944)	( 2,163)
Taxation expense	27	4,647	7,730	4,647
Deferred tax	24	797	1,211	797
Employee benefits asset/obligation, net		( 3,414)	1,007	( 3,414)
Long term receivables and deferred revenue, net		( 25)	7	( 25)
Share of loss in joint venture		-	-	354
Cash generated before changes in working capital		134,677	146,430	134,677
Restricted cash		( 3,729)	( 3,671)	( 3,729)
Accounts receivable		( 54,701)	( 31,126)	( 54,701)
Inventories		( 9,262)	( 1,433)	( 9,262)
Accounts payable and provisions		63,312	23,725	63,312
Due from/to related parties		( 9,268)	( 9,018)	6,732
Customers' deposits and advances		2,115	896	2,115
Cash generated from operations		123,144	125,803	139,144
Taxation paid		( 7,034)	( 8,690)	( 7,034)
Net cash provided by operating activities		116,110	117,113	132,110
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of share in joint venture		-	-	( 16,000)
Proceeds from sale of property, plant and equipment		1,007	119	1,007
Purchase of property, plant and equipment	5	(106,452)	( 56,002)	(106,452)
Purchase of intangible assets	6	( 4,232)	( 6,404)	( 4,232)
Interest received		1,774	930	1,774
Net cash used in investing activities		(107,903)	( 61,357)	(123,903)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Short-term loans received, net		23,000	-	23,000
Long-term loans received		75,848	32,210	75,848
Repayment of long-term loans		( 69,455)	( 45,013)	( 69,455)
Repayment of shareholders' loan		-	( 2,000)	-
Preference shares redeemed		-	( 3,000)	-
Interest and dividend paid		( 36,971)	( 34,861)	( 36,971)
Net cash used in financing activities		( 7,578)	( 52,664)	( 7,578)
Net increase in cash and cash equivalents		629	3,092	629
Net cash and cash equivalents at beginning of year		8,650	5,558	8,650
<b>NET CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>9,279</u>	<u>8,650</u>	<u>9,279</u>
Comprised of:				
Cash and cash equivalents		12,203	8,650	12,203
Bank overdraft		( 2,924)	-	( 2,924)
		<u>9,279</u>	<u>8,650</u>	<u>9,279</u>

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

# Notes to the Financial Statements

December 31, 2017

(Expressed in United States Dollars)

## 1. Identification, Regulation and Licence

### (a) Identification:

Jamaica Public Service Company Limited ("the Company") is incorporated and domiciled in Jamaica as a limited liability company. The company is owned by MaruEnergy JPSCO 1 SRL and EWP (Barbados) 1 SRL, each holding 40% interest in the Company's shares, with the Government of Jamaica (GOJ) holding 19.9% and private individuals 0.1%.

MaruEnergy JPSCO 1 SRL is incorporated in Barbados and is ultimately owned by Marubeni Corporation, which is incorporated in Japan. EWP (Barbados) 1 SRL is incorporated in Barbados and is ultimately owned by the Korea Electric Power Corporation, which is incorporated in South Korea. The Government of Jamaica's ownership in the Company is held collectively through the Accountant General's Department and the Development Bank of Jamaica Limited.

In accordance with a Shareholder's Agreement, the majority shareholders have 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 Group are generating, transmitting, distributing and supplying electricity in accordance with the terms of the amended Electricity Licence, 2016 (the Licence), granted on January 27, 2016, by the Minister of Science, Technology, Energy and Mining.

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.

### (b) Regulatory arrangements and tariff structure:

The Licence authorises the Group to supply electricity for public and private purposes within the Island of Jamaica, subject to regulation by the Office of Utilities Regulation (OUR). The OUR is 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 Group of its obligations under the Licence, and to regulate the rates charged by the Group.

Under the provisions of the Licence, the Group 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 Group 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 through to 2027 upon the sale of the Group by Mirant Corporation to Marubeni Corporation.

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

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 1. Identification, Regulation and Licence (continued)

#### (b) 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 Group'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 Group should recover its actual fuel costs, net of the prescribed efficiency adjustments, through its Fuel Rate.

As of March 1, 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 to provide for a Self Insurance Sinking Fund in case of a major catastrophe affecting the Company's operations.

### 2. Statement of compliance and basis of preparation

#### (a) Statement of compliance:

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

#### **New, revised and amended standards and interpretations that became effective during the year:**

Certain new, revised and amended standards and interpretations which were in issue came into effect for the current financial year. The Group has assessed them and has adopted the following which are relevant to its operations.

- Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (a) Statement of compliance (continued):

#### **New, revised and amended standards and interpretations that became effective during the year (continued):**

- Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:
  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

The adoption of these amendments did not result in any material changes to the presentation and disclosure in the financial statements.

#### **New, revised and amended standards and interpretations that are not yet effective:**

At the date of authorisation of the financial statements, the following new, revised and amended standards and interpretations, which were in issue, were not yet effective and had not been early adopted by the Group. Those standards and interpretations that management considers may be relevant to the Group are as follows:

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (a) Statement of compliance (continued):

#### **New, revised and amended standards and interpretations that are not yet effective (continued):**

- The Group is required to adopt IFRS 9 *Financial Instruments* from January 1, 2018. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for accounts receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

IFRS 9 also replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
  - Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.
- Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of IFRS 9 impairment model. However, the Group is still in the process of determining the likely financial impact on its financial statements.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (a) Statement of compliance (continued):

#### **New, revised and amended standards and interpretations that are not yet effective (continued):**

- The Group is required to adopt IFRS 9 *Financial Instruments* (continued)

IFRS 9 will require extensive disclosures, in particular for credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as a January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - a) The determination of the business model within which a financial asset is held.
  - b) The designation and revocation of previous designations of certain financial assets as measured at FVTPL.
  - c) The designation of certain investments in equity investments not held for trading as at FVOCI.
- IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue-Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.

The Group will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (a) Statement of compliance (continued):

##### **New, revised and amended standards and interpretations that are not yet effective (continued):**

- IFRS 15, *Revenue From Contracts With Customers* (continued)

There are new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

- IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Companies will be required to bring all major leases on-balance sheet, recognising new assets and liabilities.

The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short-term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

- IFRIC 22, *Foreign Currency Transactions and Advance Consideration*, effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non-refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income or initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability. An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues or reinsurance contracts held. The interpretation clarifies that the transaction date is the date on which the Group initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.
- IFRIC 23, *Uncertainty Over Income Tax Treatments*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

An entity has to consider whether it is probable that the relevant tax authority would accept the tax treatment, or group of tax treatments, that is adopted in its income tax filing.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (a) Statement of compliance (continued):

##### **New, revised and amended standards and interpretations that are not yet effective (continued):**

- IFRIC 23, *Uncertainty Over Income Tax Treatments (continued)*

If the entity concludes that it is probable that the tax authority will accept a particular tax treatment in the tax return, the entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings and record the same amount in the financial statements. The entity will disclose uncertainty

If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better prediction of the resolution of the uncertainty.

If facts and circumstances change, the entity is required to reassess the judgements and estimates applied.

IFRIC 23 reinforces the need to comply with existing disclosure requirements regarding:

- judgements made in the process of applying accounting policy to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
- assumptions and other estimates used; and
- potential impact of uncertainties that are not reflected in the financial statements.

Management is currently assessing the impact, if any, on the financial statements in the future when the standards, amendments or interpretations are adopted.

#### (b) Basis of preparation:

These financial statements are presented in United States dollars, which is the functional currency of the Group and its Subsidiary. The United States dollar is the functional currency, as it is that of the primary economic environment in which the Group operates.

Except where otherwise indicated, all financial information presented in United States dollars has been rounded to the nearest thousands.

The financial statements are prepared under the historical cost basis, modified for the inclusion of land at valuation, and defined benefits obligation/(asset) at fair value of plan assets less the present value of the defined benefits obligation as explained in note 3(b).

##### *Basis of consolidation:*

The consolidated financial statements comprise of the Company and its subsidiary (collectively “the Group”) for the year ended December 31, 2017.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (b) Basis of preparation (continued):

##### *Basis of consolidation (continued):*

A subsidiary is an entity controlled by and forming part of the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, exposure to variable returns from the investee and a link between the power the Group has and the variability of returns. In assessing control, the existence and effect of potential voting rights that are currently exercisable are considered. Subsidiaries are consolidated from the date on which the Group effectively takes control until the date that control ceases. Accounting policies of subsidiaries are aligned with the policies adopted by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

#### (c) Use of estimates and judgements:

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts could differ from those estimates.

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) Post-employment benefits:

The amounts recognised in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income for post-employment benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected rates of salary and pension increases, and the discount rate used to determine the present value of estimated future cash flows required to settle the pension obligation.

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 Group'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.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 2. Statement of compliance and basis of preparation (continued)

#### (c) Use of estimates and judgements (continued):

##### (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 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 [Notes 3(q) and 4].

##### (iv) Unbilled revenue:

Unbilled revenue at each month-end is estimated consistently based on the average amounts billed in the billing period immediately preceding each reporting date, including amounts unbilled for Independent Power Provider (IPP) charges.

##### (v) Capitalisation and useful lives of property, plant and equipment:

Management exercises judgement in determining whether the costs incurred can accrue significant future economic benefits to the Group to enable the expenditure 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.

##### (vi) Allowance for inventory obsolescence:

The Group assesses its inventory on an annual basis to determine any allowance that should be carried for items that are in good condition, but will not be used in the foreseeable future. Allowance is also made for items that have deteriorated or become damaged while in stock.

### 3. Summary of significant accounting policies

#### (a) Property, plant and equipment and intangible assets:

##### *Recognition and measurement*

In accordance with IAS 16, additions to property, plant and equipment, 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. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (a) Property, plant and equipment and intangible assets (continued):

##### *Recognition and measurement (continued)*

Specialised plant and equipment are measured at deemed cost at the IFRS transition date of January 1, 2003, less accumulated depreciation and impairment losses, while all other property, plant and equipment are measured at cost except for land, which is measured at revalued amounts. Land was revalued as at December 31, 2017, by an independent valuator using the Market Comparable Basis which utilises the sale values for similar properties within the relevant period.

Valuations are performed with sufficient frequency to ensure that the fair value of the revalued asset does not differ materially from its carrying amount at the reporting date.

Property, plant and equipment being constructed are carried at cost less recognised impairment losses.

Intangible assets includes computer software measured at cost, less amortisation and impairment losses, and land rights measured at cost. Impairment losses are recognised in profit or loss in operating expenses.

##### *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 down the assets to their recoverable values over their expected useful lives.

The depreciation rates, which are specified by the Licence, are as follows:

Steam production plant	4%
Hydraulic production plant	2%, 2½% & 2.86%
Other production plant	2½%, 4%, 4½% & 5%
Transmission plant	4%
Distribution plant	3½%, 4%, 5%, 6⅔% & 20%
General plant & equipment:	
Buildings and structures	2%
Transport equipment	14.30%
Other equipment	10%, 15.67% & 20%

Computer software which is classified as an intangible asset is amortised at 16.67% per annum. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset. All other expenditure is recognised in profit or loss as incurred.

Useful lives and residual values are renewed at each reporting date and adjusted as appropriate.

#### (b) Employee benefits:

Employee benefits comprising pensions and other post-employment assets and obligations included in these financial statements have been actuarially determined by a qualified independent actuary, appointed by management.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (b) Employee benefits (continued):

The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the Group's post-employment benefits asset and obligation as computed by the actuary.

#### (i) Pension assets:

The Group participates in two pension plans (a defined benefit plan and a defined contribution pension plan), the assets of which are held separately from those of the Group.

Obligations for contributions to the defined contribution pension plan are recognised as an expense in profit or loss as incurred.

The defined benefit pension plan requires the Group 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 Group's net obligation in respect of the defined benefit pension plan is calculated at each reporting 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 Group in the form of future refunds or reductions in contributions. The discount rate applied is the yield at reporting date on long-term government instruments that have maturity dates approximating the term of the Group'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 calculation of the net defined benefits obligation/asset is performed by the appointed actuary using the Projected Unit Credit Method.

Remeasurements of the net defined benefits obligation/asset, which comprise actuarial gains and losses, and the effect of the asset ceiling (if any, excluding interest), are recognised in other comprehensive income. The Group determines the net interest expense/income on the net defined benefit liability/asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit obligation/asset, taking into account any changes in the net defined benefit obligation/asset during the period as a result of contributions and benefit payments.

Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (b) Employee benefits (continued):

##### (ii) Other employee benefits:

A provision is made for unutilised vacation and sick leave in respect of service rendered by employees up to the reporting date. Pursuant to 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 statutory contributions arising on leave-vesting. No discounting is applied to unutilised vacation and leave as the timing cannot reliably be determined.

#### (c) 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 reporting date.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, net of outstanding bank overdrafts.

#### (d) Accounts receivable:

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

#### (e) Inventories:

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

#### (f) Accounts payable:

Trade and other payables are measured at amortised cost.

#### (g) Provisions:

A provision is recognised in the statement of financial position when the Group has an obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of that 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 of money, and, where appropriate, the risks specific to the obligation.

##### *Decommissioning obligations:*

The Group's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalised in the relevant asset category. Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the reporting date.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

(g) Provisions (continued):

*Decommissioning obligations (continued)*

Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time (and unwinding of the discount) is recognised within finance costs whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalised. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) 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 profit or loss 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 amortised on an effective rate basis over the lives of the loans.

(iii) Interest-bearing borrowings:

Interest-bearing borrowings are recognised initially at fair value plus transaction costs directly attributable to the issue of the financial liabilities. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using effective interest method.

(i) Customers' deposits:

Given the long-term nature of customer relationships, customers' 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 reporting date). Interest is credited annually on customers' deposits at rates prescribed by the Licence.

(j) Preference shares:

The Group's redeemable preference shares are classified as liabilities because they bear non-discretionary dividends and are redeemable in cash by the holders. Non-discretionary dividends thereon are recognised as interest expense in profit or loss as accrued.

(k) Share capital:

Ordinary shares are classified as equity.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (l) Impairment:

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, an asset's recoverable amount is estimated. 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 profit or loss.

#### *Calculation of recoverable amounts*

The recoverable amount of the Group'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 fair value less cost to sell and value in use. In assessing value in use, the estimated entity-specific 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.

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 in respect of non-monetary assets is reversed if there has been a change in the estimate used to determine the recoverable amount.

#### (m) Revenue recognition:

##### (i) Operating revenue:

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").

##### (ii) Interest income:

Interest income is recognised on an accrual basis using the effective interest method.

##### (iii) Rental income:

Rental income from operating leases is accounted for on a straight line basis over the lease term and is included in profit or loss.

#### (n) Taxation:

##### Current and deferred taxes:

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

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (n) Taxation (continued):

Current and deferred taxes (continued):

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

Deferred tax is computed by 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 reporting date.

A deferred tax liability is recognised for taxable temporary differences, except to the extent that the Group 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.

#### (o) Related parties:

A related party is a person or company that is related to the entity which is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity", that is, "the Company and Group").

(a) A person or a close member of that person's family is related to the Group if that person:

- (i) Has control or joint control over the Group;
- (ii) Has significant influence over the Group; or
- (iii) Is a member of the key management personnel of the Group or of a parent of the Company.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (o) Related parties (continued):

(b) An entity is related to the Group if any of the following conditions applies (continued):

(v) The entity is a post-employment benefit plan established for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled, or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the reporting entity or is a member of the key management personnel of the reporting entity (or of a parent of the entity).

(viii) The entity or any member of a group of which it is a part, provides key management services to the company.

A related party transaction involves transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

The Group's key related party relationships are with its primary shareholders, their parent companies, subsidiary, fellow subsidiaries and associated companies, the Government of Jamaica, directors, key management personnel and its two pension plans.

#### (p) Joint arrangements:

Joint arrangements are arrangements over which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' return. They are classified and accounted for as follows:

- Joint operation – when the Group has rights to the assets, and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly in relation to the joint operation.
- Joint venture – when the Group has rights only to the net assets of the arrangements it accounts for its interest using the equity method.

#### (q) Leases:

As lessee:

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. The Group does not have any lease arrangements in which the lease payments are determined on a contingent basis, nor do any of the arrangements currently in effect impose any restrictions with respect to paying dividends, taking additional debt or entering into other lease arrangements.

With respect to the lease of the head office building, which has a fixed lease term of 10 years at a fixed annual rental charge, the Group has a first right of refusal should the lessor opt to sell the building.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (q) Leases (continued):

As lessor:

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### (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 reporting 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 profit or loss.

For the purposes of the 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.

#### (s) Segment reporting:

An operating segment is a component of an entity:

- (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- (ii) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- (iii) for which discrete financial information is available.

The Group maintains an integrated operating structure and its operations are reviewed by management and directors as a whole and not in segments. Consequently, no segment disclosures are included in the financial statements.

#### (t) Financial instruments and fair value measurement:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets as appropriate. All financial assets are recognised initially at fair value plus transaction costs attributable to the acquisition of the asset. For the purposes of these financial statements, financial assets have been determined to include cash and cash equivalents, restricted cash, long term receivables, accounts receivable, due from related party and other assets. The category most relevant to the Group is loans and receivables [see also note 3(d)].

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (t) Financial instruments and fair value measurement (continued):

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its right to receive cash flows from the asset. Purchases and sales of financial instruments are accounted for at settlement dates.

Financial liabilities are classified at initial recognition as financial liabilities at fair value through profit or loss, or at amortised cost, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans, net of directly attributable transaction costs. The Group's financial liabilities include accounts payable, other financial liabilities, due to related parties, customers' deposits, preference shares and loans.

The measurement of financial liabilities depends on their classification, as described below:

#### *Financial liabilities at fair value through profit or loss*

These include liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing or settlement in the near term. Gains and losses on these liabilities are recognised in profit or loss on settlement. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, only if the criteria in IAS 39 are satisfied.

#### *Financial liabilities at amortised cost*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender or at substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability.

#### *Derivative financial instruments*

The Group may use derivative financial instruments such as interest rate swaps to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken to profit or loss.

#### *Fair value measurement*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 3. Summary of significant accounting policies (continued)

#### (t) Financial instruments and fair value measurement (continued):

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

A fair value measurement of a non-financial assets takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are classified within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable.

### 4. Power purchase contracts

The Group has entered into agreements with Independent Power Providers (IPPs) for the purchase of energy capacity and net energy output The IPP arrangements are:

	<u>Contract termination date</u>
Jamaica Aluminum Company Limited (JAMALCO)	December 2019
The Jamaica Private Power Company Limited (JPPC)	December 2024
Wigton Wind Farm Limited (Wigton)	May 2024 & 2036
Jamaica Energy Partners (JEP)	February 2026
West Kingston Power Partners (WKPP)	July 2032
Content Solar Limited (CS)	August 2036
BMR Jamaica Wind Limited (BMR)	June 2036

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 Group to provide a banker's guarantee in relation to contractual payments. The Group has financing arrangements with financial institutions, which guarantee access to funds by IPPs for contractually agreed payments. As at December 31, 2017, the total guarantees under Standby Letters of Credit amounted to \$33.0 million (2016: \$30.7 million). These facilities were not accessed during the year.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

*(Expressed in United States Dollars)***4. Power purchase contracts (continued)**

The contracts with JEP, JPPC, WKPP, Wigton, CS and BMR have been assessed as operating leases. The contract with JAMALCO is not considered an arrangement that contains a lease. The operating leases with JEP, WKPP and JPPC give rise to unexpired commitments for energy capacity and certain operating charges payable. At December 31, 2017, the minimum lease payments are as follows:

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Within 1 year	51,872	46,870
From 1-2 years	52,229	46,204
From 3-5 years	158,918	121,667
Over 5 years	<u>276,068</u>	<u>304,377</u>
	<u>539,087</u>	<u>519,118</u>

Lease payments under operating leases with IPPs recognised in profit or loss for the year, aggregated approximately \$157.3 million (2016: \$121.1 million) [Note 25(a)].

## JAMAICA PUBLIC SERVICE COMPANY LIMITED

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

**5. Property, plant and equipment****The Company and Group**

	Land & buildings \$'000	Production (generation) plant & equipment \$'000	Transmission and distribution plant & equipment \$'000	General plant & machinery \$'000	Computer equipment, office fixtures & fittings \$'000	Construction work-in-progress \$'000	Total \$'000
<b>Cost or valuation:</b>							
December 31, 2015	66,555	724,870	1,042,403	125,465	73,761	52,381	2,085,435
Additions	14	1,848	11,591	397	846	43,250	57,946
Transfers	436	34,963	12,844	(32,694)	34,786	(50,335)	-
Disposals/retirements and adjustments	(158)	(55)	-	(55,011)	(13,054)	-	(68,278)
December 31, 2016	66,847	761,626	1,066,838	38,157	96,339	45,296	2,075,103
Additions	19	10,882	15,263	596	871	80,984	108,615
Transfers	414	12,591	22,402	319	3,727	(39,453)	-
Disposals/retirements and adjustments	(3,406)	(7,606)	(29)	(41)	(54)	-	(11,136)
Revaluation	615	-	-	-	-	-	615
December 31, 2017	64,489	777,493	1,104,474	39,031	100,883	86,827	2,173,197
<b>Depreciation:</b>							
December 31, 2015	11,808	526,683	678,278	111,796	63,989	-	1,392,554
Charge for the year	855	33,689	24,100	2,836	11,137	-	72,617
Disposals/retirements and adjustments	(57)	(177)	(121)	(80,254)	12,476	-	(68,133)
December 31, 2016	12,606	560,195	702,257	34,378	87,602	-	1,397,038
Charge for the year	882	40,255	26,779	951	3,940	-	72,807
Disposals/retirements and adjustments	-	(7,624)	103	(53)	(11)	-	(7,585)
December 31, 2017	13,488	592,826	729,139	35,276	91,531	-	1,462,260
<b>Net book values:</b>							
December 31, 2017	51,001	184,667	375,335	3,755	9,352	86,827	710,937
December 31, 2016	54,241	201,431	364,581	3,779	8,737	45,296	678,065

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

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

- (a) Land and buildings include land, at valuation, aggregating approximately \$26.2 million (2016: \$28.9 million). Of this amount, the cost of land, amounted to \$21.4 million (2016: \$25 million). Land, which is considered a separate class of assets, was revalued during the year by an independent professional valuator.
- (b) The fair value of land is categorised as level 3 in the fair value hierarchy. The following table shows the valuation technique used in measuring fair value as well as the significant unobservable inputs used.

Valuation techniques	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
<p><i>Market comparable approach:</i></p> <ul style="list-style-type: none"> <li>• The approach is based on the principle of substitution whereby the purchaser with perfect knowledge of the property market pays no more for the subject property than the cost of acquiring an existing comparable assuming no cost delay in making the substitution.</li> <li>• The approach requires comparison of the subject property with others of similar design and utility, inter alia, which were sold in the recent past.</li> <li>• However, as no two properties are exactly alike, adjustment is made for the difference between the property subject to valuation and comparable properties.</li> </ul>	<ul style="list-style-type: none"> <li>• Details of the sales of comparable properties.</li> <li>• Conditions influencing the sale of comparable properties.</li> <li>• Comparability adjustments.</li> </ul>	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> <li>• Sale value of comparable properties were higher/(lower).</li> <li>• Comparability adjustments were higher/(lower).</li> </ul>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

5. Property, plant & equipment (continued)

- (c) The carrying value of temporarily idle property, plant and equipment at December 31, 2017 was \$Nil (2016: \$2.61 million).
- (d) Interest capitalised during construction for the year amounted to approximately \$2.2 million (2016: \$1.9 million). The capitalisation rate used for the year was 4.14% (2016: 3.995%).
- (e) The composite rate of depreciation for the year was approximately 6.60% (2016: 6.89%).

6. Intangible assets

This represents acquired software costs capitalised and land rights purchased as follows:

The Company and Group

	<u>Software</u> \$'000	<u>Land rights</u> \$'000	<u>Total</u> \$'000
Cost or valuation:			
December 31, 2015	21,568	5,260	26,828
Additions	<u>6,404</u>	<u>-</u>	<u>6,404</u>
December 31, 2016	27,972	5,260	33,232
Additions	4,231	1	4,232
Transfers	<u>-</u>	<u>2,618</u>	<u>2,618</u>
December 31, 2017	<u>32,203</u>	<u>7,879</u>	<u>40,082</u>
Depreciation:			
December 31, 2015	6,763	-	6,763
Charge for the year	<u>4,990</u>	<u>-</u>	<u>4,990</u>
December 31, 2016	11,753	-	11,753
Charge for the year	<u>3,782</u>	<u>-</u>	<u>3,782</u>
December 31, 2017	<u>15,535</u>	<u>-</u>	<u>15,535</u>
Net book values:			
December 31, 2017	<u>16,668</u>	<u>7,879</u>	<u>24,547</u>
December 31, 2016	<u>16,219</u>	<u>5,260</u>	<u>21,479</u>

Software includes software projects in development of \$4.1 million (2016: \$3.6 million).

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 7. Subsidiaries and Joint Ventures

- (a) During the year, the Group incorporated a new subsidiary, South Jamaica Energy Holdings Limited in which the Company holds 1 ordinary class share at \$1 per share representing 100% ownership. The primary activity of SJEH is the holding of investments.
- (b) Investment in Joint Venture

During the year, the Group transferred its 20% interest in South Jamaica Power Company Limited (SJPC) to its fully owned subsidiary, SJEH. This holding was increased to 49.8% as at December 31, 2017. The primary activity of SJPC is the construction of a power plant pursuant to an electricity generation licence. The Group has rights to the net assets/(liabilities) of the entity and is accounted for using the equity method.

The Group's investment in the joint venture is as follows:

	<u>The Group</u>	
	<u>2017</u> \$'000	<u>2016</u> \$'000
Interest in joint venture during the year	16,000	-
Share of loss	( 354)	-
Balance at the end of the year	<u>15,646</u>	<u>-</u>

The following table represents the summarised financial information for the joint venture as at December 31, 2017.

	<u>\$'000</u>
Current Assets	14,809
Non-Current Assets	129,020
Current Liabilities	( 16,373)
Non-Current Liabilities	( 96,038)
Net Assets	<u>31,418</u>
Total Comprehensive Loss	<u>( 710)</u>
Reconciliation of summarised financial information to the carrying amount of the Group's interest in the joint venture	
Net Assets as at December 31, 2017	\$31,418
Interest in joint venture	49.8%
Carrying value	<u>\$15,646</u>

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 8. Employee benefits

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

The Group administers a defined-benefit pension plan for selected employees and their beneficiaries. The accumulated fund is administered by the trustees who are assisted by an independent plan administrator and three fund managers; Sagicor Life of Jamaica Limited, Victoria Mutual Pensions Management Limited and NCB Insurance Company Limited. The administrator is Employee Benefits Administrator Limited, a wholly owned subsidiary of Sagicor Life Jamaica Limited, whose offices are located at 48 Barbados Avenue, Kingston 5, Jamaica, W.I. Effective February 1, 2007, the fund was closed to new entrants.

On retirement, a member is entitled to be paid an annual pension of 1.9% (2016:1½%) on the highest average of the member's annual pensionable salary during any consecutive three year period of pensionable service, multiplied by the number of years of pensionable service.

The plan was approved and registered pursuant to Section 13 of the Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 on December 16, 2009.

#### (i) Employee benefits:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Present value of funded obligations	( 93,789)	( 76,430)
Fair value of plan assets	177,249	140,764
Unrecognised amount due to limitation	( 41,730)	( 32,167)
Asset recognised in statement of financial position	<u>41,730</u>	<u>32,167</u>

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

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Balance at beginning of year	( 76,430)	( 72,859)
Benefits paid	2,282	1,475
Current service cost	( 2,553)	( 2,410)
Interest cost	( 7,196)	( 6,017)
Voluntary contributions	( 678)	( 556)
Gain on curtailment settlement	498	271
Remeasurement loss on obligation for OCI	( 7,608)	( 223)
Exchange (loss)/gain	( 2,104)	<u>3,889</u>
Balance at end of year	<u>( 93,789)</u>	<u>( 76,430)</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

8. Employee benefits (continued)

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

## (ii) Movements in plan assets:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Fair value of plan assets at beginning of year	140,764	128,163
Contributions paid:		
Employer	1,508	1,420
Employees	2,186	1,976
Interest income on assets	13,076	10,262
Benefits paid	( 2,282)	( 1,475)
Refund to company	-	( 4,815)
Remeasurement gain on assets for OCI	18,209	13,630
Exchange gain/(loss)	<u>3,788</u>	<u>( 8,397)</u>
Fair value of plan assets at end of year	<u>177,249</u>	<u>140,764</u>
Plan asset consist of the following:		
Investments quoted in active markets:		
Equities	69,692	53,004
Government bonds	42,209	47,938
Corporate bonds and other debt securities	16,104	11,384
Pooled pension investments	14,637	9,428
Unquoted investments:		
Real estate	14,258	13,292
Repurchase agreements	6,360	3,001
Net current assets	<u>13,989</u>	<u>2,717</u>
	<u>177,249</u>	<u>140,764</u>

Included in the plan assets as at December 31, 2017 are:

- Real estate occupied by the Group with a fair value of \$14.2 million (2016: \$13.0 million);
- JPS 11% promissory notes with a fair value of \$0.31 million (2016: \$0.31 million); and
- JPS 9.5% non-redeemable preference shares with a fair value of \$3.3 million (2016: \$3.1 million).

All investments are issued by the Jamaican government or companies domiciled in Jamaica.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

8. Employee benefits (continued)

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

## (iii) Debit/(credit) recognised in the statement of comprehensive income:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Current service cost	2,553	2,410
Interest cost	7,196	6,017
Administrative expenses	81	-
Interest income on assets	(13,076)	(10,262)
Gain on curtailment	( 498)	( 271)
Total credit	( 3,744)	( 2,106)
Net credit recognised due to limitation	( 1,872)	( 1,053)

The credit is recognised in staff cost-other employees' costs in profit or loss [Note 25(b)].

## (iv) Remeasurement gains/loss recognised in other comprehensive income:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Remeasurement gain/(loss) on obligation for OCI	7,608	( 223)
Remeasurement (loss)/gain on assets for OCI	(18,209)	13,630
Total remeasurement (loss)/gain, net	(10,601)	13,407
Remeasurement (loss)/gain recognised due to limitation	<u>5,300</u>	<u>6,703</u>

## (v) Remeasurement loss on defined benefit obligation arising from:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Changes in financial assumptions	( 8,371)	801
Experience adjustments	<u>763</u>	( 1,024)
Remeasurement loss on defined benefit obligation	( 7,608)	( 223)

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

8. Employee benefits (continued)

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

## (vi) Remeasurement gain on defined benefit assets arising from:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Return on plan assets	31,285	23,892
Interest income on plan assets	( 13,076)	( 10,262)
	<u>18,209</u>	<u>13,630</u>

## (vii) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
Inflation rate	5.00%	6.00%
Discount rate	8.00%	9.00%
Future salary increases	5.00%	6.00%
Future pension increases	<u>0.00%</u>	<u>0.00%</u>

Assumptions regarding future mortality are based on GAM(94)M and GAM(94)F tables with ages reduced by five years. The expected long-term rate of return is based on the assumed long-term rate of inflation.

The weighted average duration of the defined benefit obligation as at December 31, 2017, is 18 years (2016: 18 years).

The Group's estimated contribution for the 12 months after year end is \$1.47 million (2016: \$1.50 million).

## (viii) Sensitivity analysis:

The calculation of the projected benefit obligation is sensitive to the assumptions used. The table below summarises how the defined benefit obligation measured at the end of the reporting period would have increased/(decreased) as a result of a change in the respective assumptions by one percentage point. In preparing the analysis for each assumption, all others were held constant.

	<u>The Company and Group</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
	1%	1%	1%	1%
	\$'000	\$'000	\$'000	\$'000
Discount rate	80,560	109,992	65,810	89,861
Future salary growth	<u>99,864</u>	<u>88,413</u>	<u>81,967</u>	<u>71,526</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

8. Employee benefits (continued)

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

## (viii) Sensitivity analysis (continued):

There were no changes to the methods used to prepare the sensitivity analyses.

## (b) Other employee benefits obligation:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Accumulated sick and vacation pay	<u>7,959</u>	<u>7,496</u>

## (c) Defined contribution pension plan:

The Group's contribution to the defined contribution pension plan for the year aggregated \$1.06 million (2016: \$0.80 million). These are recognised in staff cost-other employees' costs [Note 25(b)] in profit or loss.

9. Other asset

This represents the cost of materials and labour incurred to wire the houses of certain customers. The amounts are being amortised over a period of thirty to sixty months, the period over which the Group expects to be reimbursed by the customers.

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
At beginning of year	89	616
Amortisation	( 89)	( 527)
At end of year	<u>-</u>	<u>89</u>

10. Net cash and cash equivalents

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Cash at bank and in hand	12,203	8,650
Bank overdraft	( 2,924)	-
Net cash and cash equivalents	<u>9,279</u>	<u>8,650</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

11. Restricted cash

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Self-insurance sinking fund	37,905	34,184
Deposit guarantees on staff loans, IPP contracts etc.	<u>538</u>	<u>530</u>
	<u>38,443</u>	<u>34,714</u>

The self-insurance sinking fund represents cash maintained as part of the self-insurance sinking fund administered under the direction of the OUR [Note 1(b)]. The term deposits in the sinking fund earn interest at a rate of 2.8% (2016: 2.25%) per annum.

12. Accounts receivable

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Trade receivables (i)	214,953	171,184
Allowance for impairment losses (i), (ii)	<u>( 48,450)</u>	<u>( 46,091)</u>
	166,503	125,093
Unbilled revenue	16,134	12,482
Prepayments	14,298	6,785
Other receivables	<u>20,283</u>	<u>11,731</u>
	<u>217,218</u>	<u>156,091</u>

(i) The aging of trade receivables at the reporting date is as follows:

	<u>The Company and Group</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Gross receivable</u>	<u>Impairment</u>	<u>Gross receivable</u>	<u>Impairment</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Neither past due nor impaired:				
Due 0-30 days	<u>90,678</u>	<u>-</u>	<u>76,593</u>	<u>-</u>
Past due and not impaired:				
Past due 31-60 days	11,549	-	9,185	-
Past due 61-90 days	8,211	-	6,378	-
More than 90 days	<u>56,065</u>	<u>-</u>	<u>32,937</u>	<u>-</u>
	<u>75,825</u>	<u>-</u>	<u>48,500</u>	<u>-</u>
Past due and impaired:				
More than 90 days	<u>48,450</u>	<u>48,450</u>	<u>46,091</u>	<u>46,091</u>
	<u>214,953</u>	<u>48,450</u>	<u>171,184</u>	<u>46,091</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

12. Accounts receivable

(ii) Movement in impairment losses for trade receivables is as follows:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Balance at beginning of year	46,091	45,351
Impairment loss recognised	12,036	10,721
Amounts recovered during the period	-	( 2,795)
Amounts written off during the period	( 9,677)	( 7,186)
Balance at end of year	<u>48,450</u>	<u>46,091</u>

13. Inventories

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Fuel	13,950	12,116
Generation spares	7,288	7,817
Transmission, distribution and other spares	<u>21,393</u>	<u>14,594</u>
	42,631	34,527
Less: Allowance for impairment	( 1,226)	( 2,384)
	<u>41,405</u>	<u>32,143</u>

14. Share capital

	<u>No of shares</u>
Authorised ordinary share capital:	
Ordinary stock units at no par value	315,733,190
Ordinary shares at no par value	<u>30,000,000,000</u>
Balance as at December 31, 2016 and 2017	<u>30,315,733,190</u>

	<u>No of shares</u>	<u>The Company and Group</u>	
		<u>2017</u>	<u>2016</u>
		<u>\$'000</u>	<u>\$'000</u>
Issued and fully paid:			
Ordinary share capital			
Ordinary stock units	315,733,190	5,684	5,684
Ordinary shares	<u>21,512,462,056</u>	<u>256,102</u>	<u>256,102</u>
At year end (Note 28)	<u>21,828,195,246</u>	<u>261,786</u>	<u>261,786</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

15. Capital reserve

<u>The Company and Group</u>	
<u>2017</u>	<u>2016</u>
\$'000	\$'000

Revaluation surplus	<u>4,760</u>	<u>4,145</u>
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This represents the net surplus arising on the revaluation of land.

16. Capital redemption reserve

This represents the value of the Class "G" preference shares redeemed during 2016 and was created through a transfer from retained earnings.

17. Accounts payable and provisions

<u>The Company and Group</u>	
<u>2017</u>	<u>2016</u>
\$'000	\$'000

Trade payables	124,548	83,810
Interest accrued on customer deposits and loans	16,751	16,028
Dividend payable (Note 29)	622	604
Other payables	39,633	26,683
Provisions (see below)	<u>9,550</u>	<u>8,853</u>
	<u>191,104</u>	<u>135,978</u>

Movement in provisions during the year was as follows:

<u>The Company and Group</u>	
<u>2017</u>	<u>2016</u>
\$'000	\$'000

At beginning of year	8,853	13,398
Provisions made during the year	954	205
Provisions utilised during the year	( 257)	( 792)
Provisions reversed during the year	<u>-</u>	<u>( 3,958)</u>
At the end of year	<u>9,550</u>	<u>8,853</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

**18. Related party balances and transactions**

(a) The following balances were due (from)/to related parties:

	<u>Company</u>		<u>Group</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	\$'000	\$'000	\$'000
(i) Due from:			
South Jamaica Power Company Limited	752	10,295	752
South Jamaica Energy Holdings Limited	16,000	-	-
Marubeni Caribbean Holding	<u>43</u>	<u>65</u>	<u>43</u>
	<u>16,795</u>	<u>10,360</u>	<u>795</u>
(ii) Due to:			
EWP (Barbados) 1 SRL	133	1,666	133
Government of Jamaica	<u>-</u>	<u>1,300</u>	<u>-</u>
	<u>133</u>	<u>2,966</u>	<u>133</u>

These balances are unsecured, interest free and have no fixed repayment terms.

(b) Related party transactions:

The Group 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 include charges from MaruEnergy JPSCO 1 SRL and EWP (Barbados) 1 SRL of approximately \$0.9 million (2016: \$2.9 million) and recharges of approximately \$0.8 million (2016: \$0.8 million)

- (i) In 2013, the Group entered into a commercial lease agreement for its Head Office land and building situated at 6 Knutsford Boulevard, Kingston 5 with The Jamaica Public Service Company Limited (JPSCO) (Original 1973) Employees' Pension Plan, a related party. The lease agreement is for an initial lease term of ten (10) years which commenced on January 1, 2013 and is renewable for a further period of five (5) years. Rental payments for the year were \$0.82 million (2016: \$0.82 million).
- (ii) The Group supplies electricity to related parties including the Government of Jamaica [see note 32 (a)(i)]. Total revenue from the Government for the year 2017 was \$137 million (2016: \$113.2 million).

The above transactions were executed in the ordinary course of business.

**19. Customers' deposits**

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Customers' deposits for electricity service (i)	16,203	14,868
Customers' advances for construction (ii)	<u>10,947</u>	<u>9,426</u>
	<u>27,150</u>	<u>24,294</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

**19. Customers' deposits (continued)**

- (i) In general, the Group 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 [Note 1(b)], which are broadly equivalent to rates applicable to saving deposit accounts.
- (ii) Customer advances for construction relate to non-interest-bearing deposits obtained by the Group in relation to construction projects being undertaken by potential customers. These amounts are refundable subject to certain conditions.

**20. Borrowings**

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
(a) <u>Short-term Loans</u>		
(i) Citibank	<u>23,000</u>	<u>-</u>
(b) <u>Long-term Loans</u>		
(ii) Kreditanstalt fur Weideraufbau of Frankfurt Government of Jamaica (KFW/GOJ), 7% fixed rate, repayable 2030 [€3.9 million (2016: €3.9 million)]	4,578	4,075
(iii) International Finance Corporation (IFC) variable rate, repayable 2020	9,928	13,208
(iv) Deutsche Bank as trustees of the holders of the 11% Senior Notes repayable 2021	176,570	175,991
(v) Citibank Japan/NEXI variable rate, repayable 2020	22,783	29,824
(vi) Proparco variable rate, repayable 2020	19,954	26,530
(vii) OPEC Fund for International Development variable rate, repayable 2020	8,267	10,999
(viii) FirstCaribbean International Bank (FCIB) variable rate, repayable 2018	1,867	5,568
(ix) Peninsula Corporation 5.25% fixed rate, repayable 2019	9,000	9,000
(x) Citibank/Overseas Private Investment Corporation variable rate, repayable 2017	-	7,500
(xi) Citibank/Overseas Private Investment Corporation variable rate, repayable 2020	-	27,227
(xii) FirstCaribbean International Bank (FCIB) \$30M Variable rate, repayable 2020	<u>22,344</u>	<u>29,719</u>
Balance carried forward	<u>275,291</u>	<u>339,641</u>

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 20. Borrowings (continued)

#### (b) Long-term loans (continued)

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Balance brought forward	275,291	339,641
(xiii) Export Development Canada variable rate, repayable 2019	3,063	4,563
(xiv) NCB Syndicated J\$2.45B Loan 9.95% fixed rate, repayable 2023	19,446	-
(xv) Citibank/Overseas Private Investment Corporation US\$120M 6.5% variable rate, repayable 2021 & 2026	<u>56,245</u>	<u>-</u>
Total long-term loans	354,045	344,204
Less: Current portion	<u>( 36,341)</u>	<u>( 59,622)</u>
Non-current portion	<u>317,704</u>	<u>284,582</u>

- (i) This short-term loan was received from Citibank in three tranches. The first drawdown of \$2.5 million in October 2017 is payable in April 2018 at a fixed rate of 2.5%. The second drawdown of \$7.5 million in November 2017 is payable in January 2018 at a fixed rate of 2.64% and the third drawdown of \$13 million in November 2017 is payable in September 2018 at a fixed rate of 3.37%.
- (ii) This loan was received from the Government of Jamaica (GOJ), based on a formal on-lending agreement dated January 17, 1996. Under the terms of the original agreement with KFW, the loan is unsecured and repayable commencing in 2010 through 2030. Interest is payable semi-annually in arrears.
- (iii) This loan is unsecured and repayable in eighteen semi-annual instalments of \$1.7 million, commencing March 2012. The variable interest rate is based on LIBOR plus 5.50% until 2014 and a spread of 5.25% thereafter. Interest is paid semi-annually commencing March 2011. The amount due is stated net of debt issuance costs of \$0.07 million (2016: \$0.13 million).
- (iv) 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; \$179.20 million to mature on July 6, 2021 and \$0.80 million matured on July 6, 2016. Interest payments are to be made on January 6 and July 6 annually with record dates of December 23 and June 22, respectively, and interest rates of 11% for 180/360 of principal amounts outstanding as at record dates. The amount due is stated net of debt issuance costs, in the amount of \$2.62 million (2016: \$3.2 million).
- (v) This loan is unsecured and is repayable in sixteen semi-annual instalments of \$4 million, which commenced in June 2013. Interest is also paid semi-annually. The variable interest rate is based on LIBOR plus 1.7% per annum. The amount due is stated net of debt issuance costs of \$1.59 million (2016: \$2.7 million).
- (vi) This loan is unsecured and is repayable in eighteen semi-annual instalments of \$3.3 million, which commenced in May 2012. The variable interest rate is based on LIBOR plus 5.50% per annum until 2015 and 5.25% thereafter. The amount due is stated net of debt issuance costs of \$0.21 million (2016: \$0.36 million).

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 20. Borrowings (continued)

- (vii) This loan is unsecured and is repayable in eighteen semi-annual instalments of \$1.4 million, which commenced in May 2012. The variable interest rate is based on LIBOR plus 5.50% per annum until 2014 and 5.25% thereafter. The amount due is stated net of debt issuance costs of \$0.07 million (2016: \$0.11 million).
- (viii) This loan is unsecured and is repayable in eight semi-annual instalments of \$1.9 million, which commenced in October 2014. The variable interest rate is based on the 6 month LIBOR plus 5.5%. The amount due is stated net of debt issuance costs of \$0.01 million (2016: \$0.06 million).
- (ix) This loan is unsecured and is repayable by a bullet payment at maturity in January 2019. Interest is paid quarterly at a fixed interest rate of 5.25%.
- (x) This loan was unsecured and related to a US\$30 million facility. The facility was repayable in eight quarterly instalments of \$3.80 million and commenced in September 2015. The variable interest rate was based on LIBOR plus 5.4%. This loan was fully repaid in March 2017.
- (xi) This loan was unsecured and related to a US\$30 million facility. The facility was repayable in sixteen quarterly instalments of \$1.8 million and commenced in December 2016. The variable interest rate was based on LIBOR plus 4.5%. This loan was fully repaid in March 2017.
- (xii) This loan is unsecured is repayable in eight semi-annual instalments of \$3.75 million and commenced in January 2017. The variable interest rate is based on LIBOR plus 5.5%. This amount due is stated net of debt issuance costs of \$0.16 million (2016: \$0.28 million)
- (xiii) This loan is unsecured and attracts interest at a rate of 6 month LIBOR plus 1.6%. The utilisation of the funds is restricted to capital expenditure on goods and services originating in Canada. The principal amounts were drawn on various dates with interest and principal repayable quarterly for each draw-down. This amount due is stated net of debt issuance costs of \$0.087 million (2016: \$0.21 million).
- (xiv) This loan is an unsecured Syndicated Jamaican Dollar loan and has a fixed interest rate of 9.95%. The funds are to be utilised for capital expenditure and general corporate purposes. Repayment is in quarterly instalments of J\$71 million beginning March 2018 with bullet payment of J\$805 million at maturity. The amount due is stated net of debt issuance costs of \$0.13 million (2016:\$nil).
- (xv) This loan is unsecured and is in two tranches – \$100 million from OPIC and \$20 million from Citibank. The funds are to be utilised for capital expenditure. The OPIC tranche has a variable interest rate of 3 month LIBOR plus 5.4% and matures on December 15, 2026. The Citibank tranche has a variable rate of 3 month LIBOR plus 4.4% and matures on December 15, 2021. Repayment is in quarterly instalments beginning March 2020. The amount due is stated net of debt issuance cost of \$3.76 million (2016:\$nil).

#### *Compliance with debt covenants*

Under the terms of the long term loan agreements with certain international development financial institutions, the Group is required to maintain a ratio of Debt to Earnings before Interest Tax Depreciation and Amortisation (EBITDA) of no greater than 3.0:1. As at December 31, 2017, the Group was in compliance with its debt covenants.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

**21. Preference shares**

This comprises cumulative preference shares as follows:

	<u>The Company and Group</u>		<u>The Company and Group</u>	
	<u>Number of shares</u>			
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
			<u>\$'000</u>	<u>\$'000</u>
7% Class B shares	420,000	420,000	38	38
5% Class C shares	66,500	66,500	6	6
5% Class D shares	680,000	680,000	61	61
6% Class E shares	300,000	300,000	27	27
9.5% Class F shares	<u>2,455,607</u>	<u>2,455,607</u>	<u>24,556</u>	<u>24,556</u>
	<u>3,922,107</u>	<u>3,922,107</u>	<u>24,688</u>	<u>24,688</u>

The preference shares listed as Classes B, C, D and E are cumulative non-voting and are preferred only in respect of return of capital and any dividends in arrears on a winding up. Dividends on these shares are payable quarterly at fixed rates per annum in Jamaica dollars.

Class F preference shares are listed on the Jamaica Stock Exchange and are non-redeemable. The significant terms and conditions of these shares are as follows:

- Priority of payment to receive all dividends over any form of capital distributions;
- Full voting rights on winding up;
- Ranking in priority to common equity (but behind preference shares listed as classes B, C, D and E) in the event of a winding up; and
- Dividends are payable quarterly at fixed rates per annum in Jamaican dollars indexed to the United States dollar.

Preference shares have been classified in these financial statements as financial liabilities.

**22. Deferred taxation**

Deferred taxation relates to:

	<u>The Company and Group</u>						
	Balance at December 31 <u>2015</u> \$'000	Recognised in <u>profit or loss</u> \$'000 [Note 27(a)]	Recognised in other comprehensive <u>income</u> \$'000	Balance at December 31 <u>2016</u> \$'000	Recognised in <u>profit or loss</u> \$'000 [Note 27(a)]	Recognised in other comprehensive <u>income</u> \$'000	Balance at December 31 <u>2017</u> \$'000
Employee benefits, net	( 6,660)	670	(2,234)	( 8,224)	(1,267)	(1,766)	(11,257)
Unrealised foreign exchange gains	( 2,487)	( 200)	-	( 2,687)	(1,806)	-	( 4,493)
Property, plant & equipment	(55,263)	7,908	-	(47,355)	6,927	-	(40,428)
Cumulative tax losses	21,352	(7,862)	-	13,490	(4,647)	-	8,843
Accounts payable	7,681	(1,666)	-	6,015	213	-	6,228
Other	<u>761</u>	<u>( 61)</u>	<u>-</u>	<u>700</u>	<u>( 217)</u>	<u>-</u>	<u>483</u>
	<u>(34,616)</u>	<u>(1,211)</u>	<u>(2,234)</u>	<u>(38,061)</u>	<u>( 797)</u>	<u>(1,766)</u>	<u>(40,624)</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

23. Decommissioning provision

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Decommissioning obligation during the year	9,042	-
Unwinding of discount (included in finance costs)	<u>192</u>	<u>-</u>
	<u>9,234</u>	<u>-</u>

The Group estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations is approximately \$10.4 million which will be incurred between 2020 and 2021.

24. Operating revenue

The Group's revenue arises from the supply of electricity services in accordance with the Licence [Notes 1(a) and 1(b)].

25. Expenses

## (a) Cost of sales

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Fuel	(390,892)	(306,389)
Purchased power (excluding fuel) (Note 4)	(157,270)	(121,064)
Other	<u>(805)</u>	<u>(339)</u>
	<u>(548,967)</u>	<u>(427,792)</u>

## (b) Operating expenses

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Depreciation and amortisation	( 76,589)	( 77,607)
Staff cost – Other employees' costs	( 69,229)	( 67,529)
Staff cost – Key management	( 1,765)	( 1,856)
Director's fees and emoluments	( 61)	( 37)
Repairs and maintenance	( 18,114)	( 17,398)
Selling expense (advertising and marketing)	( 960)	( 902)
Audit fees	( 192)	( 147)
Bad debt expenses	( 12,036)	( 10,721)
General expenses	<u>(46,612)</u>	<u>(44,140)</u>
	<u>(225,558)</u>	<u>(220,337)</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

25. Expenses (continued)

## (c) Net finance costs

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Foreign exchange gains/(losses), net	<u>1,981</u>	<u>( 4,793)</u>
Other finance costs:		
Short-term loans	( 90)	-
Long-term loans	(33,130)	(30,532)
Customer deposits	( 642)	( 13)
Bank overdraft and other	( 636)	( 763)
Preference dividends	( 2,334)	( 2,671)
Debt issuance costs and expenses	( 3,442)	( 2,946)
Other debt expenses	<u>( 880)</u>	<u>( 921)</u>
	<u>(41,154)</u>	<u>(37,846)</u>
Finance income:		
Interest income	2,078	881
Interest capitalised during construction [Note 5(d)]	<u>2,163</u>	<u>1,944</u>
	<u>4,241</u>	<u>2,825</u>
	<u>(34,932)</u>	<u>(39,814)</u>

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

26. Other income and expenses

## (a) Other income comprises:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Rental income	231	261
Insurance proceeds	843	500
Project development fee income	-	2,500
Miscellaneous proceeds from scrap sales and other settlements	3,669	3,131
Reduction in provision for sick leave buy back	-	3,958
Gain on disposal of property, plant and equipment	<u>74</u>	<u>26</u>
	<u>4,817</u>	<u>10,376</u>

**Notes to the Financial Statements (Cont'd)**

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(Expressed in United States Dollars)

26. Other income and expenses (continued)

(b) Other expenses comprise:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Miscellaneous expenses	( 111)	( 304)
Restructuring costs	(1,478)	( 834)
Inventory and house wiring cost write off	( 609)	( 811)
Loss on disposal of property, plant and equipment	<u>-</u>	<u>( 26)</u>
	<u>(2,198)</u>	<u>(1,975)</u>

27. Taxation

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

	<u>Company</u>		<u>Group</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	\$'000	\$'000	\$'000
Current tax expense:			
Current income tax expense	4,647	7,730	4,647
Deferred tax:			
Origination and reversal of temporary differences (Note 22)	<u>797</u>	<u>1,211</u>	<u>797</u>
Taxation expense	<u>5,444</u>	<u>8,941</u>	<u>5,444</u>

(b) Reconciliation of tax expense:

	<u>Company</u>		<u>Group</u>
	<u>2017</u>	<u>2016</u>	<u>2017</u>
	\$'000	\$'000	\$'000
Profit before taxation	<u>30,031</u>	<u>32,992</u>	<u>29,677</u>
Computed "expected" tax at 33⅓%	10,010	10,997	9,892
Tax effect of differences between profit for financial statements and tax reporting purposes in respect of:			
Investment allowances	( 6,281)	( 3,809)	( 6,281)
Loan fees disallowed	1,322	1,235	1,322
Loss of joint venture included, net of tax	-	-	118
Other	<u>393</u>	<u>518</u>	<u>393</u>
Taxation expense	<u>5,444</u>	<u>8,941</u>	<u>5,444</u>

## Notes to the Financial Statements (Cont'd)

December 31, 2017

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### 27. Taxation (continued)

#### (c) Tax losses:

At the reporting date, the Group had unused tax losses of approximately \$26 million (2016: \$40 million) being carried forward for offset against future taxable profits. The amount being carried forward is subject to the agreement of the Tax Authorities. Tax losses may be carried forward indefinitely, however, the amount that can be utilised in any one year is restricted to 50% of the current year's taxable profits.

### 28. Earnings per share (EPS)

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
Profit for the year	<u>\$24,587,000</u>	<u>24,051,000</u>
Number of shares (shown in thousands - Note 14)	<u>21,828,195</u>	<u>21,828,195</u>
Earnings per share/stock unit	<u>0.11¢</u>	<u>0.11¢</u>

### 29. Dividends

Dividends on cumulative preference shares accrued at December 31, 2017 amounted to \$0.6 million (2016: \$0.6 million) [see note 17].

### 30. Commitments

#### (a) Capital:

At December 31, 2017, commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately \$26.6 million (2016: \$2.6 million).

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

**30. Commitments (continued)****(b) Lease:**

In addition to its commitments under IPP contracts (Note 4), the Group had unexpired operating lease commitments at December 31, 2017, payable as follows:

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Within 1 year	9,593	8,742
From 1-2 years	9,590	8,739
From 2-3 years	931	1,576
From 3-4 years	931	925
From 4-5 years	924	921
Over 5 years	<u>6,377</u>	<u>6,326</u>
	<u>28,346</u>	<u>27,229</u>

**31. Contingent liabilities and asset**

As at December 31 2017, the Group is subject to various lawsuits in the normal course of business. The outcome of these lawsuits cannot be determined with certainty. However, in the opinion of management and its legal counsel, where it is more likely than not that an outflow of resources by the Group will occur and the amount can be determined, a provision is made.

On February 13, 2015, the OUR issued a directive for the Group to repay certain foreign exchange adjustment charges on fuel, amounting to \$7.8 million, which had been billed to customers in a previous period. A provision has been included in the financial statements for these charges. The Group has appealed the directive on the basis that the charges represent legitimate business costs which it should be able to recover.

As at December 31, 2017, provisions of \$9.5 million (2016: \$8.9 million) pursuant to pending legal actions, were made in the financial statements (Note 17).

**32. Financial instruments****(a) Financial risk management:**

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

- Credit risk
- Liquidity risk
- Market risks

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 32. Financial instruments (continued)

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

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

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, 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 Group, 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.

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

#### (i) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, which is stated net of an allowance for impairment losses.

As part of its management of credit risk, the Group 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 Group establishes an allowance for impairment losses that represents its best estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a 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 debtors' ability to settle the debt [see also notes 12 and 3(1)].

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 32. Financial instruments (continued)

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

##### (i) Credit risk (continued):

Cash and short term deposit balances are managed by the Group's treasury department and amounts are held with reputable banks and financial institutions considered to have minimal risk of default.

The Group considers concentrations of risk by reference to the amount of exposure it has to individual customers, including their related parties. At December 31, 2017, the Group had significant concentrations of credit risk in respect of amounts receivable from the Government of Jamaica and its affiliates, in respect of electricity charges, aggregating \$81.6 million (2016: \$55 million). The Group maintains a very close relationship with the Ministry of Finance and the Ministry of Local Government in relation to this matter and recurring discussions are held regarding the reduction of the outstanding balances.

##### (ii) Liquidity risk:

Liquidity risk, also referred to as funding risk, is the risk that the Group 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 Group'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.

Key management of the Group 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 Group'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 Group as a whole. As at December 31, 2017, the Group had unutilised lines of credit aggregating \$87.7 million (2016: \$60.4 million).

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

32. Financial instruments (continued)

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

## (ii) Liquidity risk (continued):

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

	The Company and Group						
	Contractual undiscounted cash flows						
	Carrying amount \$'000	Total cash outflow \$'000	Less than 1 year \$'000	1-2 years \$'000	3-5 years \$'000	6-10 years \$'000	More than 10 years \$'000
<u>December 31, 2017</u>							
Accounts payable*	181,554	181,554	181,554	-	-	-	-
Short-term loan	23,000	23,463	23,463	-	-	-	-
Bank overdrafts	2,924	2,924	2,924	-	-	-	-
Long-term loans	354,045	572,323	69,154	114,900	281,694	54,637	51,938
Due to related parties	133	133	133	-	-	-	-
Customer deposits	<u>27,150</u>	<u>27,150</u>	-	-	-	<u>4,654</u>	<u>22,496</u>
Total financial liabilities	<u>588,806</u>	<u>807,547</u>	<u>277,228</u>	<u>114,900</u>	<u>281,694</u>	<u>59,291</u>	<u>74,434</u>
<u>December 31, 2016</u>							
Accounts payable*	126,992	126,992	126,992	-	-	-	-
Long term loans	344,204	462,416	86,435	62,855	310,924	1,352	850
Due to related parties	2,966	2,966	2,966	-	-	-	-
Customer deposits	<u>24,294</u>	<u>24,294</u>	-	-	-	<u>3,732</u>	<u>20,562</u>
Total financial liabilities	<u>498,456</u>	<u>616,668</u>	<u>216,393</u>	<u>62,855</u>	<u>310,924</u>	<u>5,084</u>	<u>21,412</u>

\*Excludes provisions.

The preference shares have no specific maturity dates.

Contracted off-balance cash payments in respect of independent power purchase agreements are disclosed in Note 4.

## (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 Group's assets, the amount of its liabilities and/or the Group's income. Market risk arises in the Group 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 Group's exposures to market risks and its objectives, policies and processes for managing these risks have not changed significantly over the prior year.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

32. Financial instruments (continued)

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

## (iii) Market risk (continued):

For each of the major components of market risk, the Group 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 Group at the reporting date to each major risk are addressed below.

At December 31, 2017, the Group 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 Group 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 Group's borrowings are disclosed in Note 20, and the details of customer deposits in Note 19.

Interest bearing financial assets relate to cash and cash equivalents.

At December 31, 2017, the interest profile of the Group's interest-bearing financial instruments was:

	<u>The Company and Group</u>	
	<u>Carrying amount</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$'000</u>	<u>\$'000</u>
Total debt		
Fixed rate instruments:		
Financial assets	38,554	34,848
Financial liabilities	(257,281)	(213,753)
Variable rate instruments:		
Financial liabilities	(160,655)	(170,007)

Fair value sensitivity analysis for fixed rate instruments:

The Group 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 profit or loss.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 32. Financial instruments (continued)

(a) Financial risk management (continued):

(iii) Market risk (continued):

- *Interest rate risk (continued):*

Cash flow sensitivity analysis for variable rate instruments:

A change of 100/50 (2016: 100/50) 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.

	<u>The Company and Group</u>			
	<u>Effect on profit or loss</u>			
	<u>2017</u>		<u>2016</u>	
	<u>100bp increase</u>	<u>50bp decrease</u>	<u>100bp increase</u>	<u>50bp decrease</u>
	\$'000	\$'000	\$'000	\$'000
Cash flow sensitivity (net)	(1,298)	649	(1,700)	850

- *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 Group incurs foreign currency risk primarily on the settlement of accounts receivable, accounts payable 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 Group manages foreign exchange exposure by maintaining adequate liquid resources in appropriate currencies and by managing the timing of payments on foreign currency liabilities.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

**32. Financial instruments (continued)****(a) Financial risk management (continued):****(iii) Market risk (continued):**

- *Foreign currency risk (continued):*

The table below shows the Group's foreign currency exposure, at the reporting date:

	The Company and Group			
	2017			
	J\$ \$'000	€ \$'000	£ \$'000	US\$ equivalent \$'000
Cash and cash equivalents	297,801	-	-	2,382
Trade and other receivables	26,435,582	-	-	211,484
Accounts payable	( 7,788,566)	( 3,978)	(161)	( 66,805)
Long-term loans	( 2,450,000)	( 3,879)	-	( 4,578)
Customer deposits	( 3,393,815)	-	-	( 27,150)
	<u>13,101,002</u>	<u>( 7,857)</u>	<u>(161)</u>	<u>115,333</u>

	The Company and Group			
	2016			
	J\$ \$'000	€ \$'000	£ \$'000	US\$ equivalent \$'000
Cash and cash equivalents	741,114	-	-	5,770
Trade and other receivables	19,119,935	-	-	148,862
Other asset	11,431	-	-	89
Accounts payable	( 5,463,157)	(4,029)	(161)	( 46,568)
Long-term loans	-	(3,879)	-	( 4,075)
Customer deposits	( 3,120,432)	-	-	( 24,295)
	<u>11,288,891</u>	<u>7,908</u>	<u>(161)</u>	<u>79,783</u>

**Sensitivity analysis:**

A 4% (2016: 6%) strengthening of the United States dollar against the Jamaica dollar, Euro and the GBP 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.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

32. Financial instruments (continued)

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

## (iii) Market risk (continued):

- *Foreign currency risk (continued):*

Sensitivity analysis (continued):

	The Company and Group			
	2017		2016	
	Equity \$'000	Profit/(loss) \$'000	Equity \$'000	Profit/(loss) \$'000
J\$	( 4,192)	( 4,192)	( 5,274)	( 5,274)
Euro (€)	371	371	498	498
GBP (£)	( 1)	( 1)	( 12)	( 12)
Total	<u>( 3,822)</u>	<u>( 3,822)</u>	<u>( 4,788)</u>	<u>( 4,788)</u>

A 2% (2016: 1%) weakening of the United States dollar against the Jamaica dollar, Euro and the GBP, respectively, at year end would have the opposite effect, on the basis that all other variables remain constant.

	The Company and Group			
	2017		2016	
	<u>Equity</u> \$'000	<u>Profit</u> \$'000	<u>Equity</u> \$'000	<u>Profit</u> \$'000
J\$	2,096	2,096	879	879
Euro (€)	( 185)	( 185)	( 83)	( 83)
GBP (£)	-	-	2	2
Total	<u>1,911</u>	<u>1,911</u>	<u>798</u>	<u>798</u>

## (b) Operational risk:

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group'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 behavior.

The Group'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 Group.

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

32. Financial instruments (continued)

## (c) Capital risk management:

Capital risk is the risk that the Group 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 [Note 1(b)]. The Group'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 Group'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.

The Group monitors capital using a gearing ratio, which is debt as a proportion of total capital. The Group aims to maintain a gearing ratio in the range of fifty percent (50%) to sixty percent (60%). For purposes of calculating this ratio preference shares are treated as equity instruments and included in total equity.

	<u>The Company and Group</u>	
	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Bank overdraft	2,924	-
Short term loans	23,000	-
Current maturity of long term loans	36,341	59,622
Long term loans	<u>317,704</u>	<u>284,582</u>
Total debt	<u>379,969</u>	<u>344,204</u>
Share capital	261,786	261,786
Capital reserve	4,760	4,145
Capital redemption reserve	3,000	3,000
Retained earnings	154,601	126,480
Preference shares	<u>24,688</u>	<u>24,688</u>
Total equity	<u>448,835</u>	<u>420,099</u>
Capital and debt	<u>828,804</u>	<u>764,303</u>
Gearing ratio	<u>46%</u>	<u>45%</u>

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

## (d) Fair value disclosure:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

## Notes to the Financial Statements (Cont'd)

December 31, 2017

(Expressed in United States Dollars)

### 32. Financial instruments (continued)

#### (d) Fair value disclosure (continued):

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis or other valuation models. Management assessed that the carrying amounts of cash and cash equivalents, accounts receivable, related party balances, bank overdraft, accounts payable and short-term loan approximate their fair values largely due to the short-term maturities of these instruments. Additionally, the cost of all monetary assets and liabilities has been appropriately adjusted to reflect estimated losses on realisation or discounts on settlement.

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

Basis for determining fair values of financial liabilities:

Quoted equities are valued using the quoted market bid prices listed on the Jamaica Stock Exchange.

Other investment instruments are valued using the following techniques:

- Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids).
- Using this yield, determine price using accepted formula.
- Apply price to estimate fair value.

Set out below is a comparison of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	<u>The Company and Group</u>			
	<u>2017</u>		<u>2016</u>	
	<u>Carrying amount</u> \$'000	<u>Fair value</u> \$'000	<u>Carrying amount</u> \$'000	<u>Fair value</u> \$'000
Financial liabilities:				
Preference shares	24,688	25,583	24,688	24,409
Long term loans	<u>354,045</u>	<u>447,059</u>	<u>344,204</u>	<u>445,028</u>

**Notes to the Financial Statements (Cont'd)**

December 31, 2017

(Expressed in United States Dollars)

32. Financial instruments

## (d) Fair value disclosure (continued):

The following table provides the fair value measurement hierarchy of the Group's liabilities.

	<u>The Company and Group</u>		
	<u>2017</u>		
	Level 1 \$'000	Level 2 \$'000	Total
Liabilities for which fair values are disclosed:			
Preference shares	(25,582)	-	( 25,582)
Long term loans	-	(447,059)	(447,059)
	<u>(25,582)</u>	<u>(447,059)</u>	<u>(472,641)</u>

	<u>The Company and Group</u>		
	<u>2016</u>		
	Level 1 \$'000	Level 2 \$'000	Total
Liabilities for which fair values are disclosed:			
Preference shares	(24,409)	-	( 24,409)
Long term loans	-	(445,028)	(445,028)
	<u>(24,409)</u>	<u>(445,028)</u>	<u>(469,437)</u>



# FORM OF PROXY

I/WE.....of.....  
 being a member/members of the above Company hereby appoint the Chairman of the meeting or failing him  
 .....of.....  
 as my/our Proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be  
 held on the **27th day of July, 2018 at 10:00 a.m.** and at any adjournment thereof.

RESOLUTION	FOR	AGAINST
Resolution 1		
Resolution 2(i)(a)		
Resolution 2(i)(b)		
Resolution 2(ii)(a)		
Resolution 2(ii)(b)		
Resolution 3		
ANY OTHER BUSINESS		

DATED THE \_\_\_\_\_ DAY OF \_\_\_\_\_ 2018

.....  
 (signature)

.....  
 (signature)

1. If you wish to appoint a proxy other than the Chairman of the Meeting, please insert the person’s name and address and delete the words “the Chairman of the Meeting or failing him”. Initial the deletion.
2. Any alteration to this form of proxy should be initialled.
3. If the appointer is a corporation this form of proxy must be UNDER ITS COMMON SEAL or under the hand of some officer or attorney of the corporation DULY AUTHORIZED IN WRITING.
4. In case of joint holders the vote of the person whose name stands first on the Register will be accepted in preference to the vote of the other holders.
5. To be effective this form of proxy and the power of attorney or other (if any) under which it is signed or a notarially certified copy, of that power or authority must be deposited at Jamaica Public Service Company Limited, 6 Knutsford Boulevard, Kingston 5 for the attention of the Secretary not less than forty-eight (48) hours before the time for the holding of the meeting.



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