

JAMAICA PUBLIC SERVICE COMPANY LIMITED.

Notes to the Financial Statements

31 March 1996

1. REGULATION

The company operates under an exclusive thirty-nine year All-island Electric Licence granted on 31 August 1978. Under the provisions of the licence the operations of the company are subject to regulation by the Minister of Public Utilities with power and authority to require observance and performance by the company of its obligations under the licence, and to regulate the rates charged by the company.

2. OWNERSHIP

The company is the owner of approximately 99% of the issued ordinary share capital of the company, through the Electricity Authority and the Accountant General.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The records of the company are maintained in accordance with the regulations prescribed for Public Utilities by the Federal Energy Regulatory Commission of the United States, in so far as these regulations allow compliance with the Companies Act, the licence and directives from the Minister.

(a) Utility plant and depreciation

In accordance with the licence, utility plant and replacements of retirement units of property are capitalized and include direct labour, materials, indirect charges for administration, transportation and similar items, reduced by non-refundable contributions-in-aid of construction. The company capitalizes an allowance for funds used during construction based on its average cost of funds. Replacement of minor items of property are included in maintenance expenses. The replacement cost of depreciable units of plant retired is eliminated from utility plant accounts and such value plus removal expenses, less salvage, is charged to accumulated depreciation.

In accordance with the licence, depreciation of utility plant is computed using a straight line basis on the replacement cost of such assets in service at the beginning of each month. The rates used are in accordance with the licence, the composite rate being approximately 4% per annum.

(b) Materials and supplies

These include construction materials and fuel stocks and are stated at average cost.

(c) Revenue, receivables and unbilled revenue

Revenue consists of cycle billings rendered to customers monthly or bi-monthly with an accrual for revenue earned but billed subsequent to the end of the period. Receivables represent the amounts due from customers for billed services less a provision for doubtful accounts. Unbilled revenue represents the accrual for electricity supplied prior to the year end which is to be billed subsequently.

(d) Deferred expenditure

(i) Debt discount and expenses include issue expenses, commitment fees and similar items which are being amortised over the lives of the loans to which they relate.

(ii) Restoration costs and consequential losses consist of the additional expenditure incurred in restoring plant and the additional cost of fuel consumed respectively resulting from the explosion on 3 June 1994 and are net of insurance proceeds received to date. At 31 March 1996, the restoration was substantially completed and the balances on this account in respect of replacement costs and the related insurance proceeds have been allocated to utility plant and transferred to capital reserve respectively (note 12).

(ii) Other consists of costs which are expected to benefit future periods; these are deferred and are either amortized over their expected periods of benefit, transferred to plant and equipment or charged against income as appropriate.

(e) Foreign exchange translation

Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing on the balance sheet date. Any losses or gains not forming part of the revaluation are reflected in income.

(f) Taxation

Taxation is only recorded if taxable income results from computations made in accordance with note 5(a). No charges or credits for deferred taxation are recorded.

(g) Pension costs

Pension costs are charged to expense to the extent of actual company contributions payable based on a percentage of employee pensionable earnings (see note 16).

4. PURCHASE OF POWER

The company has entered into agreements with private power companies for the purchase of capacity and net energy output.

The major private power companies who have agreed to supply the company with electricity and the contract termination dates are:

- Kes Jamaica LP (KES) - September 1997
- Jamaica Energy Partners (JEP) - October 2014
- The Jamaica Private Power Company Limited (JPPC) - October 2014

All agreements are subject to termination prior to the contract dates upon the occurrence of certain events of default as specified in the said agreements. The agreement with KES is renewable for an additional three years provided that KES shall have given the company twelve months prior written notice of its desire to extend the said agreement.

The agreements with JEP and JPPC are renewable for additional periods provided the parties seeking the extensions shall have given written notice not less than five years nor more than six years prior to the end of the initial terms.

The cost of energy and capacity charges from private power companies is as follows:

	1996	1995
	\$'000	\$'000
Capacity	714,237	107,336
Energy	818,657	203,108
	1,532,894	310,444

5. TAXATION

- (a) The principal differences in computing the results for accounting purposes and the taxable profit are:

- (i) investment allowances equivalent to 20% of the cost of the additions to plant and expenditure incurred on capital additions or improvements charged to construction work in progress are claimed for tax purposes. Prior to 1995 investment allowances were claimed on additions to plant only;
 - (ii) tax depreciation is significantly less than depreciation charged against profit;
 - (iii) the allowance for funds used during construction is not included in the profit for tax purposes nor is the allowance included in the written down value of fixed assets for tax purposes;
 - (iv) preference dividends are deductible for tax purposes;
 - (v) interest is claimable for tax purposes when paid instead of when charged.
- (b) Taxation is based on the results for the year adjusted for taxation purposes and comprises:

		Restated
	1996	1995
	\$'000	\$'000
Income tax at 33 1/3%	86,327	110,097
Special tax credit arising from issue of bonus shares	(21,582)	-
Prior year overprovision	-	(5,968)
	64,745	104,129

The special tax credit claimed above is based on a bonus issue of shares amounting to \$86,327,000 which is to be made in September 1996 and is subject to the approval of the shareholders at the company's next annual general meeting. The company also intends to increase its authorised share capital to \$514,898,000.

6. CAPITAL RESERVE

	1996	1995
	\$'000	\$'000
BALANCE AT BEGINNING OF YEAR	10,894,502	11,581,133
Net increment on revaluation of utility plant	4,453,111	1,079,479
Net foreign exchange losses	(601,920)	(905,656)
Transfer to revenue and expenses of incremental depreciation	(891,369)	(815,074)
Grant from the Ministry of Public Utilities, Mining and Energy in respect of the Appliance Labelling Programme	-	2,000
Incremental write down of fixed assets due to rehabilitation	-	(47,380)
Grant from the Global Environmental Trust Fund in respect of the Demand Side Management Project	16,213	-
BALANCE AT END OF YEAR	13,870,537	10,894,502

An appraisal of the company's Plant in Service was conducted by Stone and Webster Management Consultants Incorporated and local independent valuers as of 31 March 1993. Land and Building were restated to current market value and depreciated current replacement cost respectively.

As permitted by the All-island Electric Licence 1978, the company computes the replacement value of substantially all of its equipment, using United States industry indices for equipment purchased from abroad, adjusted where applicable to reflect devaluations of the Jamaican Dollar, and indices for local costs, as of the period end dates. The net increment as a result thereof is reflected in capital reserve.

The transfer to revenue and expenses represents that portion of depreciation expense that arose from general inflation excluding the effect of devaluation.

7. RETAINED EARNINGS

	1996	Restated 1995
	\$'000	\$'000
Balance at beginning of year:		
As previously reported	3,161,244	2,580,364
Prior year's adjustment	93,993	-
As restated	3,255,237	2,580,364
Transfer from Revenue and Expenses	767,176	674,873
Balance at End of Year	4,022,413	3,255,237

The balance of retained earnings at 1 April 1995 has been adjusted by \$93,993,000 representing a reduction in the tax charge for 1995 as a result of claiming investment allowances on construction work-in-progress at 31 March 1995.

8. LONG TERM RECEIVABLES

In June 1995, the company converted loans and interest of \$308,736,000 and utility billings of \$335,264,000 owed by the National Water Commission to three promissory notes from the Government of Jamaica with interest at the average yield rate applicable to Government of Jamaica average 6 month Treasury bill tender plus 1/2% to 1 1/2%. Two notes in the amounts of \$161,000,000 and \$322,000,000 were outstanding at year end and are to be repaid as follows:

\$

161,000,000 - in 2 equal instalments in June and September 1996
322,000,000 - in 24 equal instalments between June 1996 and May 1998.

As such they are classified as follows:

	1996 \$'000	1995 \$'000
Long term receivable	187,834	-
Long term receivable due within one year	295,167	231,854

The most recent six months Treasury bill tender rate prior to year end was approximately 42%.

9. NATIONAL HOUSING TRUST

This consists of contributions to the National Housing Trust up to 31 July 1979, which are, under the National Insurance Amendment Act 1976, refundable in the years 2001-2004.

10. CASH AND SHORT TERM DEPOSITS

This includes cash restricted for use of approximately \$108,018,903 (1995 - \$136,133,000).

11. RECEIVABLES

During the year, receivables totalling \$3,454,870,000 were sold with recourse. The proceeds from the sale were \$3,447,156,000. The balance of the receivables sold which were uncollected at the end of the year was \$1,001,228,000 (1995 - \$1,243,704,000).

12. RESTORATION COSTS AND CONSEQUENTIAL LOSSES

On 3 June 1994, there was an explosion at the Old Harbour Station which caused severe damage to Units 3 and 4, auxiliary plant equipment, the main store building and the chemical and water treatment laboratory.

Unit 3 was restored and recommissioned into service in December 1994. Unit 4 broiler, which suffered irreparable damage was replaced and recommissioned into service in January 1996.

Costs incurred to date are:

	1996	1995
	\$'000	\$'000
Material damage	1,630,810	509,655
Consequential loss	1,311,830	876,553
	2,942,640	1,386,208
Less insurance proceeds received	2,073,007	75,052
	869,633	1,311,156

In September 1995, the company reached agreement with its insurers on a settlement of approximately US\$72 million based on a recommendation by the loss adjusters. The insurers have paid US\$ 56.5 Million and an action has been filed for the remainder since certain insurers are denying liability (see note 20). The company expects to recover the remainder amounting to US\$15.5 million and any other unrecovered costs relating to the explosion through successful resolution of its action and/or rate adjustments.

13. SHARE CAPITAL

	Authorised Capital \$'000	Issued and Fully Paid	
		1996 \$'000	1995 \$'000
Cumulative Preference Shares			
7% Shares "B" of \$2 each	1,133	841	841
5% Shares "C" of \$2 each	133	133	133
5% Shares "D" of \$2 each	2,098	1,359	1,359
6% Shares "E" of \$2 each	1,027	600	600
Ordinary Stock Units of 50c each	71,540	71,540	71,540
Ordinary Shares of 50c each	408,208	357,031	357,031
	484,139	431,504	431,504

14. EQUITY AND ADVANCES

These represent funds contributed by the Government which have not yet been converted to shares:

	1996 \$'000	1995 \$'000
Free Zone substation	10,734	10,734
Rural Electrification Programme	115,716	50,665
	126,450	61,399

15. LONG TERM DEBT

	Source Currency	1996 \$'000	1995 \$'000
Secured:			
First mortgage sinking fund registered debenture stock 11 1/8% Series "Q" due 2003	J\$	705	799
		705	799
Loans from International Bank for Reconstruction and Development (World Bank).			
No. 2188-JM, 11.6% due through 1999	US\$	494,894	581,288
No. 2869-JM, 7.42% (var.) due through 2004	US\$	526,117	522,586
No.3502-JM, 7.43% (var.) due through 2009	US\$	718,684	651,346
No. 3944-JM, variable rate due through 2010	US\$	17,107	-
		1,756,802	1,755,220
Term Loans:			
Government of Jamaica 5% Rural Electrification due through 2016	US\$	469,144	367,333
Back Rio Grande 7% due through March 1998	US\$&J\$	4,401	5,658
Italian Exim Bank 1.7% due through 2007	US\$	57,785	52,257
Inter-American Development Bank No. 605 OC - JA 7.2% (var.) due through 2011	US\$	2,253,183	1,728,686

Inter-American Development Bank No. 738 OC-JA 7.2% (var) due through 2018	US\$	272,145	201,939
Kreditanstalt fur Wiederaufbau of Frankfurt/ Government of Jamaica 7% due through 2003	DM	110,028	123,927
The OPEC Special Fund due through 2003	US\$	19,738	23,095
The Overseas Economic Co-operative Fund due through 2008	Japanese Yen	2,496,668	2,761,013
Jamaica Export Credit Insurance Corp. Ltd. 2.5% due through 1997	US\$	22,786	28,408
Meccania Finanziaria International SA, 9.47% due through 1998	US\$	94,352	105,017
Meccania Finanziaria International SA, 9.65% due through 1999	US\$	55,794	59,883
Meccania Finanziaria International SA, 9.24% due through 2001	US\$	81,400	81,539
Meccania Finanziaria International SA, 9.73% due through 2003	US\$	199,551	208,225
Meccania Finanziaria International SA, 7.48% due through 2003	US\$	48,321	40,337
Societe Generale, variable rate due through 2001	US\$	620,768	-
European Investment Bank 4% due 1998 through 2010	US\$	235,756	117,718
Dehring Bunting & Golding variable rate			

due through 1997	US\$	192,081	-
Caribbean Development Bank/Rural Electrification 2%			
due 2000 through 2004	US\$	132,701	46,678
		7,366,602	5,951,713
Total long term debt		9,124,109	7,707,732
Less: Current portion of long term debt note 15(d)		823,868	573,013
		8,300,241	7,134,719

(a) Unless otherwise stated, interest rates are fluctuating and are based on prevailing North America or Eurodollar rates.

(b) Total long term debt maturing in the years 1997 through 2001, based on amounts outstanding at 31 March 1996, is as follows:

	\$'000
1997	823,868
1998	858,761
1999	1,137,522
2000	1,035,647
2001	914,193

(c) Government of Jamaica - Rural Electrification Loan
This loan represents the on-lending funds received by the Government from the Inter-American Development Bank to the company through Rural Electrification Programme Limited for rural extension work. In addition to these loan funds, the Government also adds funds from its own resources which are included in equity advances (see note 14).

(d) Repayments
As required by Government regulations, the company paid on the due dates during the period to the Bank of Jamaica the Jamaican dollar equivalent of the payments due under its foreign loan agreements. All payments were remitted by the Bank of Jamaica at 31 March 1996 and 31 March 1995.

(e) In September 1993 the company entered into a five-year interest rates swap transaction with Citibank N.A. Jamaica in order to reduce the interest cost on its 11.6 percent fixed rate World Bank loan No 2188-JM, which matures in 1999. The loan balance as at 31 March 1996 was US\$8,116,121 1995 US\$10,449,201.

Pursuant to this transaction, the company will pay to Citibank an interest rate based on six month LIBOR and will receive from Citibank the lower of 4.90 percent or the difference between 9.8 percent and six month LIBOR on a notional amount equivalent to the principal owing to the World Bank on the above mentioned loan. However, because of rising interest rates in the U.S., the net effect of this transaction during the year was an additional cost of US\$146,945 (1995 - US\$283,045).

16. PENSION PLAN

The company's pension plan requires company contributions determined as a percentage of pensionable earnings of employees with employees being required to contribute a like amount. Such contributions, which are actuarially determined, provide for current costs and amortization of prior service costs over thirty years.

The preliminary actuarial valuation carried out as at 31 December 1992 revealed that the scheme was adequately funded.

In the year to 31 March 1996 the company's contributions amounted to \$44,901,000 (1995-\$41,582,000).

17. STATUTORY DISCLOSURES

	1996	1995
	\$'000	\$'000
Directors' emoluments-		
Management remuneration	2,446	1,590
Pension to former directors	82	76
Auditors' remuneration		
Currency year	4,450	3,750
Prior year underprovision	-	150

18. COMMITMENTS

(a) Commitments for capital expenditure at 31 March 1996 totalled approximately \$521,569,000 (1995 - \$485,553,000)

(b) The company has less commitments as follows:

	\$'000
1997	14,009
1998	14,032
1999	14,032

(c) The company has power purchase commitments for capacity as follow:

	US\$'000
1997	41,433
1998	33,492
1999	34,393
2000	39,906
2001	39,576

19. EXCHANGE RATES

The rate of exchange against the US dollar ranged between J\$40.17 and J\$33.41 during the year.

20. CONTINGENCIES

(a) In 1989 and 1992, the company filed actions against Crawford Fletcher Insurance Brokers Limited (CFIB) to recover \$51,800,000 and US\$364,958, respectively. This was due to the failure of CFIB to obtain consequential loss insurance coverage for loss of net revenues sustained by the company arising from damages caused by Hurricane Gilbert. CFIB has paid the company \$10,000,000 in settlement of the said lawsuits based on an agreement dated 18 August 1995 between both parties.

(b) A writ has been filed against International Insurance Brokers and Campagnie Transcontinentale de Reassurance to recover the amount of US\$15,454,000 on the grounds that the brokers failed to exercise reasonable care, skill and professionalism in the performance of their duties. Any recoveries will be credited to Restoration Costs and Consequential Losses when received (see note 12).

21. PENDING DIVESTMENT

The Government of Jamaica, as major shareholder, is in the process of negotiating with two major U.S. based utility companies for divestment of approximately 56% of the company's equity to the successful bidder.