Notes to the Financial Statements

March 31, 1999

1. The company

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

The company is a 79% subsidiary of Cable and Wireless (CALA Investments) Limited, incorporated in the Cayman Islands, and the ultimate parent company is Cable and Wireless plc., incorporated in England. Another subsidiary of Cable & Wireless plc. holds an additional 3% of the issued ordinary stock units of the company. Cable & Wireless group companies are referred to in these financial statements as "related companies".

The principal activity of the company is the provision of domestic and international telecommunications services under the following licences granted to the company for 25 years from August 31, 1988:

The All Island Telephone Licence; The Telecommunications of Jamaica Limited (Wireless Telephony) Special Licence; The Telecommunications of Jamaica Limited (Telegraphic Services) Special Licence; The Telecommunications of Jamaica Limited (Telex and Teleprinter Services) Special Licence; and The Telecommunications of Jamaica Limited (External Communications Services) Special Licence.

The licences provide the Minister of Commerce & Technology with the power and authority to require observance and performance by the company of its obligations under the licences and to regulate the rates charged by the company.

These financial statements are presented in Jamaica dollars.

2. Significant accounting policies

(a) General:

The company's accounting policies are in accordance with the regulations of the Federal Communications Commission of the United States of America insofar as these regulations allow compliance with the Companies Act and the licences that constitute its scheme of control.

(b) Accounting convention:

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets at valuation.

(c) Basis of consolidation:

The group financial statements include the financial statements of the company and its wholly-owned dormant subsidiaries - The Jamaica Telephone Company Limited and Jamaica International Telecommunications Limited, both incorporated in Jamaica - made up to March 31, 1999. The company and its subsidiaries are collectively referred to as the "group".

The equity method is used in accounting for the group's 30% interest in Jamaica Digiport International Limited, also incorporated in Jamaica (see note 18).

(d) Operating revenue:

Operating revenue represents amounts, excluding general consumption tax, for the provision of domestic and international telecommunications services less outpayments. Estimates are included to provide for that portion of revenue which connecting carriers have not yet reported to the company.

(c) Fixed assets and depreciation:

The substantial part of plant and equipment is revalued annually on the replacement cost basis, using relevant industry indices or other independent bases for equipment purchased abroad (adjusted where applicable for movements of the Jamaica dollar), and indices for local costs, taking into consideration modern equivalent units where applicable.

Buildings are revalued annually on the replacement cost basis by independent, professional valuers.

Additions to plant and equipment include direct labour, materials and an appropriate charge for overheads. An allowance for funds used during construction is capitalised, based on the average cost of funds.

Depreciation expense is calculated on a straight line basis on the cost or valuation of plant in service at the following rates:

Buildings	- 2.0% and 2.5%
Conduits, equipment and plant	- 2.0% to 22.5%
Vehicles	- 20.0% and 22.5%

Leased assets are depreciated over the shorter of the lease period and the estimated useful lives of the assets [see note 2 (g)].

(f) Inventories:

Inventories represent materials and supplies, including construction material, and are valued at the lower of cost, determined on the weighted average basis, and estimated realisable value.

(g) Leases:

Assets held under leases transferring substantially all the risks and rewards incident to ownership (finance leases) are capitalised at the present value of the total minimum lease payments and are depreciated over the shorter of the lease periods and their estimated useful lives [see note 2(e)]. Lease payments are apportioned between interest (included in the profit and loss account) and principal, to produce a constant periodic rate of interest on the outstanding lease obligations.

All other leases are treated as operating leases, with the entire lease payments included in the profit and loss account.

(h) Foreign currencies:

Foreign currency balances at the balance sheet date, with the exception of investments which are stated at historical rates, are translated at the rates of exchange ruling on that date.

Transactions in foreign currencies have been converted at the rates of exchange ruling at the dates of those transactions.

To the extent that the net movement on the revaluation of fixed assets is attributable to changes in the rate of exchange during the year or where foreign liabilities, incurred for the purchase of fixed assets, are matched in whole or in part by foreign currency assets, the net translation gains and losses are transferred to capital reserve; otherwise they are included in the profit and loss account.

(i) Deferred taxation:

Provision is made for deferred taxation arising from timing differences between profit, as computed for taxation purposes, and profit, as stated in the financial statements, at current tax rates.

(j) Investment in subsidiaries:

The company's investment in its subsidiaries has been revalued to reflect the underlying net assets of the subsidiaries. The net surplus arising on the revaluation has been credited to capital reserve in the financial statements of the company.

(k) Pensions:

The company operates pension plans (see note 16), the assets of which are held separately from those of the company. Contributions to fund past and future benefits are charged to the profit and loss account as and when these are incurred.

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

(a) Profit before taxation is stated after charging/(crediting) the following:

	1999	1998
	$'000	$'000

Directors' emoluments		
Fees	433	724
Management remuneration	7,353	6,800
Auditors' remuneration	9,500	9,010
Interest expenses:		
Fixed loans	1,063,836	727,232*
Obligations under finance leases	9,120	15,916
Other	218	226*
Redundancy expenses	225,234	59,116
Other operating expenses	5,897,650	5,783,475
Depreciation	3,038,273	2,738,636
Investment income	(252,829)	(188,639)
Allowance for funds used during construction	(84,339)	(248,347)

Interest expenses (fixed loans) include $438,524,000 (1998: Nil) arising on the accrual of additional liabilities relating to certain of the company's international borrowings.

*Reclassified to conform with 1999 presentation.

(b) The group has various ongoing transactions with related companies. These include the provision of, and compensation for, international telecommunications services, financing and insurance arrangements, technical support and market research services, and software use. These transactions comprised approximately 1.27% (1998: 1.63%) of revenues and 5.02% (1998: 4.29%) of expenses.

In addition, during the year, the company had arrangements with companies affiliated with directors and a former director for lease financing, as detailed in notes 12 and 17(b); for the investment of pension contributions as disclosed in note 16; and for the supply of services and equipment valued at approximately $58,923,000 (1998: $43,057,000).

All the above transactions were entered into in the ordinary course of business.

4. Taxation

Taxation, based on the profit for the year, adjusted for taxation purposes, is made up as follows:

	1999	1998
	$'000	$'000
Income tax @ 33 1/3%	1,874,256	1,631,260

Less: Tax credit arising in respect of the proposed bonus share issue (note 13)	(421,389)	(386,274)
	1,452,867	1,244,986
Deferred taxation	340,644	430,531
	1,793,511	**1,675,517**

(a) The effective tax rate for 1999, before bonus tax credit but including deferred taxation, is 42.0% (1998: 42.8%) of profit before taxation, compared to a statutory rate of 33 1/3% (1998: 33 1/3%).

The effective tax rate differs from the statutory rate primarily because incremental depreciation arising on the revalued portion of fixed assets is not allowed for tax purposes.

(b) The income tax regime in Jamaica operates under a self-assessment system. Consequently, tax credits claimed in respect of the proposed bonus share issue are subject to the agreement of the Commissioner of Income Tax.

(c) Deferred taxation arises materially on account of timing differences between depreciation charges, on historic cost basis for financial statement purposes, and capital allowances for tax purposes.

5. Dividends

	1999	1998
	$'000	$'000
Out of unfranked income, gross:		
Payable:		
Interim @ Nil (1998: 4c) per stock unit	-	309,019
Proposed:		
Interim @ 4c (1998: Nil) per stock unit	370,823	-
Final @ 11c (1998: 8 3/4 c) per stock unit	1,205,174	811,174
	1,575,997	1,120,193

The final proposed dividends in both years are based on the increased share capital consequent on the proposed issues of bonus stock units in each year (see note 13).

6. Earnings per stock unit

The calculation of earnings per stock unit is based on the profit attributable to stockholders of $3,475,577,000

(1998: $3,138,786,000) and the 9,270,566,400 issued and fully paid ordinary stock units. The comparative in respect of 1998 has been adjusted for the 1:5 bonus issue effected during the year [see note 13 (a)].

7. Fixed assets

	The Group and the Company	
	1999 $'000	1998 $'000
Land, buildings, conduits, equipment and vehicles:		
At historic cost	4,477,494	3,376,933
At valuation	5,914,650	5,857,935
Plant in service:		
At valuation	48,811,085	42,851,921
Plant held for future use:		
At valuation	319,435	486,715
Leased assets, at cost	49,807	119,213
	59,572,471	52,692,717
Less: Accumulated provision for depreciation	27,918,208	24,113,905
	31,654,263	28,578,812
Plant under construction	4,404,985	4,603,518
Net book value	**36,059,248**	**33,182,330**
Depreciation charge in the profit and loss account:		
Buildings, conduits, equipment and vehicles	280,968	254,653
Plant in service	2,728,769	2,402,434
Plant held for future use	8,755	9,248
Leased assets	19,781	72,301
	3,038,273	**2,738,636**

Land, buildings, conduits, equipment & vehicles include land aggregating $210,332,000

(1998: $202,600,000) at historic cost and $7,566,000 (1998: $7,566,000) at valuation.

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

8. Investments

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
Revalued investment in subsidiaries	-	-	11,984,274	11,984,274
Investment in associated company:				
Shares, at cost	5,500	5,500	5,500	5,500
Share of capital reserves	58,656		58,656	-
Share of accumulated deficit	(5,500)	(5,500)	(5,500)	(5,500)
	58,656	-	12,042,930	11,984,274
At cost:				
Mortgage debentures	100	100	100	100
National Housing Trust	1,988	1,988	1,988	1,988
Interest in International Telecommunications Satellite Organisation (INTELSAT) and related entity	13,655	139,642	136,556	139,642
	197,300	141,730	12,181,574	12,126,004

(a) The investment in associated company is accounted for using the equity method on the basis of that company's last available audited financial statements made up to March 31, 1998.

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

(c) At March 31, 1999, the group's interest in INTELSAT and related entity, representing a 0.2216% quota share (1998: 0.2216%), was valued at approximately US$5,400,000 (1998: US$5,118,000).

9. Deferred expenditure

The Group and the Company

	1999 $'000	1998 $'000
(a) Deferred General Consumption Tax (GCT)	423,494	361,213
(b) Other	33,935	35,671
	457,429	396,884
Less: Current portion	(327,687)	(328,254)
	129,742	**68,630**

(a) Deferred GCT comprises input tax on fixed asset acquisitions and is recoverable over a twenty-four month period by way of offset against output tax.

(b) Other deferred expenditure is written off as the revenue to which it relates is earned.

10. Due to subsidiaries

This represents interest-free long-term loans due to subsidiaries for which no fixed repayment terms have been determined.

11. Loans

	The Group and the Company 1999 $'000	1998 $'000
Guaranteed by Government of Jamaica:		
Export Development Corporation interest free loan repayable 1999/2038 (US$7,228,000)	276,652	266,870
Guaranteed by Cable and Wireless plc		
ABN Amro Bank NV 9 7/8% loan repayable 1992/2002 (NLG 17,252,000)	327,077	437,472
Bank of Nova Scotia - Puerto Rico LIBOR + 5/8% loan repayable 1992/2002 (US$8,391,000)	321,195	382,457
Bank of Nova Scotia - Puerto Rico		

LIBOR + 5/8% loan repayable 1992/2002 (US$3,817,000)	146,110	185,780
Bank of Nova Scotia - Puerto Rico LIBOR + 5/8% loan repayable 1994/2003 (US$3,000,000)	114,830	131,263
Bank of Nova Scotia - Grand Cayman 6 7/16% loan repayable 1993/2002 (US$20,000,000)	765,536	911,547
Bank of Nova Scotia - Puerto Rico LIBOR + 3/4% loan repayable 1996/2005 (US$34,856,000)	1,334,190	1,460,531
Bank of Nova Scotia - Puerto Rico LIBOR + 3/4% loan repayable 1996/2006 (US$3,500,000)	133,969	145,848
Bank of Nova Scotia - Puerto Rico LIBOR + 5/8% loan repayable 1995/2003 (US$18,671,000)	714,693	794,749
ING Bank AIBOR + 5/8% loan repayable 1996/2006 (NLG 41,764,000)	791,763	875,486
European Investment Bank 3% loan repayable 1996/2006 (US$40,603,000)	1,554,138	1,154,494
	6,203,501	6,479,627
Unsecured:		
Government of Jamaica 10% loan repayable 1995/2007	330,673	372,007
Citibank LIBOR+1 1/2% loan repayable 1996/2001 (US$19,792,000)	757,562	873,566
Barclays Bank - Grand Cayman LIBOR+3/4% loan repayable 1999 (US$15,000,000)	574,152	546,929
Bank of Nova Scotia - Puerto Rico LIBOR + 2 1/4% loan repayable 1996/2003 (US$17,836,000)	682,715	780,565

Government of Jamaica		
2.5% loan repayable 1993/2001		
(NLG 901,000)	17,074	24,141
	2,362,176	2,597,208
Total loans outstanding	8,842,329	9,343,705
Less: Current portion	(2,076,931)	(1,917,378)
	6,765,398	**7,426,327**

(a) Bank of Nova Scotia -Puerto Rico loans, on which interest is based on a margin above LIBOR, may instead attract interest at the cost of '936' funds subject to the availability of such funds and the continued qualification of these loans for '936' funding. The cost of '936' funds at March 31, 1999, was 5 1/5% (1998: 5 4/5%).

(b) LIBOR is used to abbreviate the London Interbank Offer Rate which, at March 31, 1999, was 5% (1998: 5 23/32%).

(c) AIBOR is used to abbreviate the Amsterdam Interbank Offer Rate which, at March 31, 1999, was 29 7/100% (1998: 3 48/100%).

(d) Interest rates shown are net rates payable to the lenders.

12. Obligations under finance leases

In the ordinary course of business, the group has finance lease arrangements for motor vehicles and office equipment with two affiliated companies [see note 3(b)], Superannuation Limited and Industrial Finance Limited. Future payments under these lease commitments are as follows:

	The Group and the Company	
	1999	1998
	$'000	$'000
Within 1 year	3,954	43,953
From 1-2 years	-	3,954

Total future minimum lease payments	3,954	47,907
Less: Future finance charges	(193)	(9,391)
Present value of minimum future lease payments	3,761	38,516
Less: Current portion	(3,761)	(36,317)
	-	2,199

13. Share capital

	1999	1998
	$'000	$'000
Authorised:		
9,600,000,000 (1998: 8,000,000,000) ordinary shares of $1 each	9,600,000	8,000,000
Issued and fully paid:		
9,270,566,400 (1998: 7,725,472,000) ordinary stock units of $1 each	9,270,566	7,725,472

(a) At the 1998 annual general meeting, the directors recommended and the stockholders approved:

. An increase of $1,600,000,000 in the authorised share capital by the creation of 1,600,000,000 ordinary shares of $1 each, such shares to rank pari passu in all respects with the existing ordinary stock units of the company;

. The capitalisation of the sum of $1,545,094,400; fully out of the profits of the company for the year ended March 31, 1998, to be applied in paying up in full 1,545,094,400 unissued shares of the company; to be allotted as fully paid up shares (converted into stock units at the time of issue) of the company to members of the company in the ratio of one (1) share for every five (5) units held on the date of closure of the register of members on December 10, 1998.

(b) The directors have recommended, for the approval of stockholders, at the 1999 annual general meeting:

. An increase of $1,700,000,000 in the authorised share capital by the creation of 1,700,000,000 ordinary shares of $1 each, such shares to rank pari passu in all respects with the existing ordinary stock units of the company;

. The capitalisation of the sum of $1,685,557,527; fully out of the profits of the company for the year ended March 31, 1999, to be capitalised and applied in paying up in full 1,685,557,527 unissued shares of the company; to be allotted, as fully paid up shares (to be converted into stock units at the time of issue) of the company, to members of the company in the ratio of two (2) shares for every eleven (11) units held on the date of closure of the register of members.

14. **Capital reserve**

	The Group		The Company	
	1999	1998	1999	1998
	$'000	$'000	$'000	$'000
At beginning of year	4,602,520	5,630,657	9,145,826	10,318,123
Increment on revaluation of fixed assets net of attributable foreign exchange differences	964,491	2,142,885	964,491	2,142,885
Bonus issue	-	2,462,888	-	2,462,888
Interest in associated company's reserves	58,656	-	58,656	-
Transfer from profit and loss account (a)	1,202	198,869	1,202	54,709
Transfer to profit and loss account (b)	(989,338)	(907,003)	(989,338)	(907,003)
At end of year (c)	4,637,531	4,602,520	9,180,837	9,145,826

(a) The transfer from profit and loss account represents capital gains arising during the year (1998: between 1989 and 1998) on disposal of investments. At March 31, 1999, such gains, available for distribution to stockholders subject to deduction of transfer tax @ 7 1/2% aggregated $200,071,000 (1998: $198,869,000) for the group and $55,911,000 (1998: $54,709,000) for the company.

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

(c) The capital reserve of the group includes realised revaluation reserves of subsidiaries aggregating $3,167,769,000 (1998: $3,167,769,000) available for distribution to stockholders subject to the deduction of transfer tax @ 7 1/2%.

15. **Retained earnings**

	1999	1998
	$'000	$'000
Retained in the financial statements of:		

The company	6,819,471	5,476,849
Its subsidiaries	4,543,306	4,543,306
	11,362,777	**10,020,155**

16. Pension plan

The company operates defined benefit pension plans in respect of various classes of its employees. The main pension plan (the plan) is administered by Life of Jamaica Limited. The primary investment manager is Life of Jamaica Limited. Investment management services in respect of defined portions of plan assets are also provided by Prime Life Assurance Company Limited, an affiliated company [see note 3(b)], and the company's own treasury. Additionally, the trustees of the plan are in discussion with The Jamaica Mutual Life Assurance Society (JMLAS), a life assurance organisation in receipt of financial assistance from the Government of Jamaica, in respect of the recovery of certain of the plan's assets for which JMLAS previously provided investment management services. JMLAS's services as investment manager have been terminated.

The plan requires employee contributions of 5.5% of pensionable earnings and employer contributions determined actuarially as a percentage of employees' pensionable earnings. Annual pension at normal retirement age is based on 2% of the final 5 years' average pensionable earnings for each year of service.

The plan is subject to triennial actuarial valuations, with interim annual valuations as required by the trustees. The latest provisional actuarial valuation, conducted as at December 31,1996, using the Projected Unit Credit method indicated a past service funding deficiency of approximately $568 million. To recoup this deficiency over ten years, the actuaries have recommended an employers' contribution rate of 12.7%. However, during the year the company contributed at a rate of 13% (1998: 13%) of pensionable earnings. The next triennial valuation is due as at December 31, 1999.

Pension contributions during the year aggregated $293,293,000 (1998: $318,028,000).

17. Commitments and contingencies

(a) Capital commitments:

At March 31, 1999, commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately:

The Group and the Company	
1999	1998

	$'000	$'000
Commitments in respect of contracts placed	801,427	682,328
Amounts authorised in addition to contractual commitments	-	21,909
	801,427	**704,237**

(b) Lease commitments:

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

	The Group and the Company	
	1999	1998
	$'000	$'000
Within 1 year	410,318	386,736
From 1 - 2 years	78,796	127,987
	489,114	**514,723**

(c) Millennium (year 2000) issue:

The millennium or year 2000 issue potentially arises because many companies' computerised systems use two digits rather than four to identify a year. Date-sensitive systems may recognise the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the year 2000 issue may be experienced before, on or after January 1, 2000. If the issue is not adequately addressed, the impact on a company's operations and financial reporting might range from minor errors to significant systems failure which might affect its ability to conduct normal business operations.

The directors and management of Cable & Wireless Jamaica Limited believe that they have made every effort to ensure that the full implications of the year 2000 issue have been appropriately scoped and addressed in so far as the group and the company are able. However, at March 31, 1999, there can be no absolute assurance that the group and the company will not be adversely affected by the year 2000 issue, particularly in relation to the efforts of customers, suppliers, or other third parties.

18. Subsequent event

On April 27, 1999, the company's Board of Directors approved the acquisition by the company of an additional 70% of the issued ordinary shares of the associated company, Jamaica Digiport International Limited (JDI) [see note 2(c)]. On completion of this transaction, JDI would become a wholly owned subsidiary of the company.