JAMAICA PUBLIC SERVICE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2017

KPMG
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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 9 to 64, 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.

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

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.
	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 pages 6-7, 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JAMAICA PUBLIC SERVICE COMPANY LIMITED

Appendix to the Independent Auditors' report (continued)

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.

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Group Statement of Financial Position
December 31, 2017
(Expressed in United States Dollars)

	Notes	Company 2017 $'000	Company 2016 $'000	Group 2017 $'000
ASSETS				
Non-current assets				
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	-
		777,214	731,800	792,860
Current assets				
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
		327,794	241,958	311,794
Total assets		1,105,008	973,758	1,104,654
Shareholders' equity				
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		154,601	126,480	154,247
		424,147	395,411	423,793
Current liabilities				
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)	36,341	59,622	36,341
		253,502	199,226	253,502
Non-current liabilities				
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)	7,959	7,496	7,959
		427,359	379,121	427,359
Total liabilities		680,861	578,347	680,861
Total shareholders' equity and liabilities		1,105,008	973,758	1,104,654

The financial statements on pages, 8 to 64, 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 2017 $'000	Company 2016 $'000	Group 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		62,344	64,405	62,344
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		24,587	24,051	24,233
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		4,149	4,469	4,149
Total comprehensive income attributable to shareholders		28,736	28,520	28,382
Earnings per share	28	0.11¢	0.11¢	0.11¢

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	261,786	4,145	-	100,960	366,891
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	-	-	-	4,469	4,469
Total comprehensive income for the year	-	-	-	28,520	28,520
Transfer to capital redemption reserves	-	-	3,000	(3,000)	-
Balance at December 31, 2016	261,786	4,145	3,000	126,480	395,411
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	-	-	-	3,534	3,534
Total comprehensive income for the year	-	615	-	28,121	28,736
Balance at December 31, 2017	261,786	4,760	3,000	154,601	424,147

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	261,786	4,145	-	100,960	366,891
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	-	-	-	4,469	4,469
Total comprehensive income for the year	-	-	-	28,520	28,520
Transfer to capital redemption reserves	-	-	3,000	(3,000)	-
Balance at December 31, 2016	261,786	4,145	3,000	126,480	395,411
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	-	-	-	3,534	3,534
Total comprehensive income for the year	-	615	-	27,767	28,382
Balance at December 31, 2017	261,786	4,760	3,000	154,247	423,793

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2017
(*Expressed in United States Dollars*)

	Notes	Company 2017 $'000	Company 2016 $'000	Group 2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES				
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
CASH FLOWS FROM INVESTING ACTIVITIES				
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)
CASH FLOWS FROM FINANCING ACTIVITIES				
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
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		9,279	8,650	9,279
Comprised of:				
Cash and cash equivalents		12,203	8,650	12,203
Bank overdraft		(2,924)	-	(2,924)
		9,279	8,650	9,279

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

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.

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.

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:

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.

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.

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. IFIC 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.

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.

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.

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.

(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%, 4⅙% & 5%
Transmission plant	4%
Distribution plant	3⅓%, 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.

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.

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.

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.

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.

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.

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.

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 financials 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)].

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:

(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:

	Contract termination date
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.

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:

	2017	2016
	$'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	276,068	304,377
	539,087	519,118

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)].

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
Cost or valuation:							
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
Depreciation:							
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
Net book values:							
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

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**
Market comparable approach: • 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. • The approach requires comparison of the subject property with others of similar design and utility, inter alia, which were sold in the recent past. • However, as no two properties are exactly alike, adjustment is made for the difference between the property subject to valuation and comparable properties.	• Details of the sales of comparable properties. • Conditions influencing the sale of comparable properties. • Comparability adjustments.	The estimated fair value would increase/(decrease) if: • Sale value of comparable properties were higher/(lower). • Comparability adjustments were higher/(lower).

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

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

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

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:

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

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

	$'000
Current Assets	14,809
Non-Current Assets	129,020
Current Liabilities	(16,373)
Non-Current Liabilities	(96,038)
Net Assets	31,418
Total Comprehensive Loss	(710)

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	$15,646

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% (2016:1⅔%) 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:

	The Company and Group	
	2017	2016
	$'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	41,730	32,167

(ii) Movements in funded obligations:

	2017	2016
	$'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)	3,889
Balance at end of year	(93,789)	(76,430)

8. Employee benefits (continued)

(a) Defined benefit pension plan (continued):

(ii) Movements in plan assets:

	The Company and Group	
	2017	2016
	$'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)	3,788	(8,397)
Fair value of plan assets at end of year	177,249	140,764
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	13,989	2,717
	177,249	140,764

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.

8. Employee benefits (continued)

(a) Defined benefit pension plan (continued):

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

	The Company and Group	
	2017	2016
	$'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:

	The Company and Group	
	2017	2016
	$'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	5,300	6,703

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

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

8. Employee benefits (continued)

(a) Defined benefit pension plan (continued)

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

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

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

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

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.

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

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:

	The Company and Group	
	2017	2016
	$'000	$'000
Accumulated sick and vacation pay	7,959	7,496

(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.

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

10. Net cash and cash equivalents

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

11. Restricted cash

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

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

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

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

	The Company and Group			
	2017		2016	
	Gross receivable	Impairment	Gross receivable	Impairment
	$'000	$'000	$'000	$'000
Neither past due nor impaired:				
Due 0-30 days	90,678	-	76,593	-
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	56,065	-	32,937	-
	75,825	-	48,500	-
Past due and impaired:				
More than 90 days	48,450	48,450	46,091	46,091
	214,953	48,450	171,184	46,091

12. Accounts receivable

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

	The Company and Group	
	2017	2016
	$'000	$'000
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	48,450	46,091

13. Inventories

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

14. Share capital

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

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

15. Capital reserve

	The Company and Group	
	2017	2016
	$’000	$’000
Revaluation surplus	4,760	4,145

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

	The Company and Group	
	2017	2016
	$’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)	9,550	8,853
	191,104	135,978

Movement in provisions during the year was as follows:

	The Company and Group	
	2017	2016
	$’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	-	(3,958)
At the end of year	9,550	8,853

18. Related party balances and transactions

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

	Company		Group
	2017	2016	2017
	$'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	43	65	43
	16,795	10,360	795
(ii) Due to:			
EWP (Barbados) 1 SRL	133	1,666	133
Government of Jamaica	-	1,300	-
	133	2,966	133

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

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

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

	The Company and Group	
	2017	2016
	$'000	$'000
(a) Short-term Loans		
(i) Citibank	23,000	-
(b) Long-term Loans		
(ii) Kreditanstalt fur Weideraudfbau 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	22,344	29,719
Balance carried forward	275,291	339,641

20. Borrowings (continued)

(b) Long-term loans (continued)

	The Company and Group	
	2017	2016
	$'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	56,245	-
Total long-term loans	354,045	344,204
Less: Current portion	(36,341)	(59,622)
Non-current portion	317,704	284,582

(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).

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.

21. Preference shares

This comprises cumulative preference shares as follows:

	The Company and Group Number of shares		The Company and Group	
	2017	2016	2017 $'000	2016 $'000
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	2,455,607	2,455,607	24,556	24,556
	3,922,107	3,922,107	24,688	24,688

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:

(i) Priority of payment to receive all dividends over any form of capital distributions;

(ii) Full voting rights on winding up;

(iii) 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

(iv) 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:

	The Company and Group						
	Balance at December 31 2015 $'000	Recognised in profit or loss $'000 [Note 27(a)]	Recognised in other comprehensive income $'000	Balance at December 31 2016 $'000	Recognised in profit or loss $'000 [Note 27(a)]	Recognised in other comprehensive income $'000	Balance at December 31 2017 $'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	761	(61)	-	700	(217)	-	483
	(34,616)	(1,211)	(2,234)	(38,061)	(797)	(1,766)	(40,624)

23. Decommissioning provision

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

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

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

(b) Operating expenses

	The Company and Group	
	2017	2016
	$'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	(46,612)	(44,140)
	(225,558)	(220,337)

25. Expenses (continued)

(c) Net finance costs

	The Company and Group	
	2017	2016
	$'000	$'000
Foreign exchange gains/(losses), net	1,981	(4,793)
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	(880)	(921)
	(41,154)	(37,846)
Finance income:		
Interest income	2,078	881
Interest capitalised during construction [Note 5(d)]	2,163	1,944
	4,241	2,825
	(34,932)	(39,814)

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

26. Other income and expenses

(a) Other income comprises:

	The Company and Group	
	2017	2016
	$'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	74	26
	4,817	10,376

26. Other income and expenses (continued)

(b) Other expenses comprise:

	The Company and Group	
	2017	2016
	$'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	-	(26)
	(2,198)	(1,975)

27. Taxation

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

	Company		Group
	2017	2016	2017
	$'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)	797	1,211	797
Taxation expense	5,444	8,941	5,444

(b) Reconciliation of tax expense:

	Company		Group
	2017	2016	2017
	$'000	$'000	$'000
Profit before taxation	30,031	32,992	29,677
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	393	518	393
Taxation expense	5,444	8,941	5,444

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.

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

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).

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:

	The Company and Group	
	2017	2016
	$'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	6,377	6,326
	28,346	27,229

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

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(l)].

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).

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 10 years $'000	3-5 years $'000	6-10 years $'000	More than 10 years $'000
December 31, 2017							
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	27,150	27,150	-	-	-	4,654	22,496
Total financial liabilities	588,806	807,547	277,228	114,900	281,694	59,291	74,434
December 31, 2016							
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	24,294	24,294	-	-	-	3,732	20,562
Total financial liabilities	498,456	616,668	216,393	62,855	310,924	5,084	21,412

*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.

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:

	The Company and Group Carrying amount	
	2017	2016
	$'000	$'000
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.

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.

	The Company and Group			
	Effect on profit or loss			
	2017		2016	
	100bp increase	50bp decrease	100bp increase	50bp decrease
	$'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.

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$	€	£	US$ equivalent
	$'000	$'000	$'000	$'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)
	13,101,002	(7,857)	(161)	115,333

	The Company and Group			
	2016			
	J$	€	£	US$ equivalent
	$'000	$'000	$'000	$'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)
	11,288,891	7,908)	(161)	79,783

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.

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	(3,822)	(3,822)	(4,788)	(4,788)

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	
	Equity $'000	Profit $'000	Equity $'000	Profit $'000
J$	2,096	2,096	879	879
Euro (€)	(185)	(185)	(83)	(83)
GBP (£)	-	-	2	2
Total	1,911	1,911	798	798

(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.

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.

	The Company and Group	
	2017 $'000	2016 $'000
Bank overdraft	2,924	-
Short term loans	23,000	-
Current maturity of long term loans	36,341	59,622
Long term loans	317,704	284,582
Total debt	379,969	344,204
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	24,688	24,688
Total equity	448,835	420,099
Capital and debt	828,804	764,303
Gearing ratio	46%	45%

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 (continued)
Year ended 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:

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

32. Financial instruments

(d) Fair value disclosure (continued):

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

	The Company and Group		
	2017		
	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)
	(25,582)	(447,059)	(472,641)

	The Company and Group		
	2016		
	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)
	(24,409)	(445,028)	(469,437)