JAMAICA PUBLIC SERVICE COMPANY LIMITED

FINANCIAL STATEMENTS

DECEMBER 31, 2018

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 separate financial statements of Jamaica Public Service Company Limited ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), set out on pages 8 to 71 which comprise the Group's and Company's statements of financial position as at December 31, 2018, the Group's and Company's statements of profit or loss and other comprehensive income, changes in 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 Group and the Company as at December 31, 2018, and of the Group's and Company's 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. Our testing of automated controls involved using our own information technology audit specialist to test the design, implementation and operating effectiveness of automated controls. • Using the appropriate KPMG specialist, we reviewed the expected credit loss (ECL) model calculations and agreed the data inputs. • Comparing the Group's definition of default for the ECL measurement, as outlined in the accounting policy, against the definition that management uses for credit risk management. • Evaluating the appropriateness of economic parameters including the use of forward looking information. • Testing the accuracy of the ECL calculation. • Evaluating the adequacy of the Group's allowance for impairment recognised in respect of trade receivables by assessing management's assumptions including determining compliance with the new requirements of *IFRS 9, Financial Instruments*. • Considering the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the allowance for impairment.

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 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 volume data; and ▪ Comparing the prices applied by management to actual fuel and independent power providers' costs incurred. • Re-performing independently, the 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.

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

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)

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

March 28, 2019

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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
JAMAICA PUBLIC SERVICE COMPANY LIMITED

Appendix to the Independent Auditors' report (continued)

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

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

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Statement of Financial Position
December 31, 2018
(Expressed in United States Dollars)

	Notes	Company 2018 $'000	Company 2017 $'000	Group 2018 $'000	Group 2017 $'000
ASSETS					
Non-current assets					
Property, plant and equipment	6	755,530	710,937	755,530	710,937
Intangible assets	7	20,983	24,547	20,983	24,547
Investment in subsidiary	8(a)	-	-	-	-
Investment in joint venture	8(b)	-	-	36,055	15,646
Employee benefits asset	9(a)(i)	46,454	41,730	46,454	41,730
		822,967	777,214	859,022	792,860
Current assets					
Cash and cash equivalents	10	27,267	12,203	27,267	12,203
Restricted cash	11	41,325	38,443	41,325	38,443
Accounts receivable	12	182,384	217,218	182,384	217,218
Due from related parties	18(a)(i)	37,414	16,795	588	795
Inventories	13	40,072	41,405	40,072	41,405
Corporation tax recoverable		-	1,730	-	1,730
		328,462	327,794	291,636	311,794
Total assets		1,151,429	1,105,008	1,150,658	1,104,654
Shareholders' equity					
Share capital	14	261,786	261,786	261,786	261,786
Capital reserve	15	4,760	4,760	4,760	4,760
Capital redemption reserve	16	3,000	3,000	3,000	3,000
Retained earnings		171,538	154,601	170,767	154,247
		441,084	424,147	440,313	423,793
Current liabilities					
Bank overdraft	10	-	2,924	-	2,924
Accounts payable and provisions	17	191,017	191,104	191,017	191,104
Corporation tax payable		943	-	943	-
Due to related parties	18(a)(ii)	2,009	133	2,009	133
Short-term loans	20(a)	20,000	23,000	20,000	23,000
Current portion of long-term loans	20(b)	35,537	36,341	35,537	36,341
		249,506	253,502	249,506	253,502
Non-current liabilities					
Customers' deposits	19	29,989	27,150	29,989	27,150
Long-term loans	20(b)	346,068	317,704	346,068	317,704
Preference shares	21	24,688	24,688	24,688	24,688
Deferred taxation	22	42,668	40,624	42,668	40,624
Decommissioning provision	23	9,629	9,234	9,629	9,234
Employee benefits obligation	9(b)	7,797	7,959	7,797	7,959
		460,839	427,359	460,839	427,359
Total liabilities		710,345	680,861	710,345	680,861
Total shareholders' equity and liabilities		1,151,429	1,105,008	1,150,658	1,104,654

The financial statements on pages, 8 to 71 were approved by the Board of Directors on March 28, 2019, and signed on its behalf by:

Chairman — Seiji Kawamura

Director — Ha Kyoung Song

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2018
(Expressed in United States Dollars)

	Notes	Company 2018 $'000	Company 2017 $'000	Group 2018 $'000	Group 2017 $'000
Operating revenue	24	908,254	836,869	908,254	836,869
Cost of sales	25(a)	(619,593)	(548,967)	(619,593)	(548,967)
Gross profit		288,661	287,902	288,661	287,902
Operating expenses	25(b)	(202,378)	(225,558)	(202,378)	(225,558)
Impairment loss on trade receivables	12	(8,672)	-	(8,672)	-
Operating profit		77,611	62,344	77,611	62,344
Finance income		11,179	4,241	11,179	4,241
Finance costs		(47,025)	(39,173)	(47,025)	(39,173)
Net finance costs	25(c)	(35,846)	(34,932)	(35,846)	(34,932)
Other income	26(a)	4,775	4,817	4,775	4,817
Other expenses	26(b)	(6,654)	(2,198)	(6,654)	(2,198)
		39,886	30,031	39,886	30,031
Share of loss in joint venture	8(b)	-	-	(417)	(354)
Profit before taxation		39,886	30,031	39,469	29,677
Taxation	27	(8,848)	(5,444)	(8,848)	(5,444)
Profit for the year		31,038	24,587	30,621	24,233
Other comprehensive income					
Items that will never be reclassified to profit or loss:					
Gain on revaluation of property, plant and equipment	6	-	615	-	615
Remeasurement gains on defined benefit plan	9(a)(iv)	2,235	5,300	2,235	5,300
Tax on remeasurement gains on defined benefit plan	22	(745)	(1,766)	(745)	(1,766)
Other comprehensive gain, net of tax		1,490	4,149	1,490	4,149
Total comprehensive income attributable to shareholders		32,528	28,736	32,111	28,382
Earnings per share	28	0.14¢	0.11¢	0.14¢	0.11¢

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Company Statement of Changes in Shareholders' Equity
Year ended December 31, 2018
(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, 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
Adjustment on initial application of IFRS 9, [note 3(a)]	-	-	-	(5,591)	(5,591)
Adjusted balance at January 1, 2018	261,786	4,760	3,000	149,010	418,556
Total comprehensive income for the year:					
Profit for the year	-	-	-	31,038	31,038
Other comprehensive income:					
Remeasurement losses on defined benefit plan, net of tax	-	-	-	1,490	1,490
Total comprehensive income for the year	261,786	4,760	3,000	181,538	451,084
Transactions with owners of the company:					
Dividends [note 29 (a)]	-	-	-	(10,000)	(10,000)
Balance at December 31, 2018	261,786	4,760	3,000	171,538	441,084

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, 2018
(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, 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
Adjustment on initial application of IFRS 9, [note 3(a)]	-	-	-	(5,591)	(5,591)
Adjusted balance at January 1, 2018	261,786	4,760	3,000	148,656	418,202
Total comprehensive income for the year:					
Profit for the year	-	-	-	30,621	30,621
Other comprehensive income:					
Remeasurement losses on defined benefit plan, net of tax	-	-	-	1,490	1,490
Total comprehensive income for the year	261,786	4,760	3,000	180,767	450,313
Transactions with owners of the company:					
Dividends [note 29 (a)]	-	-	-	(10,000)	(10,000)
Balance at December 31, 2018	261,786	4,760	3,000	170,767	440,313

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

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Statement of Cash Flows
Year ended December 31, 2018
(Expressed in United States Dollars)

	Notes	Company 2018 $'000	Company 2017 $'000	Group 2018 $'000	Group 2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit for the year		31,038	24,587	30,621	24,233
Adjustments for:					
Depreciation and amortisation	6,7	80,666	76,589	80,666	76,589
Loss/ (gain) on disposal of property, plant and equipment		389	(74)	389	(74)
Amortisation of debt issuance costs		2,820	3,442	2,820	3,442
Amortisation of other asset		-	89	-	89
Unrealised foreign exchange losses/(gains)		1,668	(5,432)	1,668	(5,432)
Interest expense		40,612	37,712	40,612	37,712
Interest income	25(c)	(6,792)	(2,078)	(6,792)	(2,078)
Interest capitalised	25(c)	(4,387)	(2,163)	(4,387)	(2,163)
Taxation expense	27	7,549	4,647	7,549	4,647
Deferred tax	22	1,299	797	1,299	797
Employee benefits asset/obligation, net		(3,025)	(3,414)	(3,025)	(3,414)
Long term receivables and deferred revenue, net		-	(25)	-	(25)
Share of loss in joint venture		-	-	417	354
Cash generated before changes in working capital		151,837	134,677	151,837	134,677
Restricted cash		(2,882)	(3,729)	(2,882)	(3,729)
Accounts receivable		29,258	(54,701)	29,258	(54,701)
Inventories		1,333	(9,262)	1,333	(9,262)
Accounts payable and provisions		487	63,312	487	63,312
Due from/to related parties		(18,743)	(9,268)	2,083	6,732
Customers' deposits and advances		3,377	2,115	3,377	2,115
Cash generated from operations		164,667	123,144	185,493	139,144
Taxation paid		(4,876)	(7,034)	(4,876)	(7,034)
Net cash provided by operating activities		159,791	116,110	180,617	132,110
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of share in joint venture		-	-	(20,826)	(16,000)
Proceeds from sale of property, plant and equipment		-	1,007	-	1,007
Purchase of property, plant and equipment		(116,615)	(106,452)	(116,615)	(106,452)
Purchase of intangible assets	7	(1,082)	(4,232)	(1,082)	(4,232)
Interest received		5,947	1,774	5,947	1,774
Net cash used in investing activities		(111,750)	(107,903)	(132,576)	(123,903)
CASH FLOWS FROM FINANCING ACTIVITIES					
Short-term loans received, net		(3,000)	23,000	(3,000)	23,000
Long-term loans received		23,823	75,848	23,823	75,848
Repayment of long-term loans		-	(69,455)	-	(69,455)
Interest and dividend paid		(50,876)	(36,971)	(50,876)	(36,971)
Net cash used in financing activities		(30,053)	(7,578)	(30,053)	(7,578)
Net increase in cash and cash equivalents		17,988	629	17,988	629
Net cash and cash equivalents at beginning of year		9,279	8,650	9,279	8,650
NET CASH AND CASH EQUIVALENTS AT END OF YEAR		27,267	9,279	27,267	9,279
Comprised of:					
Cash and cash equivalents		27,267	12,203	27,267	12,203
Bank overdraft		-	(2,924)	-	(2,924)
		27,267	9,279	27,267	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 Company 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 Company holds a 100% interest in South Jamaica Energy Holdings Limited (SJEH). The primary activity of SJEH is the holding of investments.

The registered office of the Company and its Subsidiary 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 Company 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 Company of its obligations under the Licence, and to regulate the rates charged by the Company.

Under the provisions of the Licence, the Company is granted the exclusive right to transmit, distribute and supply electricity throughout the Island of Jamaica for a period of twenty years and to develop new generation capacity within the first three years from the effective date of the Licence. Since the expiration of this initial three year period, the Company has the right, together with other persons, to compete for the right to develop new generation capacity. The Licence was extended in August 2007 for an additional period of six years through to 2027 upon the sale of the Company by Mirant Corporation to Marubeni Corporation.

Notes to the Financial Statements (Continued)
December 31, 2018
(Expressed in United States Dollars)

1. Identification, Regulation and Licence (continued)

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

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

Under the Licence, the rates for electricity consist of a Non-Fuel Base Rate, which is adjusted annually using the Performance Based Rate-making Mechanism; and a Fuel Rate, which is adjusted monthly to reflect fluctuations in actual fuel costs, net of adjustments for prescribed efficiency targets. Both rates (fuel and non-fuel) are adjusted monthly to account for movements in the monetary exchange rate between the United States (US) dollar and the Jamaica dollar.

These rates are determined in accordance with the tariff regime, which provides that the OUR annually reviews the Company's efficiency levels (system losses and heat rate) and, where appropriate, adjusts these in the tariff. Under the rate schedule, the Company 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the relevant provisions of the Jamaican Companies Act ("the Act"). This is the first set of the Group annual financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 3.

(b) Basis of preparation:

These financial statements are presented in United States dollars, which is the functional currency of the Company 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.

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

(b) Basis of preparation (continued):

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 4(b).

Basis of consolidation

The consolidated financial statements comprise of the Company and its subsidiary for the year ended December 31, 2018.

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.

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

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

(i) Post-employment benefits (continued):

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.

(ii) Allowance for impairment losses on receivables:

Allowances for doubtful accounts were established until December 31, 2017 based on incurred loss analyses over delinquent accounts considering aging of balances, the credit history and risk profile of each customer and legal processes to recover accounts receivable. Effective January 1, 2018, such allowances are determined upon origination of the trade accounts receivable based on a model that calculates the expected credit loss ("ECL") of the trade accounts receivable.

Under this ECL model, the Group segments its accounts receivable in a matrix by days past due and determined for each age bracket an average rate of ECL, considering actual credit loss experience over the last 12 months and analysis of future delinquency, that is applied to the balance of the accounts receivable.

The average ECL rate increases in each segment of days past due until the rate is 100% for the segment of 365 days or more past due. The use of assumptions make uncertainty inherent in such estimates.

(iii) Lease arrangements:

Management evaluates all purchase arrangements to assess whether they contain leases [Notes 4(q) and 5].

(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. Changes in accounting policies

The Group has initially adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018.

Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not been restated to reflect its requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- additional disclosures related to IFRS 9 (see notes 4(d),12 and 33);
- additional disclosures related to IFRS 15 [see note 4(m)].

Except for the changes below, the Company has consistently applied the accounting policies as set out in note 4 to all periods presented in these financial statements.

(a) IFRS 9, Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method.

Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group accounting policies and the full impact resulting from its adoption of IFRS 9 are summarised below.

The impact, net of tax, of transition to IFRS 9 on the opening accumulated profit is as follows:

	Company	Group
	$'000	$'000
Retained Earnings		
Closing balance under IAS 39 (December 31, 2017)	154,601	154,247
Recognition of expected credit losses under IFRS 9:-		
Trade receivables	(5,591)	(5,591)
Opening balance under IFRS 9 (January 1, 2018)	149,010	148,656

3. Changes in accounting policies (continued)

a) IFRS 9, Financial Instruments (continued)

IFRS 9 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). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9 derivatives embedded in contracts where the host is in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at January 1, 2018. There was no change in the measurement categories for the Group's financial liabilities (categorised as other financial liabilities under both IAS 39 and IFRS 9).

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment as disclosed below:

Company

	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017	Remeasurement	IFRS 9 carrying amount at January 1, 2018
			$'000	$'000	$'000
Financial assets					
Accounting receivables	Loans and receivables	Amortised cost	217,218	(5,591)	211,627
Cash and cash equivalents	Loans and receivables	Amortised cost	12,203	-	12,203
Restricted Cash	Loans and receivables	Amortised cost	38,443	-	38,443
Due from related parties	Loans and receivables	Amortised cost	16,795	-	16,795
Total Financial Assets			284,659	(5,591)	279,068

Group

	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017	Remeasurement	IFRS 9 carrying amount at January 1, 2018
			$'000	$'000	$'000
Financial assets					
Accounting receivables	Loans and receivables	Amortised cost	217,218	(5,591)	211,627
Cash and cash equivalents	Loans and receivables	Amortised cost	12,203	-	12,203
Restricted Cash	Loans and receivables	Amortised cost	38,443	-	38,443
Due from related parties	Loans and receivables	Amortised cost	795	-	795
Total Financial Assets			268,659	(5,591)	263,068

3. Changes in accounting policies (continued)

a) IFRS 9, Financial Instruments (continued*)*

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of $5.6 million in the allowance for impairment over these receivables was recognised in opening retained earnings at January 1, 2018 on transition to IFRS 9.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

For assets in the scope of the IFRS 9 impairment model, impairment loses are generally expected to increase and become more volatile. The Group has determined that application to IFRS 9 impairment requirements at January 1, 2018 results in an additional allowance for impairment as follows:

	Company and Group
	$'000
Loss allowance at December 31, 2017 under IAS 39	48,450
Additional Impairment recognised at January 1, 2018 :	
Trade and other receivables as at December 31, 2017	5,591
Loss allowance at January 1 2018 under IFRS 9	54,041

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except that comparative periods generally have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at January 1, 2018. Accordingly, the information presented for 2017, does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

b) IFRS 15, Revenue Recognition

Under IFRS 15, an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1: Identify the contract(s) with a customer (agreement that creates enforceable rights and obligations); Step 2: Identify the different performance obligations (promises) in the contract and account for those separately; Step 3: Determine the transaction price (amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services); Step 4: Allocate the transaction price to each performance obligation based on the relative stand-alone selling prices of each distinct good or service; and Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation by transferring control of a promised good or service to the customer. A performance obligation may be satisfied at a point in time or over time.

3. Changes in accounting policies (continued)

b) IFRS 15, Revenue Recognition (continued)

IFRS 15 also includes disclosure requirements to provide comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 was effective on January 1, 2018, and supersedes all existing guidance on revenue recognition.

The adoption of IFRS 15 did not impact the timing or amount of income from contracts for sales of electricity to customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

4. 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.

Specialised plant and equipment is 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 is measured at cost except for land, which is measured at revalued amounts. Land was last 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.

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4. Summary of significant accounting policies (continued)

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

Depreciation and amortisation (continued):

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

Steam production plant	4%
Hydraulic production plant	2%, 2.5% & 3.08%
Other production plant	2.5, 4%, 4.17% & 5%
Transmission plant	4%
Distribution plant	3.33%, 4%, 6.67%, 10% & 20%
General plant & equipment:	
Buildings and structures	2%
Transport equipment	8.33% & 14.29%
Other equipment	6.67%, 8.33%, 10%, 16.67% & 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.

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.

4. Summary of significant accounting policies (continued)

(b) Employee benefits (continued):

(i) Pension assets (continued):

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.

(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.

4. Summary of significant accounting policies (continued)

(c) Cash and cash equivalents (continued):

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 receivables are measured at amortised cost less impairment losses. An impairment loss is recognised using the expected credit loss model for the entire lifetime of such financial assets on initial recognition, and at each subsequent reporting period, even in the absence of a credit event or if a loss has not yet been incurred, considering for their measurement past events and current conditions, as well as reasonable and supportable forecasts affecting collectability [see also note 4(l)].

(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 accounts payable are recorded initially at amounts representing the fair value of the consideration to be paid for goods and services received by the reporting date, whether or not billed. Thereafter they 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.

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.

4. Summary of significant accounting policies (continued)

(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 Debt issuance costs:

(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.

(l) Impairment

Financial assets

Policy applicable from January 1, 2018

The Group recognises loss allowances for Expected credit losses (ECLs) on:

- financial assets measured at amortised cost; and
- contract assets

The Group measures loss allowances at an amount equal to lifetime ECLs. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

4. Summary of significant accounting policies (continued)

(l) Impairment (continued):

Financial assets (continued)

Policy applicable from January 1, 2018 (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward looking information.

The Group assumes that the credit risk on financial assets has increased significantly if it is more than 365 days past due.

The Group recognises loss allowances for ECLs and considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security if any is held; or
- the financial asset is more than 365 days past due.

Life-time ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised costs are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

4. Summary of significant accounting policies (continued)

(l) Impairment (continued):

Financial assets (continued)

Policy applicable from January 1, 2018 (continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before January 1, 2018

A provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. The amount of the provision is the difference between the carrying amount and the recoverable amount.

Non-financial assets

The carrying amount of the Group's non-financial assets (other than inventories and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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 largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised.

4. Summary of significant accounting policies (continued)

(m) Revenue recognition:

Policy applicable after January 2018

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Sales of electricity

Revenue is recognised at a point in time in the amount of the price, before tax on sales, expected to be received by the company for electricity supplied as a result of their ordinary activities, as contractual performance obligations are fulfilled, and the electricity is consumed by the customer. Revenues are decreased by any trade discounts granted to customers.

Sales of goods

Revenue is recognised at a point in time in the amount of the price, before tax on sales, expected to be received by the company for goods and services supplied as a result of their ordinary activities, as contractual performance obligations are fulfilled, and control of goods and services passes to the customer. Revenues are decreased by any trade discounts granted to customers. Transactions between related parties are eliminated on consolidation.
oVariable consideration is recognised when it is highly probable that a significant Variable consideration is recognised when it is highly probable that a significant reversal in the amount of cumulative revenue recognised for the contract will not occur and is measured using the expected value or the most likely amount method, whichever is expected to better predict the amount based on the terms and conditions of the contract.

For contracts that permit return of goods, revenue is recognised to the extent that it is highly probable that a significant reversal will not occur.

The right to recover returned goods is measured at the former carrying amount of inventory less any expected cost to recover.

Interest income

Interest income is recognised in profit or loss using the effective interest method. The "effective interest rate" is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instruments to its gross carrying amount.

When calculating the effective interest rate for financial instruments, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

4. Summary of significant accounting policies (continued)

(m) Revenue recognition (continued):

Interest income (continued)

The 'amortised cost' of a financial asset is the amount at which the financial asset is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before January 1, 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset is calculated on initial recognition of a financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Policy applicable before January 2018

(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.

(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.

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.

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4. Summary of significant accounting policies (continued)

(n) Taxation (continued):

Current and deferred taxes (continued):

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.

(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) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(vii) 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.

4. 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):

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

(ix) 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).

(x) 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 the 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.

4. 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 entity and a financial liability or equity instrument of another entity. In these financial statements, financial assets comprise trade and other receivables, cash and cash equivalents, long term receivables, due from related parties, other assets and restricted cash. Financial liabilities comprise trade and other payables, loan from bank due to related parties, also financial substitutes; preference shares, customer deposits and other payables.

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the company becomes a party to the contractual provisions of the instrument.

4. Summary of significant accounting policies (continued)

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

(i) Recognition and initial measurement (continued)

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from January 1, 2018

The financial assets that meet both of the following conditions and are not designated as at fair value through profit or loss: a) are held within a business model whose objective is to hold assets to collect contractual cash flows, and b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified as "Held to collect" and measured at amortised cost.

Amortised cost represents the net present value ("NPV") of the consideration receivable or payable as of the transaction date. This classification of financial assets comprises the following captions:

- Cash and cash equivalents
- Trade receivables

Due to their short-term nature, the company initially recognises these assets at the original invoiced or transaction amount less expected credit losses.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described in the particular recognition methods disclosed in their individual policy statements associated with each item.

Impairment of financial assets

Impairment losses of financial assets, including receivables, are recognised using the expected credit loss model for the entire lifetime of such financial assets on initial recognition, and at each subsequent reporting period, even in the absence of a credit event or if a loss has not yet been incurred, considering their measurement past events and current conditions, as well as reasonable and supportable forecasts affecting collectability.

4. Summary of significant accounting policies (continued)

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

(ii) Classification and subsequent measurement (continued)

Derecognition

A financial asset is primarily derecognised when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs. The company's financial liabilities, which include payables and accruals, loan obligations, due to parent and related companies and redeemable preference shares which are recognised initially at fair value.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as described in the particular recognition methods disclosed in their individual policy statements associated with each item.

Derecognition

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 on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

4. Summary of significant accounting policies (continued)

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

(ii) Classification and subsequent measurement (continued)

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:

- 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.

(u) New and amended standards and interpretations issued but not yet effective:

At the date of authorisation of the financial statements, certain new and amended standards and interpretations are in issue but were not yet effective and have not been adopted early by the Group. Those which may have an impact on the Group's financial statements are as follows:

4. Summary of significant accounting policies (continued)

(u) New and amended standards and interpretations issued but not yet effective (continued):

- Amendments to IFRS 9, Financial Instruments, effective retrospectively for annual periods beginning on or after January 1, 2019, clarifies the treatment of:

  (i) Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

  (ii) Modifications to financial liabilities:

  If the initial application of IFRS 9 results in a change in accounting policy for these modifications or exchanges, then retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified (but not substantially) - these are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

- Amendment to IAS 28, Investments in Associates and Joint Ventures is effective for annual periods beginning on or after January 1, 2019 and addresses equity-accounted loss absorption by long-term interests. It will affect companies that finance associates and joint ventures with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests) and involves the dual application of IAS 28 and IFRS 9, Financial Instruments. The Group is required to apply both IFRS 9 and IAS 28 in a three-step annual process:

  - Apply IFRS 9 independently - prior years' IAS 28 loss absorption is ignored.
  - If necessary, prior years' IAS 28 loss allocation is trued-up in the current year, because the IFRS 9 carrying value may have changed.
  - Any current year IAS 28 losses are allocated to the extent that the remaining long-term interests balance allows. Any unrecognised prior years' losses are reversed by current year IAS 28 profits.

- Amendment to IAS 19, *Employee Benefits* is effective for annual periods beginning on or after January 1, 2019, and specifies how a company should determine pension expenses when there are changes to a defined benefit pension plan.

  The amendment requires a company to use updated actuarial assumptions to determine its current service cost and net interest for the remaining period when there is an amendment, curtailment or settlement of a defined benefit plan. The effect of the net asset ceiling is disregarded when calculating the gain or loss on the settlement of the defined benefit plan and is dealt with separately in other comprehensive income.

4. Summary of significant accounting policies (continued)

(u) New and amended standards and interpretations issued but not yet effective (continued):

- Annual improvement to IFRS Standards 2015-2017 (continued)

  Annual Improvements to IFRS Standards 2015-2017 cycle contain amendments to IFRS 3, *Business Combinations,* IFRS 11, *Joint Arrangements*, IAS 12, *Income Taxes* and IAS 23, *Borrowing Costs*, are effective for annual periods beginning on or after January 1, 2019.

  (i) The amendments to IFRS 3 and IFRS 11 clarifies how an increased interest in a joint operation should be accounted for. If a party maintains or obtains joint control, then the previously held interest is not remeasured. But, if a party obtains control, this is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

  (ii) IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently (either in profit or loss, OCI or equity) with the transactions that generated the distributable profits.

- 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. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

  □The Group plans to apply IFRS 16 initially on January 1, 2019, using the modified

  The Group plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

  The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before January 1, 2019, and identified as leases in accordance with IAS 16 and IFRIC 4. The effects of adoption of IFRS 16 on January 1, 2019 are being assessed by management.

4. Summary of significant accounting policies (continued)

(u) New and amended standards and interpretations issued but not yet effective (continued):

- IFRIC 23, *Uncertainty Over Income Tax Treatments*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

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

  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.

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective retrospectively from annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

  The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

  - New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
  - A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
  - A new control-based approach to de-recognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

- Amendment to *IAS 1, Presentation of Financial Statements* and IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, is effective for annual periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

4. Summary of significant accounting policies (continued)

(u) New and amended standards and interpretations issued but not yet effective (continued):

- IAS 23, *Borrowing Cost*, is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. The change will apply to borrowing costs incurred on or after the date of initial adoption of the amendment.

5. 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, 2018, the total guarantees under Standby Letters of Credit amounted to $31.6 million (2017: $33.0 million). These facilities were not accessed during the year.

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, 2018, the minimum lease payments are as follows:

	2018 $'000	2017 $'000
Within 1 year	52,229	51,872
From 1-2 years	52,595	52,229
From 3-5 years	160,072	158,918
Over 5 years	221,916	276,068
	486,812	539,087

Lease payments under operating leases with IPPs recognised in profit or loss for the year, aggregated approximately $141.5 million (2017: $157.3 million) [Note 25(a)].

6. 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, 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
Additions	9	4,200	15,978	497	562	99,756	121,002
Transfers	839	31,519	39,524	521	2,490	(74,893)	-
Disposals/retirements and adjustments	-	(4,588)	-	(144)	(288)	-	(5,020)
December 31, 2018	65,337	808,624	1,159,976	39,905	103,647	111,690	2,289,179
Depreciation:							
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
Charge for the year	891	41,618	29,612	563	3,336	-	76,020
Disposals/retirements and adjustments	-	(4,273)	-	(339)	(19)	-	(4,631)
December 31, 2018	14,379	630,171	758,751	35,500	94,848	-	1,533,649
Net book values:							
December 31, 2018	50,958	178,453	401,225	4,405	8,799	111,690	755,530
December 31, 2017	51,001	184,667	375,335	3,755	9,352	86,827	710,937

6. Property, plant & equipment (continued)

(a) Land and buildings include land, at valuation, aggregating approximately $26.2 million (2017: $26.2 million). Of this amount, the cost of land, amounted to $21.4 million (2017: $21.4 million). Land, which is considered a separate class of assets, was revalued during the prior 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).

JAMAICA PUBLIC SERVICE COMPANY LIMITED

Notes to the Financial Statements (Continued)
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6. Property, plant & equipment (continued)

(c) Interest capitalised during construction for the year amounted to approximately $4.4 million (2017: $2.2 million). The capitalisation rate used for the year was 4.39% (2017: 4.14%)

(d) The composite rate of depreciation for the year was approximately 6.81% (2017: 6.60%).

7. Intangible assets

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

The Company and Group

	Software $'000	Land rights $'000	Total $'000
Cost or valuation:			
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
Additions	1,079	3	1,082
December 31, 2018	33,282	7,882	41,164
Depreciation:			
December 31, 2016	11,753	-	11,753
Charge for the year	3,782	-	3,782
December 31, 2017	15,535	-	15,535
Charge for the year	4,646	-	4,646
December 31, 2018	20,181	-	20,181
Net book values:			
December 31, 2018	13,101	7,882	20,983
December 31, 2017	16,668	7,879	24,547

Software includes software projects in development of $1.4 million (2017: $4.1 million).

8. Subsidiaries and Joint Ventures

a) South Jamaica Energy Holdings Limited

The company holds 1 ordinary class share at $1 per share representing 100% ownership. The primary activity of SJEH is the holding of investments.

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Notes to the Financial Statements (Continued)
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8. Subsidiaries and Joint Ventures (continued)

b) Investment in Joint Venture

Through SJEH, the Group holds a 50% interest in South Jamaica Power Company Limited (SJPC). 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 the investment is accounted for using the equity method, as follows:

	2018 $'000	2017 $'000
Balance at the start of the year	15,646	-
Investment during the year	20,826	16,000
Share of loss	(417)	(354)
Balance at the end of the year	36,055	15,646

The following table represents the summarised financial information for the joint venture as at the year end.

	2018 $'000	2017 $'000
Current assets	17,218	14,809
Non-current assets	246,039	129,020
Current liabilities	(13,308)	(16,373)
Non-current liabilities	(177,839)	(96,038)
Net assets	72,110	31,418
Total comprehensive loss	(834)	(710)

Reconciliation of summarised financial information to the carrying amount of the Group's interest in the joint venture

	2018 $'000	2017 $'000
Net Assets as at the end of the year	72,110	31,418
Carrying value	36,055	15,646
Interest in joint venture	50%	49.8%

9. 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% (2017: 1.9%) 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	
	2018	2017
	$'000	$'000
Present value of funded obligations	(101,947)	(93,789)
Fair value of plan assets	194,855	177,249
Unrecognised amount due to limitation	(46,454)	(41,730)
Asset recognised in statement of financial position	46,454	41,730

(ii) Movements in funded obligations:

	2018	2017
	$'000	$'000
Balance at beginning of year	(93,789)	(76,430)
Benefits paid	1,968	2,282
Current service cost	(2,794)	(2,553)
Interest cost	(7,449)	(7,196)
Voluntary contributions	(497)	(678)
Gain on curtailment	1,026	498
Remeasurement loss on obligation for OCI	(2,406)	(7,608)
Exchange gain/(loss)	1,994	(2,104)
Balance at end of year	(101,947)	(93,789)

9. Employee benefits (continued)

(a) Defined benefit pension plan (continued):

(ii) Movements in plan assets:

	The Company and Group	
	2018	2017
	$'000	$'000
Fair value of plan assets at beginning of year	177,249	140,764
Contributions paid:		
Employer	1,068	1,508
Employees	1,565	2,186
Interest income on assets	13,902	13,076
Benefits paid	(1,968)	(2,282)
Administrative expenses	(67)	(81)
Remeasurement gain on assets for OCI	6,876	18,209
Exchange (loss)/gain	(3,770)	3,869
Fair value of plan assets at end of year	194,855	177,249
Plan asset consist of the following:		
Investments quoted in active markets:		
Equities	86,380	69,692
Government bonds	50,060	42,209
Corporate bonds and other debt securities	16,743	16,104
Pooled pension investments	18,522	14,637
Unquoted investments:		
Real estate	13,954	14,258
Repurchase agreements	5,680	6,360
Net current assets	3,516	13,989
	194,855	177,249

Included in the plan assets as at December 31, 2018 are:

- Real estate occupied by the Group with a fair value of $14.8 million (2017: $14.2 million);
- JPS 11% promissory notes with a fair value of $0.30 million (2017: $0.31 million); and
- JPS 9.5% non-redeemable preference shares with a fair value of $Nil (2017: $3.3 million).

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

9. Employee benefits (continued)

(a) Defined benefit pension plan (continued):

(iii) Credit/(debit) recognised in the statement of profit or loss:

	The Company and Group	
	2018	2017
	$'000	$'000
Current service cost	2,794	2,553
Interest cost	7,449	7,196
Administrative expenses	67	81
Interest income on assets	(13,902)	(13,076)
Gain on curtailment	(1,026)	(498)
Total credit	(4,618)	(3,744)
Net credit recognised due to limitation	(2,309)	(1,872)

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

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

	The Company and Group	
	2018	2017
	$'000	$'000
Remeasurement loss on obligation for OCI	2,406	7,608
Remeasurement gain on assets for OCI	(6,876)	(18,209)
Total remeasurement loss net	(4,470)	(10,601)
Remeasurement loss recognised due to limitation	(2,235)	(5,300)

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

	The Company and Group	
	2018	2017
	$'000	$'000
Changes in financial assumptions	(3,934)	(8,371)
Experience adjustments	1,528	763
Remeasurement loss on defined benefit obligation	(2,406)	(7,608)

Notes to the Financial Statements (Continued)
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9. Employee benefits (continued)

(a) Defined benefit pension plan (continued)

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

	The Company and Group	
	2018	2017
	$'000	$'000
Return on plan assets	20,778	31,285
Interest income on plan assets	(13,902)	(13,076)
	6,876	18,209

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

	The Company and Group	
	2018	2017
Inflation rate	3.00%	5.00%
Discount rate	7.00%	8.00%
Future salary increases	3.00%	5.00%
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, 2018, is 18 years (2017: 18 years).

The Group's estimated contribution for the 12 months following reporting date is $1.42 million (2017: $1.47 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			
	2018		2017	
	Increase 0.5%	Decrease 0.5%	Increase 1%	Decrease 1%
	$'000	$'000	$'000	$'000
Discount rate	94,418	110,443	80,560	109,992
Future salary growth	104,735	99,319	99,864	88,413

Notes to the Financial Statements (Continued)
December 31, 2018
(Expressed in United States Dollars)

9. 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 as compared to those used in the prior year.

(b) Other employee benefits obligation:

	The Company and Group	
	2018	2017
	$'000	$'000
Accumulated sick and vacation pay	7,797	7,959

(c) Defined contribution pension plan:

The Group's contribution to the defined contribution pension plan for the year aggregated $1.1 million (2017: $1.1 million). These are recognised in staff cost-other employees' costs [Note 25(b)] in profit or loss.

10. Net cash and cash equivalents

	The Company and Group	
	2018	2017
	$'000	$'000
Cash at bank and in hand	27,267	12,203
Bank overdraft	-	(2,924)
Net cash and cash equivalents	27,267	9,279

11. Restricted cash

	The Company and Group	
	2018	2017
	$'000	$'000
Self-insurance sinking fund	40,334	37,905
Deposit guarantees on staff loans, IPP contracts etc.	991	538
	41,325	38,443

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 3.02% (2017: 2.8%) per annum.

12. Accounts receivable

	The Company and Group	
	2018	2017
	$'000	$'000
Trade receivables (i)	194,532	214,953
Allowance for impairment losses (i)	(61,592)	(48,450)
	132,940	166,503
Unbilled revenue	19,043	16,134
Prepayments	11,512	14,298
Other receivables	18,889	20,283
	182,384	217,218

Allowances for doubtful accounts were established until December 31, 2017 based on incurred loss analyses over delinquent accounts considering aging of balances, the credit history and risk profile of each customer and legal processes to recover accounts receivable. Effective January 1, 2018 such allowances are determined upon origination of the trade accounts receivable based on a model that calculates the expected credit loss ("ECL") of the trade accounts receivable and are recognised over their term.

Under this ECL model, the company uses its accounts receivable based on days past due and determines an average rate of ECL, considering actual credit loss experience over the last 12 months and analysis of future delinquency, that is applied to the balance of the accounts receivable. The average ECL rate used as at December 31, 2018 to apply against the accounts receivable balance less 90 days was 2.782% [Note 32 (a)i].

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

	The Company and Group	
	2018	2017
	$'000	$'000
Balance at beginning of year	48,450	46,091
Transitional adjustments on initial application of IFRS 9	5,591	-
Impairment loss recognised	8,672	12,036
Amounts recovered	(1,121)	-
Amounts written off	-	(9,677)
Balance at end of year	61,592	48,450

13. Inventories

	The Company and Group	
	2018	2017
	$'000	$'000
Fuel	13,279	13,950
Generation spares	7,778	7,288
Transmission, distribution and other spares	22,380	21,393
	43,437	42,631
Less: Allowance for impairment	(3,365)	(1,226)
	40,072	41,405

13. Inventories (continued)

In 2018, inventories of $217.4 million (2017: $187.6 million) were recognised as an expense during the year and included in cost of sales.

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, 2017 and 2018	30,315,733,190

	No of shares	The Company and Group 2018 $'000	The Company and Group 2017 $'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 2018 $'000	The Company and Group 2017 $'000
Revaluation surplus	4,760	4,760

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.

17. Accounts payable and provisions

	The Company and Group 2018 $'000	The Company and Group 2017 $'000
Trade payables	120,779	124,548
Interest accrued on customer deposits and loans	16,487	16,751
Dividend payable (Note 29)	622	622
Other payables	46,207	39,633
Provisions (see below)	6,922	9,550
	191,017	191,104

17. Accounts payable and provisions (continued)

Movement in provisions during the year was as follows:

	The Company and Group	
	2018	2017
	$'000	$'000
At beginning of year	9,550	8,853
Provisions made during the year	364	954
Provisions utilised during the year	(2,992)	(257)
At the end of year	6,922	9,550

18. Related party balances and transactions

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

	Company		Group	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
(i) Due from:				
South Jamaica Power Company Limited	538	752	538	752
South Jamaica Energy Holdings Limited	36,826	16,000	-	-
Marubeni Caribbean Holding	50	43	50	43
	37,414	16,795	588	795
(ii) Due to:				
South Jamaica Power Company Limited	1,563	-	1,563	-
EWP (Barbados) 1 SRL	446	133	446	133
	2,009	133	2,009	133

These balances are unsecured, interest-free and are payable on demand. No impairment allowance has been recognised in the current year in respect of amounts owed by related companies.

(b) Related party transactions:

(i) The Group has various ongoing transactions with related companies. These include the provision of technical support and related professional services, the acquisition of specialised equipment and spare parts and operation and maintenance support services. These transactions include charges from MaruEnergy JPSCO 1 SRL, EWP (Barbados) 1 SRL and South Jamaica Power Company of approximately $0.8 million (2017: $0.9 million) and recharges of approximately $0.7 million (2017: $0.8 million).

(ii) 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 (2017: $0.82 million).

18. Related party balances and transactions (continued)

(b) Related party transactions (continued):

(iii) The Group supplies electricity to related parties including the Government of Jamaica [see note 33 (a)(i)]. Total revenue from the Government for the year 2018 was $149 million (2017: $137 million).

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

19. Customers' deposits

	The Company and Group	
	2018	2017
	$'000	$'000
Customers' deposits for electricity service (i)	16,636	16,203
Customers' advances for construction (ii)	13,353	10,947
	29,989	27,150

(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	
	2018	2017
	$'000	$'000
(a) Short-term Loans		
(i) Citibank	13,000	23,000
(ii) Bank of Nova Scotia	7,000	-
	20,000	23,000

(b) Long-term Loans

	The Company and Group	
	2018	2017
	$'000	$'000
(iii) Kreditanstalt fur Weideraudfbau of Frankfurt Government of Jamaica (KFW/GOJ), 7% fixed rate, repayable 2030 [€3.9 million (2017: €3.9 million)]	4,271	4,578
(iv) International Finance Corporation (IFC) variable rate, repayable 2020	6,634	9,928
(v) Deutsche Bank as trustees of the holders of the 11% Senior Notes repayable 2021	177,216	176,570
Balance carried forward	188,121	191,076

20. Borrowings (continued)

(b) Long-term Loans (continued)

		The Company and Group	
		2018	2017
		$'000	$'000
	Balance brought forward	188,121	191,076
(vi)	Citibank Japan/NEXI variable rate, repayable 2020	15,478	22,783
(vii)	Proparco variable rate, repayable 2020	13,341	19,954
(viii)	OPEC Fund for International Development variable rate, repayable 2020	5,523	8,267
(ix)	FirstCaribbean International Bank (FCIB) variable rate, repayable 2018	-	1,867
(x)	Peninsula Corporation 5.25% fixed rate, repayable 2019	9,000	9,000
(xi)	FirstCaribbean International Bank (FCIB) $30M Variable rate, repayable 2018	-	22,344
(xii)	Export Development Canada variable rate, repayable 2019	1,512	3,063
(xiii)	NCB Syndicated J$2.45B Loan 9.95% fixed rate, repayable 2023	16,823	19,446
(xiv)	Citibank/Overseas Private Investment Corporation US$120M 6.5% variable rate, repayable 2021 & 2026	81,769	56,245
(xv)	Caribbean Development Bank US$15M variable rate, repayable 2029	15,000	-
(xvi)	CIBC FirstCaribbean International Bank		
	US$ 60.625M fixed rate, repayable 2028		
	Tranche A - US$50.625M 6% fixed rate	24,311	-
	Tranche B - J$1.370B 7.5% fixed rate	10,727	-
	Total long-term loans	381,605	354,045
	Less: Current portion	(35,537)	(36,341)
	Non-current portion	346,068	317,704

(i) This short-term loan was received from Citibank in the amount of US$13 million in September 2018 and is payable on June 7, 2019 at a fixed rate of 4.0756%.

(ii) This short term facility was received from the Bank of Nova Scotia in the amount of US$7.0 million in July 2018. The loan is payable on January 1, 2019 at a fixed rate of 3% per annum.

20. Borrowings (continued)

(b) Long-term Loans (continued)

(iii) 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.

(iv) 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 $0.03 million (2017: $0.07 million).

(v) 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 $1.97 million (2017: $2.62 million).

(vi) 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 $0.77 million (2017: $1.59 million).

(vii) 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 2016 and 5.25% thereafter. The amount due is stated net of debt issuance costs of $0.10 million (2017: $0.21 million).

(viii) 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 $0.03 million (2017: $0.07 million).

(ix) 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%. This loan was repaid in October 2018.

(x) 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 5.75%.

(xi) 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 loan was fully repaid in October 2018.

(xii) 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 $0.02 million (2017: $0.87 million).

20. Borrowings (continued)

(b) Long-term Loans (continued)

(xiii) This loan is an unsecured Syndicated Jamaican Dollar loan and has a fixed interest rate of 9.95%. The funds are to be utilized 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 $0.10 million (2017: $ 0.13 million).

(xiv) This loan is unsecured and is in two tranches – $100 million from OPIC and $20 million from Citibank. The funds are to be utilized 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 $3.23 million (2017: $ 3.76 million).

(xv) This loan is unsecured and has a variable rate calculated using a spread of 1.24% over the weighted cost of borrowings for the previous three-month period. The utilisation of the funds is restricted to Street Lighting Retrofitting Project. There is a two-year moratorium on the principal beginning January 2020, with interest payment quarterly. Repayment will be in forty (40) equal instalments of $0.375 million.

(xvi) This loan is unsecured and is in two tranches – US$50.625M (Tranche A) with a fixed rate of 6% for the first five years and J$1.370B (US$10M equivalent) – (Tranche B) with a fixed rate of 7.5% for the first five years. Thereafter, interest is paid at a variable rate of 3-month LIBOR plus 3.5 on Tranche A and WATBY plus 4.50% on Tranche B. Principal is repaid in quarterly instalments of US$1.406M and J$38.05M respectively commencing January 2020. Interest is paid quarterly. The amount due is stated net of debt issuance costs, in the amount of $0.69 million (2017: Nil).

21. Preference shares

This comprises cumulative preference shares as follows:

	The Company and Group Number of shares		The Company and Group	
	2018	2017	2018 $'000	2017 $'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

21. Preference shares (continued)

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 ordinary shares and stock units in issue (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 Jamaica 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 2016	Recognised in profit or loss	Recognised in other comprehensive income	Balance at December 31 2017	Recognised in profit or loss	Recognised in other comprehensive income	Balance at December 31, 2018
	$'000	$'000 [Note 27(a)]	$'000	$'000	$'000 [Note 27(a)]	$'000	$'000
Employee benefits, net	(8,224)	(1,267)	(1,766)	(11,257)	(884)	(745)	(12,886)
Unrealised foreign exchange gains	(2,687)	(1,806)	-	(4,493)	261	-	(4,232)
Property, plant & equipment	(47,355)	6,927	-	(40,428)	4,843	-	(35,585)
Cumulative tax losses	13,490	(4,647)	-	8,843	(7,633)	-	1,210
Accounts payable	6,015	213	-	6,228	630	-	6,858
Other	700	(217)	-	483	1,484	-	1,967
	(38,061)	(797)	(1,766)	(40,624)	(1,299)	(745)	(42,668)

23. Decommissioning provision

	The Company and Group	
	2018	2017
	$'000	$'000
Decommissioning obligation at the beginning of the year	9,234	9,042
Unwinding of discount (included in finance costs)	395	192
	9,629	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	
	2018	2017
	$'000	$'000
Fuel	(477,553)	(390,892)
Purchased power (excluding fuel) (Note 5)	(141,480)	(157,270)
Other	(560)	(805)
	(619,593)	(548,967)

(b) Operating expenses

	The Company and Group	
	2018	2017
	$'000	$'000
Depreciation and amortisation	(80,666)	(76,589)
Staff cost – Other employees' costs	(61,394)	(69,229)
Staff cost – Key management	(1,560)	(1,765)
Directors' fees and emoluments	(45)	(61)
Repairs and maintenance	(11,890)	(18,114)
Selling expense (advertising and marketing)	(885)	(960)
Audit fees	(168)	(192)
Bad debt expenses (Note 12)	-	(12,036)
General expenses	(45,770)	(46,612)
	(202,378)	(225,558)

25. Expenses (continued)

(c) Net finance costs

	The Company and Group	
	2018	2017
	$'000	$'000
Foreign exchange (losses)/ gains, net	(3,593)	1,981
Other finance costs:		
Short-term loans	(677)	(90)
Long-term loans	(34,142)	(33,130)
Customer deposits	(231)	(642)
Bank overdraft and other	(2,735)	(636)
Preference dividends	(2,334)	(2,334)
Debt issuance costs and expenses	(2,820)	(3,442)
Other debt expenses	(493)	(880)
	(43,432)	(41,154)
Finance income:		
Interest income	6,792	2,078
Interest capitalised during construction [Note 6(c)]	4,387	2,163
	11,179	4,241
	(35,846)	(34,932)

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	
	2018	2017
	$'000	$'000
Rental income	33	231
Insurance proceeds	-	843
Credit balances and other deposits written off	2,381	-
Miscellaneous proceeds from scrap sales and other settlements	2,361	3,669
Gain on disposal of property, plant and equipment	-	74
	4,775	4,817

26. Other income and expenses (continued)

(b) Other expenses comprise:

	The Company and Group	
	2018	2017
	$'000	$'000
Miscellaneous expenses	(42)	(111)
Restructuring costs	(2,144)	(1,478)
Inventory and other cost written off	(4,079)	(609)
Loss on disposal of property, plant and equipment	(389)	-
	(6,654)	(2,198)

27. Taxation

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

	Company		Group	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current tax expense:				
Current income tax expense	7,549	4,647	7,549	4,647
Deferred tax:				
Origination and reversal of temporary differences (Note 22)	1,299	797	1,299	797
Taxation expense	8,848	5,444	8,848	5,444

(b) Reconciliation of tax expense:

	Company		Group	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Profit before taxation	39,886	30,031	39,469	29,677
Computed "expected" tax at 33⅓%	13,295	10,010	13,156	9,892
Tax effect of differences between profit for financial statements and tax reporting purposes in respect of:				
Investment allowances	(7,443)	(6,281)	(7,443)	(6,281)
Loan fees disallowed	1,006	1,322	1,006	1,322
Loss of joint venture included, net of tax	-	-	139	118
Other	1,990	393	1,990	393
Taxation expense	8,848	5,444	8,848	5,444

27. Taxation (continued)

(c) Tax losses:

At the reporting date, the Group had unused tax losses of approximately $4 million (2017: $26 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.

	Company		Group	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit for the year	31,038	24,587	30,621	24,233
Number of shares (shown in thousands - Note 14)	21,828,195	21,828,195	21,828,195	21,828,195
Earnings per share/stock unit	0.14¢	0.11¢	0.14¢	0.11¢

29. Dividends

a) The Board of Directors approved the payment of a final dividend of 0.00045812¢ per share on the ordinary shares of the company amounting to $10 million (2017: Nil) for the year.

b) Dividends on cumulative preference shares accrued at December 31, 2018 amounted to $0.6 million (2017: $0.6 million) [see note 17].

30. Commitments

(a) Capital:

At December 31, 2018, commitments for capital expenditure, for which no provision has been made in these financial statements, amounted to approximately $10.2 million (2017: $26.6 million).

30. Commitments (continued)

(b) Lease:

In addition to its commitments under IPP contracts (Note 5), the Group had unexpired operating lease commitments at December 31, 2018, payable as follows:

	The Company and Group	
	2018	2017
	$'000	$'000
Within 1 year	3,445	9,593
From 1-2 years	957	9,590
From 2-3 years	136	931
From 3-4 years	131	931
From 4-5 years	101	924
Over 5 years	1,950	6,377
	6,720	28,346

31. Contingent liabilities and asset

As at December 31 2018, 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.

As at December 31, 2018, provisions of $6.9 million (2017: $9.5 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

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.

32. Financial instruments (continued)

(a) Financial risk management (continued):

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.

Trade Receivables

The aged receivable balances are regularly monitored. Allowances are determined upon origination of the trade accounts receivable based on a model that calculates the expected credit loss ("ECL") of the trade accounts receivable and are recognised over their term.

Expected credit loss assessment for trade receivables as at 31 December 2018

The Group estimates expected credit losses ("ECL") on trade receivables using a provision matrix based on historical credit loss experience as well as the credit risk and expected developments for each group of customers. The following table provides information about the ECL's for trade receivables as at 31 December 2018.

32. Financial instruments (continued)

(a) Financial risk management (continued):

(i) Credit risk (continued):

Age buckets	Weighted average loss rate	Gross carrying amount $'000	Impairment loss allowance $'000	Credit impaired
1 - 30 days	1.717%	101,018	1,734	No
31-60 days	5.043%	11,085	559	No
61-90 days	13.458%	7,735	1,041	No
Over 90 days	77.996%	74,694	58,258	No
		194,532	61,592	

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, 2018, 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 $40.4 million (2017: $81.6 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.

Restricted cash, cash and cash equivalents

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

Maximum exposure to credit risk

Impairment on restricted cash ,cash and cash equivalents have been measured at 12 months expected loss basis and reflects the short maturities of the exposures. The company considered that cash and cash equivalents have low credit risk. No impairment allowances were recognised on initial adoption of IFRS 9 and there has been no change during the period.

(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.

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32. Financial instruments (continued)

(a) Financial risk management (continued):

(ii) Liquidity risk (continued):

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, 2018, the Group had unutilised lines of credit aggregating $100.2 million (2017: $87.7 million).

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

	The Company and Group						
		Contractual undiscounted cash flows					
	Carrying amount $'000	Total cash outflow $'000	Less than 1 year $'000	1-2 years $'000	3-5 years $'000	6-10 years $'000	More than 10 years $'000
December 31, 2018							
Accounts payable*	184,095	184,095	184,095	-	-	-	-
Short-term loan	20,000	20,250	20,250	-	-	-	-
Long-term loans	381,605	501,906	73,840	102,742	262,791	60,560	1,973
Due to related parties	2,009	2,009	2,009	-	-	-	-
Customer deposits	29,989	29,989	-	-	-	5,106	24,833
Total financial liabilities	617,698	738,249	280,194	102,742	262,791	65,666	26,806
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

*Excludes provisions

32. Financial instruments (continued)

(a) Financial risk management (continued):

(ii) Liquidity risk (continued):

The preference shares have no specific maturity dates.

Contracted off-balance cash payments in respect of independent power purchase agreements are disclosed in Note 5.

(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.

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, 2018, 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.

32. Financial instruments (continued)

(a) Financial risk management (continued):

(iii) Market risk (continued):

- *Interest rate risk (continued):*

At December 31, 2018, the interest profile of the Group's interest-bearing financial instruments was:

	The Company and Group	
	Carrying amount	
	2018	2017
	$'000	$'000
Total debt		
Fixed rate instruments:		
Financial assets	41,439	38,554
Financial liabilities	(287,036)	(257,281)
Variable rate instruments:		
Financial liabilities	(155,893)	(160,655)

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.

Cash flow sensitivity analysis for variable rate instruments:

A change of 100/100 (2017: 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			
	2018		2017	
	100bp increase	100bp decrease	100bp increase	50bp decrease
	$'000	$'000	$'000	$'000
Cash flow sensitivity (net)	(1,559)	1,559	(1,298)	649

- *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.

32. Financial instruments (continued)

(a) Financial risk management (continued):

(iii) Market risk (continued):

- *Foreign currency risk (continued):*

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.

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

	The Company and Group			
	2018			
	J$	€	£	US$ equivalent
	$'000	$'000	$'000	$'000
Cash and cash equivalents	1,748,729	-	-	13,692
Trade and other receivables	23,517,630	-	-	184,140
Accounts payable	(8,528,080)	(4,506)	(30)	(71,698)
Long-term loans	(3,531,517)	(3,978)	-	(31,132)
Customer deposits	(3,830,032)	-	-	(29,989)
	9,376,730	(8,484)	(30)	65,013

	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

32. Financial instruments (continued)

(a) Financial risk management (continued):

(iii) Market risk (continued):

- *Foreign currency risk (continued):*

Sensitivity analysis:

A 4% (2017: 4%) 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.

	The Company and Group			
	2018		2017	
	Equity $'000	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000
J$	(1,468)	(1,468)	(4,192)	(4,192)
Euro (€)	185	185	371	371
GBP (£)	(1)	(1)	(1)	(1)
Total	(1,284)	(1,284)	(3,822)	(3,822)

A 2% (2017: 2%) 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			
	2018		2017	
	Equity $'000	Profit $'000	Equity $'000	Profit $'000
J$	2,937	2,937	2,096	2,096
Euro (€)	(369)	(369)	(185)	(185)
GBP (£)	1	1	-	-
Total	2,569	2,569	1,911	1,911

(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.

32. Financial instruments (continued)

(b) Operational risk (continued):

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.

(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	
	2018	2017
	$'000	$'000
Bank overdraft	-	2,924
Short term loans	20,000	23,000
Current maturity of long term loans	35,537	36,341
Long term loans	346,068	317,704
Total debt	401,605	379,969
Share capital	261,786	261,786
Capital reserve	4,760	4,760
Capital redemption reserve	3,000	3,000
Retained earnings	171,538	154,601
Preference shares	24,688	24,688
Total equity	465,772	448,835
Capital and debt	867,377	828,804
Gearing ratio	46%	46%

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

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32. Financial instruments (continued)

(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.

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.

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			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Financial liabilities:				
Preference shares	24,688	25,038	24,688	25,583
Long term loans	381,605	459,904	354,045	447,059

32. Financial instruments (continued)

(d) Fair value disclosure (continued):

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

	The Company and Group		
	2018		
	Level 1 $'000	Level 2 $'000	Total
Liabilities for which fair values are disclosed:			
Preference shares	(25,038)	-	(25,038)
Long term loans	-	(459,904)	(459,904)
	(25,038)	(459,904)	(484,942)

	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)