

**National Road Operating and
Constructing Company Limited**

**Financial Statements
31 March 2003**

National Road Operating and Constructing Company Limited

Index

31 March 2003

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10 December 2003

To the Members of
National Road Operating and Constructing
Company Limited

Auditors' Report

We have audited the financial statements set out on pages 1 to 13, and have received all the information and explanations which we considered necessary. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the company's affairs as at 31 March 2003 and of the results of operations, changes in equity and cash flows for the year then ended in accordance with Jamaican generally accepted accounting principles and comply with the provisions of the Jamaican Companies Act.



Chartered Accountants
Kingston, Jamaica

National Road Operating and Constructing Company Limited

Profit and Loss Account

Year ended 31 March 2003

| | Note | 2003 \$'000 | 2002 \$'000 |
|--------------------------------------|------|-----------------------|-----------------------|
| Income | | | |
| Loan arrangement fees | | 2,251 | - |
| Other income | | 73 | - |
| | | <u>2,324</u> | <u>-</u> |
| Administrative expenses | | <u>(202,488)</u> | <u>(2,967)</u> |
| Operating Loss | 3 | <u>(200,164)</u> | <u>(2,967)</u> |
| Finance income, net | 5 | <u>549,104</u> | <u>777</u> |
| Profit/(Loss) Before Taxation | | <u>348,940</u> | <u>(2,190)</u> |
| Taxation | 6 | <u>73,411</u> | <u>-</u> |
| Net Profit/(Loss) | | <u><u>275,529</u></u> | <u><u>(2,190)</u></u> |

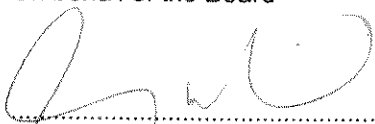
National Road Operating and Constructing Company Limited

Balance Sheet

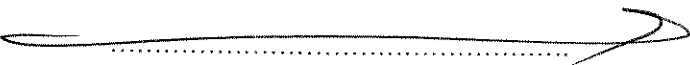
31 March 2003

| | Note | 2003 \$'000 | 2002 \$'000 |
|---|------|----------------|----------------|
| NET ASSETS EMPLOYED | | | |
| Long Term Receivable | 7 | 1,426,170 | 913,658 |
| Fixed Assets | 8 | 110,167 | 10,976 |
| Deferred Costs | 9 | 63,088 | 65,263 |
| Investments | 10 | 933,279 | - |
| Current Assets | | | |
| Accounts receivable | 11 | 191,616 | 16,778 |
| Taxation recoverable | | 15,948 | 4,017 |
| Cash and deposits | 12 | 3,545,559 | 2,480,473 |
| | | 3,753,123 | 2,501,268 |
| Current Liabilities | | | |
| Accounts payable | 13 | 210,000 | 749,899 |
| Short term loans | 14 | 2,249,488 | 374,456 |
| | | 2,459,488 | 1,124,355 |
| Net Current Assets | | 1,293,635 | 1,376,913 |
| | | 3,826,339 | 2,366,810 |
| FINANCED BY | | | |
| Share Capital | 15 | 1,000 | 1,000 |
| Inflation Reserve | 16 | 110,212 | - |
| Retained Earnings/(Accumulated Deficit) | | 163,127 | (2,190) |
| | | 274,339 | (1,190) |
| Long Term Loan | 17 | 3,552,000 | 2,368,000 |
| | | 3,826,339 | 2,366,810 |

On behalf of the Board



.....
Dr. Wayne Reid Director



.....
Kingsley Thomas Director

**National Road Operating and Constructing
Company Limited**
Statement of Changes in Equity
Year ended 31 March 2003

| | Note | Number of Shares | Share Capital | Inflation Reserve | Retained Earnings/ (Accumulated Deficit) | Total |
|---------------------------------|------|---------------------|------------------|----------------------|---|----------------|
| | | | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance as at 1 April 2001 | | 1,000,000 | 1,000 | - | - | 1,000 |
| Net loss | | - | - | - | (2,190) | (2,190) |
| Balance at 31 March 2002 | | 1,000,000 | 1,000 | - | (2,190) | (1,190) |
| Net profit | | - | - | - | 275,529 | 275,529 |
| Transfer to inflation reserve | 16 | - | - | 110,212 | (110,212) | - |
| Balance at 31 March 2003 | | 1,000,000 | 1,000 | 110,212 | 163,127 | 274,339 |

**National Road Operating and Constructing
Company Limited**
Statement of Cash Flows
Year ended 31 March 2003

| | 2003 \$'000 | 2002 \$'000 |
|---|-------------------------|-----------------------|
| CASH RESOURCES WERE PROVIDED BY/(USED IN): | | |
| Operating Activities | | |
| Net profit/(loss) | 275,529 | (2,190) |
| Items not affecting cash resources: | | |
| Depreciation | 3,489 | 378 |
| Loss on disposal of fixed assets | 346 | - |
| Amortisation of deferred costs | 2,175 | - |
| | <u>281,539</u> | <u>(1,812)</u> |
| Changes in non-cash working capital components: | | |
| Accounts receivable | (174,838) | (15,778) |
| Taxation recoverable | (11,931) | (4,017) |
| Accounts payable | (539,899) | 749,899 |
| | <u>(726,668)</u> | <u>730,104</u> |
| Cash (used in)/provided by operating activities | <u>(445,129)</u> | <u>728,292</u> |
| Financing Activities | | |
| Proceeds from Bond issue | 1,184,000 | 2,368,000 |
| Short term loans received | 2,249,488 | 374,456 |
| Short term loans repaid | (374,456) | - |
| Cash provided by financing activities | <u>3,059,032</u> | <u>2,742,456</u> |
| Investing Activities | | |
| Deposits | 551,655 | (2,010,940) |
| Purchase of investments | (933,279) | - |
| Development costs | (512,512) | (978,921) |
| Acquisition of land and road construction | (95,716) | - |
| Purchase of fixed assets | (8,379) | (11,354) |
| Proceeds from sale of assets | 1,069 | - |
| Cash used in investing activities | <u>(997,162)</u> | <u>(3,001,215)</u> |
| Increase in cash and cash equivalents | 1,616,741 | 469,533 |
| Cash and cash equivalents at beginning of year | 469,533 | - |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u><u>2,086,274</u></u> | <u><u>469,533</u></u> |
| Represented by: | | |
| Short-term deposits (included in deposits; note 12) | 2,081,462 | 450,000 |
| Cash at bank and in hand | 4,812 | 19,533 |
| | <u><u>2,086,274</u></u> | <u><u>469,533</u></u> |

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

1. Identification and Principal Activities

- (a) National Road Operating and Constructing Company Limited (the "Company" or NROCC), which was incorporated on 2 February 1995 under the name of National Road Conservation Company Limited, is a private limited liability company domiciled in Jamaica. The company changed its name to NROCC on 22 May 2000, and commenced operations in February 2002. All of the shares in NROCC are beneficially owned by the Government of Jamaica.
- (b) The company is the owner of a 70 year concession granted by the Minister of Transport and Works under the Toll Roads Act, 2002, for the establishment, development, financing, operation and maintenance of a tolled highway. The principal business of the company as owner of the concession is the arrangement of the construction, operation, maintenance, management and financing of Phase 1 of Highway 2000, Jamaica's first tolled highway, through the concessionaire.
- (c) The company has entered into a 35 year concession Agreement with Transjamaican Highway Limited (the "Concessionaire"), a limited liability company registered under the Jamaican Companies Act which is wholly owned by Bouygues Travaux Publics of France.
- (d) The company has also entered into an agreement dated 12 March 2002 to lease to the concessionaire for a period of 35 years certain lands upon which Phase 1 of Highway 2000 will be constructed. All lands required for the project will be leased by the Commissioner of Lands to the company for a period of 99 years.
- (e) These financial statements are stated in Jamaican dollars unless otherwise stated.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with Jamaican Accounting Standards, and have been prepared under the historical cost convention.

(b) Use of estimates

The preparation of financial statements in conformity with Jamaican generally accepted accounting principles requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(c) Fixed assets and depreciation

Fixed assets are stated at historical cost, less accumulated depreciation. Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost of the assets over their expected useful lives. The rates are as follows:

| | |
|--|------|
| Office furniture, fixtures and equipment | 10% |
| Leasehold improvements | 2.5% |
| Computer equipment | 25% |
| Computer software | 50% |
| Motor vehicles | 20% |

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

2. Significant Accounting Policies (Continued)

(d) Investments

- (i) Investments in Government of Jamaica securities are generally stated at cost. Investments that are issued at a discount or premium are carried at amortised cost with premiums and discounts being amortised to income over the period to maturity.
- (ii) The purchase of securities under resale agreements is treated as collateralized lending. The related interest income is recorded on the accrual basis.

(e) Foreign currency translations

Foreign currency transactions during the year are converted into Jamaican dollars at the exchange rates prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into Jamaican dollars at the rates of exchange prevailing at balance sheet date. Realised and unrealised gains or losses, if any, are reflected under finance costs in the profit and loss account.

(f) Fair value of financial instruments

Financial instruments carried on the balance sheet include long term receivables, accounts receivable, accounts payable, short term loans, and long term loans.

The fair values of the company's financial instruments are discussed in Note 18.

(g) Deferred costs

These costs are being amortised using the straight-line method over a thirty-year period commencing April 2002.

(h) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

3. Operating Loss

The following items have been charged in arriving at operating loss:

| | 2003 | 2002 |
|-------------------------|---------------|--------------|
| | \$'000 | \$'000 |
| Directors' emoluments - | | |
| Fees | 108 | - |
| Management remuneration | 6,700 | 908 |
| Auditors' remuneration | 1,150 | 500 |
| Depreciation | 3,489 | 378 |
| Staff costs (Note 4) | <u>15,599</u> | <u>1,533</u> |

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

4. Staff Costs

| | 2003 | 2002 |
|----------------------|---------------|--------------|
| | \$'000 | \$'000 |
| Salaries and wages | 14,513 | 1,451 |
| Statutory deductions | 844 | - |
| Other | 242 | 82 |
| | <u>15,599</u> | <u>1,533</u> |

The number of persons employed by the company at the end of the year -

| | No. | No. |
|-------------|----------|----------|
| Full time | 6 | 2 |
| On contract | - | 1 |
| | <u>6</u> | <u>3</u> |

5. Finance Income, Net

| | 2003 | 2002 |
|-------------------------------------|----------------|------------|
| | \$'000 | \$'000 |
| Interest income | 525,158 | 31,848 |
| Net foreign exchange gains/(losses) | 288,845 | (1,218) |
| Interest expense - | | |
| Interest on loans | (231,960) | (20,029) |
| Other finance costs | (32,939) | (9,824) |
| | <u>549,104</u> | <u>777</u> |

6. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes and comprises:

| | 2003 | 2002 |
|----------------------------------|---------------|----------|
| | \$'000 | \$'000 |
| Income tax at 33 $\frac{1}{3}$ % | 70,234 | - |
| Prior year underprovision | 3,177 | - |
| | <u>73,411</u> | <u>-</u> |

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

7. Long Term Receivable

This amount is due from Transjamaican Highway Limited and includes -

- (a) Development costs incurred by the company with respect to the Highway 2000 project including amounts paid for the preliminary design and development work during the tender process, as well as costs associated with the company's consultants on the project. These amounts were converted to a loan facility of US\$20 million under the terms and conditions of a Subordinated Loan Agreement (SLA) dated 21 November 2001 between the company and the concessionaire.
- (b) US\$5,557,138 drawdown by the concessionaire as at 31 March 2003 (2002 – US\$2,197,970) under the terms and conditions of a US\$87.5 million Grantor Procured Debt (GPD) loan agreement dated 21 November 2001. Drawdowns are made by the concessionaire via a letter of credit facility held with the Bank of Nova Scotia Jamaica Limited.

The duration of both loans is dependent on the expected cash flows of the concessionaire; however, full repayment of the loans as well as accrued interest is due by 21 November 2036, the end of the concession period. Interest on the SLA loan is calculated at libor rate plus 4.5% per annum. Interest on the GPD loan is calculated at libor rate plus 4% on the US dollar drawdown portion and at 5% on the Jamaican dollar drawdown, adjusted for inflation compensation. Interest has been accrued as of the drawdown dates of the loans.

Under the terms of a Working Capital Reserve Agreement dated 22 February 2002, US\$3.5 million has been made available for on-lending to the concessionaire. The facility is held with the National Commercial Bank Jamaica Limited. No drawdowns on this facility had been made at 31 March 2003. Arrangements also need to be made to make a further US\$6.5 million available for on-lending to the concessionaire under the same Working Capital Reserve Agreement.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

8. Fixed Assets

| | Land, Road Construction and Leasehold Improvements \$'000 | Office Furniture, Fixtures & Equipment \$'000 | Computer Equipment & Software \$'000 | Motor Vehicles \$'000 | Total \$'000 |
|----------------------|---|---|---|-----------------------------|-----------------|
| Cost - | | | | | |
| 1 April 2002 | 864 | 5,656 | 4,834 | - | 11,354 |
| Additions | 95,716 | 34 | 263 | 8,082 | 104,095 |
| Disposals | - | (1,476) | - | - | (1,476) |
| 31 March 2003 | 96,580 | 4,214 | 5,097 | 8,082 | 113,973 |
| Depreciation - | | | | | |
| 1 April 2002 | 4 | 94 | 280 | - | 378 |
| Charge for the year | 21 | 457 | 1,741 | 1,270 | 3,489 |
| Relieved on disposal | - | (61) | - | - | (61) |
| 31 March 2003 | 25 | 490 | 2,021 | 1,270 | 3,806 |
| Net Book Value - | | | | | |
| 31 March 2003 | 96,555 | 3,724 | 3,076 | 6,812 | 110,167 |
| 31 March 2002 | 860 | 5,562 | 4,554 | - | 10,976 |

9. Deferred Costs

These represent professional fees and other costs approximating \$65,263,000 associated with the private placement of the 4.5% Convertible Bonds (Note 17).

| | 2003 \$'000 | 2002 \$'000 |
|---------------------------|----------------|----------------|
| At beginning of year | 65,263 | 65,263 |
| Amortised during the year | (2,175) | - |
| | 63,088 | 65,263 |

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

10. Investments

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| (a) Government securities - | | |
| (i) 19.75% debenture due April 2004 | 185,291 | - |
| (ii) 11.25% US\$ bond due February 2004 | 279,603 | - |
| | 464,894 | - |
| (b) Securities acquired under repurchase agreements - | | |
| (i) US\$8,000,000 9% due February 2004 | 447,364 | - |
| (ii) US\$100,000 9½% due April 2003 | 5,592 | - |
| (iii) J\$ denominated 15% due April 2003 | 15,429 | - |
| | 468,385 | - |
| | <u>933,279</u> | <u>-</u> |

11. Accounts Receivable

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Receivable from shareholders | 1,000 | 1,000 |
| Interest receivable | 188,305 | 15,778 |
| Arrangement fees receivable from concessionaire | 2,251 | - |
| Other | 60 | - |
| | <u>191,616</u> | <u>16,778</u> |

12. Cash and Deposits

| | 2003 \$'000 | 2002 \$'000 |
|--------------------------------|------------------|------------------|
| Deposits - | | |
| Maturing within 3 months | 2,081,462 | 450,000 |
| Maturing within 3 to 12 months | 1,459,285 | 2,010,940 |
| | 3,540,747 | 2,460,940 |
| Cash at bank and in hand | 4,812 | 19,533 |
| | <u>3,545,559</u> | <u>2,480,473</u> |

The weighted effective interest rate on deposits during the year was 13.94% (2002 – 11.65%).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

13. Accounts Payable

| | 2003 | 2002 |
|--|----------------|----------------|
| | \$'000 | \$'000 |
| Accrued expenses | 10,482 | 1,483 |
| Interest payable | 51,457 | 10,364 |
| Payable to Development Bank of Jamaica Limited | 145,937 | 737,577 |
| Other | 2,124 | 475 |
| | <u>210,000</u> | <u>749,899</u> |

14. Short Term Loans

| | 2003 | 2002 |
|---|------------------|----------------|
| | \$'000 | \$'000 |
| (a) Development Bank of Jamaica Limited - | | |
| (i) US\$3,707,000 loan at 7.5% | - | 176,490 |
| (ii) J\$ denominated loan at 15% | - | 197,966 |
| (b) ABN AMRO Bank – US\$40,000,000 | 2,249,488 | - |
| | <u>2,249,488</u> | <u>374,456</u> |

The loan at (b) is denominated in United States dollars and is guaranteed by the Government of Jamaica. It attracts interest at LIBOR and is repayable in December 2003.

15. Share Capital

| | 2003 | 2002 |
|---------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Authorised, issued, but not paid - | | |
| 1,000,000 ordinary shares of \$1 each | 1,000 | 1,000 |
| | <u>1,000</u> | <u>1,000</u> |

16. Inflation Reserve

The company transfers a minimum of 40% of net profit at the end of the year to this reserve, which has been established to ensure that payments to bondholders are made in accordance with the terms of the Bond Issue (Note 17).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

17. Long Term Loan

This represents the aggregate proceeds received from the subscribers to the 4.5% Real Return Convertible Bond Issue (the Bonds), due 6 February 2032.

The Bonds were issued on 7 February 2002 at par and will be redeemed at the greater of par or par as adjusted for inflation or deflation based on changes in the all Jamaica "All Group" Consumer Price Index. Coupon interest on the Bonds will accrue at the rate of 4.5% per annum, but adjusted for inflation or deflation, and is payable semi-annually in arrears on February 7 and August 7 of each year until maturity. Interest and inflation compensation is exempt from income tax.

The payment of principal and interest on the Bonds is guaranteed by the Government of Jamaica and the Bonds will rank pari passu with all similar future unsecured indebtedness of the company.

The net proceeds of the Bond Issue are to be on-lent to the concessionaire to provide part financing of the construction costs of Phase 1 of Highway 2000, in accordance with the terms of the Grantor Procured Debt (GPD) Loan Agreement between the company and the concessionaire.

18. Financial Instruments

(a) Currency risk

Financial instruments at 31 March 2003 include aggregate net foreign assets of US\$30,156,000 and liabilities of £31,000 (2002 - net foreign liabilities of US\$4,365,000 and £13,000) in respect of transactions arising in the ordinary course of business.

(b) Credit risk

The company has no significant concentration of credit risk. Cash and short term deposits are placed with substantial financial institutions.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2003

18. Financial Instruments (Continued)

(c) Fair value of financial assets and liabilities

The amounts included in the financial statements for accounts receivable, accounts payable and short-term loans are at cost which reflect the fair values of considerations given or received.

| | 2003 | | 2002 | |
|------------------------------|------------------------------|----------------------|------------------------------|----------------------|
| | Carrying Amount \$'000 | Fair value \$'000 | Carrying Amount \$'000 | Fair value \$'000 |
| Financial Assets | | | | |
| Long term receivable | 1,430,823 | 1,430,823 | 913,658 | 913,658 |
| Investments | 933,279 | 933,279 | - | - |
| Financial Liabilities | | | | |
| Long term loan | 3,552,000 | 3,552,000 | 2,368,000 | 2,368,000 |

The long term receivable and the long term loan are carried at amortised cost, which is the same as their original recorded amounts.

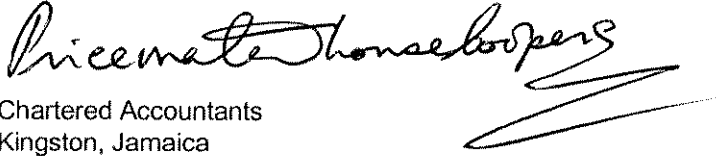
10 December 2003

To the Directors of
National Road Operating and Constructing
Company Limited

Auditors' Report

The supplementary information set out on page 14, taken from the accounting records of the company, has been subjected to the tests and other auditing procedures applied in our examination of the company's financial statements for the year ended 31 March 2003.

In our opinion this information, although not necessary for a fair presentation of the company's state of affairs, results of operations, changes in equity or cash flows, is fairly presented in all material respects in relation to the financial statements taken as a whole.


Chartered Accountants
Kingston, Jamaica

**National Road Operating and Constructing
Company Limited**
Administrative Expenses
Year ended 31 March 2003

| | 2003 | 2002 |
|-----------------------------------|----------------|--------------|
| | \$'000 | \$'000 |
| Advertising and publicity | 655 | 15 |
| Amortisation of deferred costs | 2,175 | - |
| Auditors' remuneration | 1,150 | 500 |
| Bank charges | 52 | - |
| Depreciation | 3,489 | 378 |
| Directors' fees | 108 | - |
| Donations | 2,486 | - |
| Entertainment and travel | 299 | - |
| General office expenses | 448 | 38 |
| Legal and professional fees | 87,991 | 70 |
| Letter of credit fees | 39,431 | - |
| Loss on disposal of fixed assets | 346 | - |
| Motor vehicle expenses | 316 | - |
| Miscellaneous expenses | 6,619 | 115 |
| Relocation expenses | 3,808 | - |
| Repairs and maintenance | 123 | 43 |
| Salaries, wages and related costs | 15,599 | 1,533 |
| Technical fees | 33,961 | - |
| Utilities and rent | 3,432 | 275 |
| | <u>202,488</u> | <u>2,967</u> |