PRICEWATERHOUSECOOPERS

National Road Operating and Constructing Company Limited

Financial Statements
31 March 2004

National Road Operating and Constructing Company Limited

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31 March 2004

PricewaterhouseCoopers

30 July 2004

To the Directors of
National Road Operating and Constructing
Company Limited

Auditors' Report

The supplementary information set out on page 28, 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 2004.

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.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

PRICEWATERHOUSECOOPERS

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30 July 2004

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 27, 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 2004 and of the results of operations, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Jamaican Companies Act.

Price waterhouse Coopers

Chartered Accountants
Kingston, Jamaica

National Road Operating and Constructing Company Limited

Profit and Loss Account

Year ended 31 March 2004

	Note	2004	Restated 2003
		$'000	$'000
Income			
Fair value gains/(losses) on investment securities		31,754	(7,955)
Other income		-	73
		31,754	(7,882)
Administration expenses		(259,875)	(193,787)
Operating Loss	3	(228,121)	(201,669)
Finance income	5	522,102	540,113
Profit before Taxation		293,981	338,444
Taxation	6	119,606	132,654
NET PROFIT		174,375	205,790

National Road Operating and Constructing Company Limited

Balance Sheet

31 March 2004

	Note	2004 $'000	Restated 2003 $'000
Non-Current Assets			
Property, plant and equipment	7	911,255	110,167
Loans receivable	8	4,268,876	1,423,919
Investment securities	9	1,902,235	456,939
Current Assets			
Reverse repurchase agreements	10	717,735	2,163,648
Accounts receivable	11	105,236	191,616
Taxation recoverable		-	15,948
Cash and short term investments	12	1,183,294	1,850,297
		2,006,265	4,221,509
Current Liabilities			
Accounts payable	13	261,236	69,819
Taxation payable		22,078	-
Short term loans	14	481,457	2,389,669
		764,771	2,459,488
Net Current Assets		1,241,494	1,762,021
		8,323,860	3,753,046
Shareholders' Equity			
Share capital	15	1,000	1,000
Inflation reserve	16	152,066	82,316
Retained earnings		223,064	118,439
		376,130	201,755
Non-Current Liabilities			
Long term loans	17	7,943,583	3,489,203
Deferred tax liability	18	4,147	62,088
		8,323,860	3,753,046

Approved for issue by the Board of Directors on 30 July 2004 and signed on its behalf by:

Kingsley Thomas Director

Dr. Wayne Reid Director

National Road Operating and Constructing Company Limited

Statement of Changes in Equity

Year ended 31 March 2004

	Note	Share Capital	Inflation Reserve	(Accumulated Deficit)/ Retained Earnings	Total
		$'000	$'000	$'000	$'000
Balance at 1 April 2002, as restated	22(a)	1,000	-	(5,035)	(4,035)
Net profit for the year, as restated	22(c)	-	-	205,790	205,790
Transfer to inflation reserve	16	-	82,316	(82,316)	-
Balance at 31 March 2003, as restated	22(b)	1,000	82,316	118,439	201,755
Net profit		-	-	174,375	174,375
Transfer to inflation reserve	16	-	69,750	(69,750)	-
Balance at 31 March 2004		1,000	152,066	223,064	376,130

National Road Operating and Constructing Company Limited

Statement of Cash Flows

Year ended 31 March 2004

	2004 $'000	Restated 2003 $'000
Cash Flows from Operating Activities		
Cash used in operating activities (Note 19)	(574,971)	(1,296,874)
Cash Flows from Investing Activities		
Loans granted to concessionaire	(2,411,373)	(510,261)
Short term deposits	793,482	320,382
Reverse repurchase agreements	1,453,672	(1,985,797)
Purchase of investment securities	(1,825,382)	(418,153)
Proceeds from sale of investment securities	431,454	-
Road construction and acquisition of land	(816,515)	(95,716)
Purchase of plant and equipment	(17)	(8,379)
Proceeds from sale of property, plant and equipment	2,718	1,069
Interest received	524,743	352,631
Cash used in investing activities	(1,847,218)	(2,344,224)
Cash Flows from Financing Activities		
Proceeds from bond issue	-	1,186,466
Long term loan received	4,436,123	-
Short term loans received	222,905	2,479,131
Short term loans repaid	(2,315,730)	(374,456)
Cash provided by financing activities	2,343,298	3,291,141
Decrease in cash and cash equivalents	(78,891)	(349,957)
Cash and cash equivalents at beginning of year	119,576	469,533
Exchange gains on foreign cash balances	3,195	-
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 12)	43,880	119,576

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

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. Its registered office is located at 11A Oxford Road, Kingston 5, Jamaica. All of the shares in NROCC are beneficially owned by the Government of Jamaica.

(b) The company was granted a 70-year concession 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 holder 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 Transjamaican Highway Limited.

(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 Traveaux 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. Lands required for the project include lands 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 indicated.

2. Significant Accounting Policies

(a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain financial assets.

Jamaica adopted International Financial Reporting Standards (IFRS) as its national accounting standards effective for accounting periods beginning on or after 1 July 2002. The financial statements for the year ended 31 March 2004 have therefore been prepared in accordance with IFRS and comparative information has been restated to conform with the provisions of IFRS. In particular, the company has opted for early adoption of IFRS 1, First-time Adoption of International Financial Reporting Standards, and has applied the provisions of that standard in the preparation of these financial statements. The effects of adopting IFRS on equity and net profit as previously reported are detailed in Note 22.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported 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. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from those estimates.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

2. Significant Accounting Policies (Continued)

(b) Foreign currency translation

Foreign currency transactions during the year are accounted for at the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities in foreign currencies are translated using the closing exchange rate. These rates represent the weighted average rates at which the company trades in foreign currencies.

Exchange differences resulting from the settlement of transaction at rates different from those at the dates of the transactions, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognized in the profit and loss account.

(c) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates are as follows:

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

Land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses arising on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repair and maintenance expenditure is charged to the profit and loss account when the expenditure is incurred. Improvement expenditure is included in the cost of the related asset or in leasehold improvement as is appropriate.

(d) Investment securities

Investments are classified into the following categories: originated debt securities and available-for-sale securities. The classification is dependent on the purpose for which the investments were acquired. Management determines the appropriate classification of investments at the time of purchase.

Originated debt securities include those where money is provided to the issuer, either directly or through an intermediary. They are initially recorded at cost, which is the cash given to originate the debt including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale securities are those investments intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or market prices. They are initially recognised at cost, which includes transaction costs, and subsequently measured at fair value based on quoted bid prices or amounts derived from cash flow models.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

2. Significant Accounting Policies (Continued)

(d) Investment securities (Continued)

Unrealised gains and losses arising from changes in fair value of available-for-sale securities are recognised in the profit and loss account.

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The recoverable amount of a financial asset carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

All purchases and sales of investment securities are recognised at settlement date.

(e) Reverse repurchase transactions

Reverse repurchase agreements (securities purchased under agreements to resell) are treated as collateralised financing transactions. The difference between the purchase and resale price is treated as interest and accrued over the life of the agreements using the effective yield method.

(f) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition and may include cash balances, deposits, reverse repurchase agreements and investment securities.

(g) Loans receivable and provisions for credit losses

Loans are recognised when cash is advanced to borrowers. They are initially recorded at cost, which is the cash given to originate the loan including any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due will not be collected according to the original contractual terms. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amount recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

Loans that are secured by a guarantee or irrevocable undertaking of the Government of Jamaica are classified as sovereign risk and are not considered to be impaired if they are contractually in arrears.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The increase in the present value of impaired loans due to the passage of time is reported as interest income.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries, in part or in full, of amounts previously written-off, are credited to credit loss expense in the profit and loss account.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

2. Significant Accounting Policies (Continued)

(h) Borrowings

Borrowings are recognised initially at cost, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Where convertible bonds are issued, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a non-current liability on the amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option which is recognised and included in shareholders' equity. The value of the conversion option is not changed in subsequent periods. Where the fair value of the liability portion cannot be reliably determined and separated from the value of the conversion component, the full amount of the bond is recorded as a non-current liability.

(i) Share capital

Ordinary shares are classified as equity. The portion of a convertible bond representing the value of the conversion option at the time of issue is included in equity.

(j) Taxation

Taxation is accounted for under the taxes payable method whereby income taxes are provided on taxable income rather than on financial statement income. Taxation expense in the profit and loss account comprises current and deferred tax charges.

Current tax charges are based on taxable profits for the year, which differ from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at balance sheet date.

Deferred tax liabilities are recognised for temporary differences between the carrying amounts of assets and liabilities and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets are recognised for temporary differences which will result in deductible amounts in future periods, but only to the extent it is probable that sufficient taxable profits will be available against which these differences can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realised or the liability will be settled based on enacted rates.

Tax assets and liabilities are offset when they relate to the same tax authority and when the legal right of offset exists.

Current and deferred taxes are recognised as income tax expense or benefit in the profit and loss account except, where they relate to items recorded in shareholders' funds, they are also charged or credited to shareholders' funds.

(k) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that than outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

2. Significant Accounting Policies (Continued)

(l) Revenue recognition

(i) Interest and fees

Fees and commission income are recognised on the accrual basis. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield on the loan. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Interest income and expense are recognised in the profit and loss account for all interest-bearing instruments on an accrual basis using the effective yield method based on the actual purchase price of the instrument. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bill and other discounted instruments.

When loans become impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(ii) Toll revenues

Subject to Clause 24 (Developer Payments) of the Concession Agreement (the Agreement), the concessionaire has sole rights to revenues arising out of the collection of tolls during the concession period. Under Clause 24, on the completion of certain prescribed sections of the Toll Road, and to the extent that the actual annual traffic revenues exceed those forecasted in the financial model as prepared by the concessionaire and agreed by the company from time to time, those excess revenues will be shared with the company in accordance with the Upside Formula as prescribed by Schedule 18 of the Agreement. Such revenues, if any, are recognised in the profit and loss account on an accrual basis.

(m) Financial instruments

Financial instruments carried on the balance sheet include cash and short term deposits, reverse repurchase agreements, investment securities, loans and other receivables, accounts payable and loans. The determination of the fair values of the company's financial instruments is discussed in Note 21.

(n) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, comparatives have been adjusted to take into account the requirements of IFRS (Note 22).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

3. Operating Loss

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

	2004 $'000	2003 $'000
Directors' emoluments -		
Fees	6	108
Management remuneration (included in staff costs)	6,625	6,700
Auditors' remuneration	1,260	1,150
Depreciation	12,726	3,489
Loss on disposal of property, plant and equipment	-	346
Staff costs (Note 4)	13,800	15,599

4. Staff Costs

	2004 $'000	2003 $'000
Salaries and wages	12,876	14,513
Statutory contributions	664	844
Other	260	242
	13,800	15,599

The number of persons employed by the company on a full-time basis at the end of the year was 7 (2003 – 6).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

5. Finance Income

	2004	2003
	$'000	$'000
Interest income -		
Loans receivable	173,003	78,522
Investment securities	61,584	44,194
Reverse repurchase agreements	20,955	6,252
Short term deposits	375,644	396,190
	631,186	525,158
Net foreign exchange gains	217,117	288,846
Finance costs -		
Interest on loans	(325,480)	(240,952)
Other	(721)	(32,939)
	522,102	540,113

6. Taxation

(a) Taxation is based on profit for the year adjusted for tax purposes and represents income tax at 33 1/3%:

	2004	2003
	$'000	$'000
Current tax	177,547	70,234
Adjustment to prior year provision	-	3,177
Deferred tax (Note 18)	(57,941)	59,243
	119,606	132,654

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

6. Taxation (Continued)

(b) The tax on profit as reported differs from the theoretical amount that would arise using the basic statutory rate of 33⅓% as follows:

	2004 $'000	2003 $'000
Profit before tax	293,981	338,444
Tax calculated at a tax rate of 33 1/3%	97,994	112,815
Adjusted for the effect of:		
Expenses not deductible for tax purposes	188,914	134,692
Income not subject to tax	(168,337)	(118,072)
Other net adjustments and allowances	1,035	42
Adjustment to prior year provision	-	3,177
Tax expense	119,606	132,654

7. Property, Plant and Equipment

	Land, Road Construction and Leasehold Property & Improvements $'000	Office Furniture, Fixtures & Equipment $'000	Computer Equipment & Software $'000	Motor Vehicles $'000	Total $'000
Cost -					
1 April 2003	96,580	4,214	5,097	8,082	113,973
Additions	816,515	17	-	-	816,532
Disposals	(2,718)	-	-	-	(2,718)
31 March 2004	910,377	4,231	5,097	8,082	927,787
Depreciation -					
1 April 2003	25	490	2,021	1,270	3,806
Charge for the year	9,098	422	1,591	1,615	12,726
31 March 2004	9,123	912	3,612	2,885	16,532
Net Book Value -					
31 March 2004	901,254	3,319	1,485	5,197	911,255
31 March 2003	96,555	3,724	3,076	6,812	110,167

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

8. Loans Receivable

These are due from Transjamaican Highway Limited and include:

	2004	2003
	$'000	$'000
(a) Subordinated Loan	1,447,084	1,118,410
(b) Grantor Procured Debt	2,828,428	307,760
	4,275,512	1,426,170
Loan arrangement fees	6,636	2,251
	4,268,876	1,423,919

(a) Development costs were 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) between the company and the concessionaire dated 21 November 2001.

(b) US$24,180,000 and J$1.3 billion was drawn down by the concessionaire as at 31 March 2004 (2003 – US$3,878,000 and J$90,925,000) 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 has been accrued as of the drawdown dates of the loans and is calculated as follows:

(i) On the SLA loan at LIBOR plus 4.5% per annum;

(ii) On the GPD loan at LIBOR plus 4% per annum on the US dollar drawdown portion and at 5% per annum on the Jamaican dollar drawdown, adjusted for inflation.

Pursuant to the SLA and GPD loan agreements, interest accrued on both loans is payable on 30 May and 30 November each year until maturity of the loans. However, to the extent that any interest payable is not paid on the due date, due to there being insufficient cash available for debt servicing on that date, such interest is capitalised and attracts interest at the rates set out above. Interest capitalised during the year with respect to the SLA was $138,373,000 (2003 - Nil), while that for the GPD loan amounted to $53,306,000 (2003 - Nil).

Under the terms of a Working Capital Reserve Agreement between the company and the concessionaire 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 (Note 12). No drawdowns on this facility had been made at 31 March 2004. 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 2004

9. Investment Securities

	2004	2003
	$'000	$'000
Originated debt securities – at amortised cost		
Debt securities -		
Government of Jamaica (19.75% - 36.25%; 2003 – 19.75%)	88,500	177,000
Wachovia Bank -		
Debt Service Reserve Account (1.057% - 1.138%)	135,442	-
Offshore Escrow Reserve Account (1.045% - 2.881%)	230,578	-
	454,520	177,000
Available-for-sale securities – at fair value		
Debt securities -		
Government of Jamaica (2003 – 11.25%)	-	279,939
Wachovia Bank -		
Offshore Escrow Reserve Account (2.375% - 3.785%)	1,447,715	-
	1,447,715	279,939
Total	1,902,235	456,939

Included in investment securities are:

(a) Government of Jamaica securities valued at $88,500,000 (2003 - $456,939,000), which have been pledged to secure letters of credit issued by the Bank of Nova Scotia Jamaica Limited in relation to the GPD loan (Note 8(b)).

(b) US$ denominated securities held in a Debt Service Reserve Account (DSRA) and an Offshore Escrow Reserve Account (Escrow Reserve), which have been pledged to secure the company's obligation for a loan under the terms of the Credit Agreement with Wachovia Bank, National Association, (Wachovia Bank). In accordance with the terms of a Debt Service Reserve Account and Control Agreement, and an Offshore Escrow Reserve and Control Agreement, with Wachovia Bank, the company is required to maintain the DSRA and the Escrow Reserve until the loan with Wachovia Bank is repaid. The accounts were funded by a portion of the loan proceeds and will be used to make the first ten scheduled payments required under the Credit Agreement (Note 17(b)).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

10. Reverse Repurchase Agreements

The company has entered into collateralised resale agreements which may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. Included in reverse repurchase agreements are:

(a) Amounts valued at $717,735,000 (2003 - $1,695,262,000), which have been pledged to a financial institution for letter of credit facilities; and

(b) Amounts valued at $Nil (2003 - $21,021,000) which are regarded as cash equivalents for the purposes of the statement of cash flows.

The weighted effective interest rate on reverse repurchase agreements during the year was 14.6% (2003 – 13.92%).

11. Accounts Receivable

	2004	2003
	$'000	$'000
Interest receivable	103,069	188,305
Arrangement fees receivable from concessionaire	-	2,251
Prepayments	333	-
Other	1,834	1,060
	105,236	191,616

12. Cash and Short Term Investments

	2004	2003
	$'000	$'000
Cash at bank and in hand	20,779	4,812
Short term investments	1,162,515	1,845,485
	1,183,294	1,850,297

Included in short term investments are:

(a) Amounts valued at $846,457,000 (2003 - $1,556,020,000), which have been pledged to the Bank of Nova Scotia Jamaica Limited for letter of credit facilities in relation to the GPD loan (Note 8(b)).

(b) A restricted deposit of US$3.5 million which represents an amount made available for on-lending to the concessionaire under the terms of a Working Capital Reserve Agreement. The amount is being held in escrow with National Commercial Bank Jamaica Limited under the terms of an Escrow Agreement (Note 8).

(c) A restricted deposit of US$1,316,000 which represents a portion of the funds deposited in the Escrow Reserve (Note 9(b)).

The weighted effective interest rate on short term investments during the year was 5.87% (2003 – 6.25%). These investments have an average maturity of 31 days.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

12. Cash and Short Term Investments (Continued)

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2004	2003
	$'000	$'000
Cash at bank and in hand	20,779	4,812
Short term deposits	23,101	93,743
	43,880	98,555
Reverse repurchase agreements (Note 10)	-	21,021
	43,880	119,576

13. Accounts Payable

	2004	2003
	$'000	$'000
Accrued expenses	132,995	10,482
Interest payable	87,052	53,839
Finance charges payable	31,307	-
Due to Development Bank of Jamaica Limited	9,749	3,374
Other	133	2,124
	261,236	69,819

14. Short Term Loans

	2004	2003
	$'000	$'000
(a) Development Bank of Jamaica Limited -		
(i) US$6,680,000 loan at 7.5%	407,518	-
(ii) J$ denominated loan at 15%	73,939	140,181
(b) ABN AMRO Bank N.V. – US$40,000,000	-	2,249,488
	481,457	2,389,669

(a) The loans with Development Bank of Jamaica Limited are unsecured and have no fixed date for repayment.

(b) Interest on the ABN AMRO Bank loan was charged at LIBOR plus a margin, as prescribed by the loan agreement.

National Road Operating and Constructing Company Limited
Notes to the Financial Statements
31 March 2004

15. Share Capital

	2004 $'000	2003 $'000
Authorised and issued -		
1,000,000 ordinary shares of $1 each	1,000	1,000

16. Inflation Reserve

The company transfers a minimum of 40% of net profit at the end of each 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(a)).

17. Long Term Loans

	2004 $'000	2003 $'000
(a) Real Return Convertible Bonds, due 6 February 2032	3,491,364	3,489,203
(b) Wachovia Bank, National Association - US$75,000,000, due 23 January 2019	4,452,219	-
	7,943,583	3,489,203

(a) This represents 4.5% convertible bonds issued by the company on 7 February 2002. The aggregate proceeds received from subscribers totaled $3,552,000,000.

The bonds were issued 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. However, bondholders have been given the option to convert some or all of the redemption monies for the bonds at redemption date into the company's ordinary shares, at a share price of 80% of the value of the shares at that date.

Coupon interest on the bonds will accrue at the rate of 4.5% per annum, adjusted for inflation or deflation, and is payable semi-annually in arrears on 7 February and 7 August of each year until maturity. Interest and inflation compensation are 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 have been 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 GPD Loan Agreement between the company and the concessionaire (Note 8).

The fair value of the liability component of the bonds cannot be reliably determined because the bonds are not being traded and there are no similar instruments in the market. However, there is no evidence to suggest that the liability component is less than proceeds. Also, given that the conversion option is so far into the future, no value has been assigned to the equity conversion component of the bond.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

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17. Long Term Loans (Continued)

(a) (Continued)

The convertible bonds are recognised in the balance sheet as follows:

	2004	2003
	$'000	$'000
Face value of bonds	3,552,000	3,552,000
Transaction costs	60,636	62,797
	3,491,364	3,489,203

(b) This represents the aggregate proceeds of a loan, net of transaction costs, obtained by the company to provide additional financing for Phase 1 of Highway 2000, pursuant to the terms of a Credit Agreement with Wachovia Bank dated 15 January 2004. The loan is supported by a promissory note and is guaranteed by the Government of Jamaica. Additionally, Wachovia Bank has entered into a contract of insurance with the Overseas Private Investment Corporation (OPIC), insuring against the risk of non-payment by the government with respect to certain of its obligations under the Guarantee.

Principal repayments on the loan will occur semi-annually and commence on 23 July 2009 with scheduled installments accelerating during the four remaining years to maturity. Coupon interest on the loan is calculated at a rate per annum equal to Adjusted LIBOR plus 1% and includes the OPIC premium rate of 3.57%. Interest is payable semi-annually in arrears on 23 January and 23 July of each year until maturity. The coupon interest rate applied during the year was 5.739%.

In the event of certain circumstances, the loan will be converted into a Base Rate Loan and remain as such while those circumstances exist. During that period, interest on the Base Rate Loan will accrue at base rate plus 1%.

Of the aggregate loan proceeds obtained, U$31,255,000 was used to fund the Offshore Escrow Account and the DSRA (Note 9(b)).

18. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33 1/3%.

The movement in the deferred tax balance is as follows:

	2004	2003
	$'000	$'000
Net liability at beginning of year	62,088	2,845
Deferred tax (income)/expense (Note 6(a))	(57,941)	59,243
Net liability at end of year	4,147	62,088

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

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18. Deferred Income Taxes (Continued)

Deferred income tax assets/liabilities are due to the following items:

	2004	2003
	$'000	$'000
Accelerated depreciation on property, plant and equipment	4,095	1,422
Interest receivable	29,857	62,768
	33,952	64,190
Interest payable	29,805	1,696
Unrealised foreign exchange losses	-	406
	29,805	2,102
	4,147	62,088

19. Cash Flows from Operating Activities

	2004	2003
	$'000	$'000
Net profit	174,375	205,790
Items not affecting cash:		
Depreciation	12,726	3,489
Loss on disposal of property, plant and equipment	-	346
Interest income	(631,186)	(525,158)
Interest expense	325,480	240,952
Net foreign exchange gains	(220,312)	(288,846)
Unrealised fair value (gains)/losses on available-for-sale investment securities	(31,754)	7,955
Tax expense	119,606	132,654
	(251,065)	(222,818)
Changes in operating assets and liabilities:		
Accounts receivable	1,144	(2,311)
Taxation recoverable	(139,521)	(85,342)
Accounts payable	158,204	(786,544)
	19,827	(874,197)
Interest paid	(343,733)	(199,859)
Cash used in operating activities	(574,971)	(1,296,874)

National Road Operating and Constructing Company Limited

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20. Financial Risk Management

The company's activities expose it to a variety of financial risks, including the effects of changes in debt market prices, foreign currency exchange rates and interest rates. Management seeks to minimise potential adverse effects on the financial performance of the company by applying procedures to identify, evaluate and manage these risks, based on guidelines set by the Board of Directors.

(a) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table summarises the exposure of the company to currency risk. Included in the table are the company's assets and liabilities at carrying amounts categorised by currency.

As at 31 March 2004:

	Jamaican	US$	GBP	Total
	J$'000	J$'000	J$'000	J$'000
Assets				
Cash and short term investments	3,898	1,179,396	-	1,183,294
Reverse repurchase agreements	717,735	-	-	717,735
Accounts receivable	31,623	73,613	-	105,236
Investment securities	88,500	1,813,735	-	1,902,235
Loans receivable	1,409,337	2,859,539	-	4,268,876
Other	911,255	-	-	911,255
	3,162,348	5,926,283	-	9,088,631
Liabilities				
Accounts payable	128,483	132,753	-	261,236
Short term loans	73,939	407,518	-	481,457
Long term loans	3,491,364	4,452,219	-	7,943,583
Other	26,225	-	-	26,225
	3,720,011	4,992,490	-	8,712,501
Net position	(557,663)	933,793	-	376,130
As at 31 March 2003:				
Total assets	2,202,693	4,009,841	-	6,212,534
Total liabilities	3,748,638	2,259,462	2,679	6,010,779
Net position	(1,545,945)	1,750,379	(2,679)	201,755

20. Financial Risk Management (Continued)

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Due to the specificity of the company's operating objectives, most of its interest earning investments are placed with a few financial institutions in fulfillment of conditions associated with credit arrangements extended by those institutions. The company's other main exposure to credit risk lies in its lending activities to the concessionaire. Exposure to this credit risk is managed through regular analysis of the concessionaire's ability to meet interest and principal repayments in accordance with the terms and conditions of the various loan agreements. Other interest earnings assets such as reverse repurchase agreements, cash and short term deposits are placed with substantial financial institutions. The company's investments are either held in government instruments or placed with substantial financial institutions.

(c) 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 company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The company's interest bearing financial instruments include short term deposits, reverse repurchase agreements, investment securities, loans receivable, short term and long term loans. The effective rates of interest impacting these instruments are disclosed in the individual notes to the financial statements associated with each item.

National Road Operating and Constructing Company Limited

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20. Financial Risk Management (Continued)

(c) Interest rate risk (Continued)

The table below summarises the company's exposure to interest rate risk. Included in the tables are the carrying amounts of the company's balance sheet assets, categorised by the earlier of contractual repricing or maturity dates.

As at 31 March 2004:

	Up to One Year	One to Five Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Cash and short term investments	1,162,515	-	-	20,779	1,183,294
Reverse repurchase agreements	717,735	-	-	-	717,735
Accounts receivable	-	-	-	105,236	105,236
Investment securities	534,350	1,367,885	-	-	1,902,235
Loans receivable	-	-	4,268,876	-	4,268,876
Other	-	-	-	911,255	911,255
	2,414,600	1,367,885	4,268,876	1,037,270	9,088,631
Liabilities					
Accounts payable	-	-	-	261,236	261,236
Short term loans	481,457	-	-	-	481,457
Long term loans	-	-	7,943,583	-	7,943,583
Other	-	-	-	26,225	26,225
	481,457	-	7,943,583	287,461	8,712,501
On balance sheet interest sensitivity gap	1,933,143	1,367,885	(3,674,707)	749,809	376,130
Cumulative interest sensitivity gap	1,933,143	3,301,028	(373,679)	376,130	
As at 31 March 2003:					
Total assets	4,407,072	59,000	1,423,919	322,543	6,212,534
Total liabilities	2,389,669	-	3,489,203	131,907	6,010,779
On balance sheet interest sensitivity gap	2,017,403	59,000	(2,065,284)	190,636	201,755
Cumulative interest sensitivity gap	2,017,403	2,076,403	11,119	201,755	

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2004

20. Financial Risk Management (Continued)

(d) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business, management aims at maintaining flexibility in funding by keeping committed credit lines available.

The following table analyses assets and liabilities of the company into relevant maturity groupings based on the remaining period, at balance sheet date, to the contractual maturity date.

As at 31 March 2004:

	On demand or Subject to Notice	Less than 1 Year	1 to 5 Years	Over 5 Years	No Maturity Date	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Assets						
Cash and short term investments	20,779	1,162,515	-	-	-	1,183,294
Reverse repurchase agreements	-	717,735	-	-	-	717,735
Accounts receivable	-	105,236	-	-	-	105,236
Investment securities	-	534,350	1,367,885	-	-	1,902,235
Loans receivable	-	-	-	4,268,876	-	4,268,876
Other	-	-	-	-	911,255	911,255
Total assets	20,779	2,519,836	1,367,885	4,268,876	911,255	9,088,631
Liabilities						
Accounts payable	-	261,236	-	-	-	261,236
Short term loans	-	481,457	-	-	-	481,457
Long term loans	-	-	-	7,943,583	-	7,943,583
Other	-	22,078	-	-	4,147	26,225
Total liabilities	-	764,771	-	7,943,583	4,147	8,712,501
Net Liquidity Gap	20,779	1,755,065	1,367,885	(3,674,707)	907,108	376,130
Cumulative Liquidity Gap	20,779	1,775,844	3,143,729	(530,978)	376,130	

As at 31 March 2003:

	On demand or Subject to Notice	Less than 1 Year	1 to 5 Years	Over 5 Years	No Maturity Date	Total
Total assets	4,812	4,614,636	59,000	1,423,919	110,167	6,212,534
Total liabilities	-	2,459,488	-	3,489,203	62,088	6,010,779
Net Liquidity Gap	4,812	2,155,148	59,000	(2,065,284)	48,079	201,755
Cumulative Liquidity Gap	4,812	2,159,960	2,218,960	153,676	201,755	

National Road Operating and Constructing Company Limited

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21. Fair Value of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The amounts included in the financial statements for cash and bank balances, short term deposits, reverse repurchase agreements, accounts receivable, accounts payable and short term loans reflect their approximate fair value because of the short term maturity of these instruments.

The estimated fair values of the company's other financial instruments have been determined using available market information and appropriate valuation methodologies based on market conditions existing at balance sheet dates. However, considerable judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts that the company would realise in a current market exchange.

Fair values were estimated as follows:

Loans receivable
The carrying value of loans denominated in United States dollars approximates fair value because these loans are contracted at variable market rates. The fair value of the Jamaican dollar portion of loans receivable cannot be reliably determined because there are no similar instruments in the market from which a market rate of interest can be derived for use in the pricing model.

Investment securities
The fair value of investment securities is determined by reference to quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models or other recognised valuation techniques using estimated current market rates of interest.

Long term loans
As explained in Note 17(a), the fair value of the convertible bond cannot be reliably determined. Other long term loans reflect the company's contractual obligations and are carried at amortised cost, which is deemed to approximate the fair value of these loans because these loans are subject to such terms and conditions as are available in the market for similar transactions.

The following table presents the estimated fair value of financial instruments which are not reflected in the financial statements at fair value:

	2004		2003	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial Assets				
Originated debt investment securities	454,520	458,425	177,000	181,037

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Notes to the Financial Statements
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22. Financial Effect of Adopting International Financial Reporting Standards

The company adopted International Financial Reporting Standards (IFRS) effective 1 April 2003. Prior to that date, the financial statements of the company were prepared in accordance with Jamaican Generally Accepted Accounting Principles (JGAAP). The financial statements for the year ended 31 March 2003 (the immediately preceding comparative period) have been restated to reflect the financial position and results under IFRS. The financial effects of conversion from JGAAP to IFRS are set out as follows:

(a) Effect on equity as at 1 April 2002:

	Previous JGAAP $'000	Effect of Transition to IFRS $'000	IFRS $'000
Non-Current Assets			
Property, plant and equipment	10,976	-	10,976
Loans receivable	913,658	-	913,658
Deferred costs (i)	65,263	(65,263)	-
Current Assets	2,501,268	-	2,501,268
Current Liabilities	1,124,355	-	1,124,355
Net Current Assets	1,376,913	-	1,376,913
	2,366,810	(65,263)	2,301,547
Shareholders' Equity			
Share capital	1,000	-	1,000
Accumulated deficit (i), (iii)	(2,190)	(2,845)	(5,035)
	(1,190)	(2,845)	(4,035)
Non-Current Liabilities			
Long term loans (i)	2,368,000	(65,263)	2,302,737
Deferred tax liability (iii)	-	2,845	2,845
	2,366,810	(65,263)	2,301,547

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

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22. Financial Effect of Adopting International Financial Reporting Standards (Continued)

(b) Effect on equity as at 31 March 2003:

	Previous JGAAP $'000	Effect of Transition to IFRS $'000	IFRS $'000
Non-Current Assets			
Property, plant and equipment	110,167	-	110,167
Loans receivable (i)	1,426,170	(2,251)	1,423,919
Deferred costs (i)	63,087	(63,087)	-
Investment securities (ii)	464,894	(7,955)	456,939
Current Assets	4,221,509	-	4,221,509
Current Liabilities	2,459,488	-	2,459,488
Net Current Assets	1,762,021	-	1,762,021
	3,826,339	(73,293)	3,753,046
Shareholder's Equity			
Share capital	1,000	-	1,000
Inflation reserve (i) – (iii)	110,212	(27,896)	82,316
Retained earnings (i) – (iii)	163,127	(44,688)	118,439
	274,339	(72,584)	201,755
Non-Current Liabilities			
Long term loans (i)	3,552,000	(62,797)	3,489,203
Deferred tax liability (iii)	-	62,088	62,088
	3,826,339	(73,293)	3,753,046

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

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22. Financial Effect of Adopting International Financial Reporting Standards (Continued)

(c) Reconciliation of net profit for the year ended 31 March 2003:

	Previous JGAAP $'000	Effect of Transition to IFRS $'000	IFRS $'000
Income			
Loan arrangement fees (i)	2,251	(2,251)	-
Fair value losses on investment securities (ii)	-	(7,955)	(7,955)
Other income	73	-	73
	2,324	(10,206)	(7,882)
Administrative expenses (i)	202,488	(8,701)	193,787
Operating loss	(200,164)	1,505	(201,669)
Finance income, net (ii)	549,104	(8,991)	540,113
Profit before Taxation	348,940	10,496	338,444
Taxation (iii)	73,411	59,243	132,654
Net Profit	275,529	(69,739)	205,790

Brief description of each item of difference:

(i) Transaction costs deferred under previous Jamaican GAAP, have now been offset against the related long term loans and amounts amortised for the comparative periods have been adjusted. Under IFRS, loan arrangement fees are offset against the related loans receivable and amortised over the life of the loans on an effective yield basis.

(ii) Under previous Jamaican GAAP, the company measured all investment securities at the lower of cost and market value. Under IFRS, available-for-sale securities are measured at fair value while originated debt is measured at amortised cost. Premiums and discounts on acquisition of investment securities were amortised on a straight-line basis over the lives of the securities under previous Jamaican GAAP. Under IFRS, premiums/discounts are amortised using the effective yield method.

(iii) No provision for deferred tax was recognised under previous Jamaican GAAP. Under IFRS, full provision is made for deferred tax on all temporary differences using the liability method.