PRICEWATERHOUSECOOPERS

National Road Operating and Constructing Company Limited

Financial Statements
31 March 2005

National Road Operating and Constructing Company Limited

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31 March 2005

PRICEWATERHOUSECOOPERS

23 September 2005

To the Directors of
National Road Operating and Constructing
Company Limited

Auditors' Report

The supplementary information set out on page 27, 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 2005.

In our opinion this information, although not necessary for a fair presentation of the company's state of affairs, results of operations, changes in shareholders' 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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23 September 2005

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 26, 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 2005 and of the results of operations, changes in shareholders' 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.

PricewaterhouseCoopers

Chartered Accountants
Kingston, Jamaica

National Road Operating and Constructing Company Limited

Profit and Loss Account

Year ended 31 March 2005

	Note	2005	Restated 2004
		$'000	$'000
Revenue		1,205	-
Administration expenses		(206,871)	(259,875)
Operating Loss	3	(205,666)	(259,875)
Inflation compensation on Real Return Convertible Bonds	18	(582,136)	(631,959)
Finance costs, net	5	(209,322)	553,856
Loss before Taxation		(997,124)	(337,978)
Taxation	6	(82,372)	(119,606)
NET LOSS		(1,079,496)	(457,584)

National Road Operating and Constructing Company Limited

Balance Sheet

31 March 2005

	Note	2005 $'000	Restated 2004 $'000
Non-Current Assets			
Fixed assets	7	2,039,856	911,255
Deferred tax assets	8	42,825	-
Loans receivable	9	5,819,875	4,268,876
Investment securities	10	1,511,472	1,902,235
Current Assets			
Reverse repurchase agreements	11	136,505	717,735
Receivables	12	236,986	105,236
Cash and short term deposits	13	487,898	1,183,294
		861,389	2,006,265
Current Liabilities			
Payables	14	932,032	261,236
Taxation payable		133,809	22,078
Short term loans	15	1,182,617	481,457
		2,248,458	764,771
Net Current (Liabilities)/Assets		(1,387,069)	1,241,494
		8,026,959	8,323,860
Shareholders' Equity			
Share capital	16	1,000	1,000
Inflation reserve	17	152,066	152,066
Accumulated deficit		(1,708,064)	(628,568)
		(1,554,998)	(475,502)
Non-Current Liabilities			
Long term loans	18	9,581,957	8,795,215
Deferred tax liabilities	8	-	4,147
		8,026,959	8,323,860

Approved for issue by the Board of Directors on 23 September 2005 and signed on its behalf by:

Dr. Wayne Reid	Director	Calvin Gray	Director

National Road Operating and Constructing Company Limited

Statement of Changes in Shareholders' Equity

Year ended 31 March 2005

	Share Capital	Inflation Reserve	Accumulated Deficit	Total
	$'000	**$'000**	**$'000**	**$'000**
Balance at 1 April 2003, as restated (Note 22)	1,000	82,316	(101,234)	(17,918)
Net loss, as restated (Note 22)	-	-	(457,584)	(457,584)
Transfer to inflation reserve (Note 18)	-	69,750	(69,750)	-
Balance at 31 March 2004, as restated (Note 22)	1,000	152,066	(628,568)	(475,502)
Net loss	-	-	(1,079,496)	(1,079,496)
Balance at 31 March 2005	1,000	152,066	(1,708,064)	(1,554,998)

National Road Operating and Constructing Company Limited

Statement of Cash Flows

Year ended 31 March 2005

	2005 $'000	2004 $'000
Cash Flows from Operating Activities		
Cash provided by/(used in) operating activities (Note 19)	425,589	(305,633)
Cash Flows from Investing Activities		
Purchase of fixed assets	-	(17)
Road construction and acquisition of land	(1,154,257)	(816,515)
Proceeds from sale of fixed assets	-	2,718
Loans granted to concessionaire	(1,530,860)	(2,411,373)
Purchase of investment securities	(248,887)	(1,825,382)
Proceeds from sale of investment securities	479,967	431,454
Reverse repurchase agreements, net	581,230	1,453,672
Short term deposits	678,272	738,192
Interest received	389,617	524,743
Cash used in investing activities	(804,918)	(1,902,508)
Cash Flows from Financing Activities		
Short term loans received	696,584	222,905
Short term loans repaid	-	(2,315,730)
Long term loan received	153,407	4,436,123
Interest paid	(489,337)	(227,780)
Cash provided by financing activities	360,654	2,115,518
Effect of exchange rate on cash and cash equivalent	1,551	3,195
Decrease in cash and cash equivalents	(17,124)	(89,428)
Cash and cash equivalents at beginning of year	20,779	110,207
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,655	20,779

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

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 available-for-sale investment securities.

Jamaica adopted 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.

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 2005

2. Significant Accounting Policies (Continued)

(b) 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.

(c) 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 unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities are recognised in the profit and loss account.

(d) Income taxes

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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

2. Significant Accounting Policies (Continued)

(d) Income taxes (continued)

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(e) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation. 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	2½%
Office furniture, fixtures and equipment	10%
Computer equipment	25%
Computer software	50%
Motor vehicles	20%

Land is not depreciated.

Grantor variations as determined in the Concession Agreement dated 21 November 2001 are capitalised and recorded at cost, less any reimbursements received.

Fixed assets 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 fixed assets 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.

(f) 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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

2. Significant Accounting Policies (Continued)

(f) Loans receivable and provisions for credit losses (continued)

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.

(g) 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.

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.

(h) 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.

(i) 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 which mature within 90 days of the date of acquisition including cash balances and short term investment.

2. Significant Accounting Policies (Continued)

(j) Payables

Payables are stated at cost.

(k) 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.

(l) 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.

(m) Provisions

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

(n) Financial instruments

Financial instruments carried on the balance sheet include loans receivable, investment securities, reverse repurchase agreements, accounts receivable, cash and short term deposits, accounts payable and loans.

The fair values of the company's financial instruments are discussed in Note 22.

(o) Comparative information

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. In particular, Real Return Convertible Bonds included in Long term loans have been adjusted to reflect inflation compensation (Note 22).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

3. Operating Loss

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

	2005	2004
	$'000	**$'000**
Auditors' remuneration	1,400	1,260
Depreciation	25,656	12,726
Directors' emoluments -		
Fees	-	6
Management remuneration (included in staff costs)	8,300	6,625
Staff costs (Note 4)	16,317	13,800

4. Staff Costs

	2005	2004
	$'000	**$'000**
Salaries and wages	15,031	12,876
Statutory contributions	964	664
Other	322	260
	16,317	13,800

The number of persons employed by the company on a full-time basis at the end of the year was 7 (2004 – 7).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

5. Finance (Costs)/Income

	2005	2004
	$'000	$'000
Finance costs -		
Interest on loans	(575,951)	(316,674)
Other	-	(721)
	(575,951)	(317,395)
Interest income -		
Investment securities	73,600	61,584
Loans receivable	328,140	173,003
Reverse repurchase agreements	31,763	330,781
Short term deposits	12,468	65,818
	445,971	631,186
Fair value (losses)/gains on investment securities	(141,618)	31,754
Net foreign exchange gains	62,276	217,117
	(209,322)	553,856

6. Taxation

(a) Taxation is based on profit for the year adjusted for tax purposes and represents income tax at 33⅓%:

	2005	2004
	$'000	$'000
Current tax	129,344	177,547
Deferred tax (Note 8)	(46,972)	(57,941)
	82,372	119,606

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

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:

	2005	2004
	$'000	$'000
Loss before tax	(997,125)	(337,978)
Tax calculated at a tax rate of 33⅓%	(332,375)	(112,659)
Adjusted for the effect of:		
Expenses not deductible for tax purposes	220,029	188,914
Income not subject to tax	-	(168,337)
Inflation compensation on Real Return Convertible Bonds	194,045	210,653
Other net adjustments and allowances	673	1,035
Tax expense	82,372	119,606

7. Fixed Assets

	Land, Road Construction and Leasehold Property & Improvements	Office Furniture, Fixtures & Equipment	Computer Equipment & Software	Motor Vehicles	Total
	$'000	$'000	$'000	$'000	$'000
Cost -					
1 April 2004	910,377	4,231	5,097	8,082	927,787
Additions	1,154,257	-	-	-	1,154,257
31 March 2005	2,064,634	4,231	5,097	8,082	2,082,044
Depreciation -					
1 April 2004	9,123	912	3,612	2,885	16,532
Charge for the year	22,828	423	800	1,605	25,656
31 March 2005	31,951	1,335	4,412	4,490	42,188
Net Book Value -					
31 March 2005	2,032,682	2,896	685	3,592	2,039,856
31 March 2004	901,254	3,319	1,485	5,197	911,255

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

8. Deferred Income Taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33⅓%.

The movement in the deferred tax balance is as follows:

	2005 $'000	2004 $'000
At 1 April	4,147	62,088
Credited to the profit and loss (Note 6)	(46,972)	(57,941)
At 31 March	(42,825)	4,147

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

	2005 $'000	2004 $'000
Deferred income tax assets		
Available-for-sale investment securities	(47,206)	-
Interest payable	(68,439)	(29,805)
	(115,645)	(29,805)
Deferred income tax liabilities		
Accelerated tax depreciation	1,195	4,095
Unrealised foreign exchange gains	22,984	-
Interest receivable	48,641	29,857
	72,820	33,952
	(42,825)	4,147

These balances include the following:

	2005 $'000	2004 $'000
Deferred tax assets to be settle after more than 12 months	47,206	-
Deferred tax liabilities to be recovered after more than 12 months	1,195	4,065

The deferred tax credited to the profit and loss account comprises the following temporary differences:

	2005 $'000	2004 $'000
Available-for-sale investment securities	(47,206)	-
Interest payable	(38,634)	(28,109)
Unrealised foreign exchange gains	22,984	406
Accelerated tax depreciation	(2,900)	2,673
Interest receivable	18,784	(32,911)
	(46,972)	(57,941)

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

9. Loans Receivable

These are due from Transjamaican Highway Limited and include:

	2005	2004
	$'000	**$'000**
(a) Subordinated Loan	1,448,331	1,447,084
(b) Grantor Procured Debt	4,371,544	2,828,428
	5,819,875	4,275,512
Loan arrangement fees	-	(6,636)
	5,819,875	4,268,876

(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$11,052,000 and J$672,570,000 was drawn down by the concessionaire as at 31 March 2005 (2004 – US$24,180,000 and J$1.3 billion) 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 $82,704,000 (2004 - $138,373,000), while that for the GPD loan amounted to $178,558,000 (2004 – 53,306,000).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

9. Loans Receivable (Continued)

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 14). No drawdowns on this facility had been made at 31 March 2005. 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.

10. Investment Securities

	2005 $'000	2004 $'000
Originated debt securities -		
Government of Jamaica (19.75% - 36.25%)	-	88,500
Wachovia Bank -		
Debt Service Reserve Account (1.057% - 1.138%)	91,318	135,442
Offshore Escrow Reserve Account (1.045% - 2.881%)	86,202	230,578
	177,520	454,520
Available-for-sale securities -		
Wachovia Bank -		
Offshore Escrow Reserve Account (2.375% - 3.785%)	1,333,952	1,447,715
	1,511,472	1,902,235

Investment securities comprise the following:

(a) At 31 March 2004, Government of Jamaica securities valued at $88,500,000, 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 10(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 19(b)).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

11. 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 amounts valued at $136,505,000 (2004 - $717,735,000), which have been pledged to a financial institution for letter of credit facilities.

The weighted effective interest rate on reverse repurchase agreements during the year was 14.17% (2004 – 14.6%).

12. Receivables

	2005	2004
	$'000	$'000
Interest receivable	145,925	103,069
Prepayments	55	333
Receivable from Port Authority Jamaica Limited	86,461	-
Other	4,545	1,834
	236,986	105,236

13. Cash and Short Term Deposits

	2005	2004
	$'000	$'000
Cash at bank and in hand	3,655	20,779
Short term deposits	484,243	1,162,515
	487,898	1,183,294

Included in short term deposits are:

(a) Amounts valued at $118,122,00 (2004 - $846,457,000), which have been pledged to the Bank of Nova Scotia Jamaica Limited for letter of credit facilities in relation to the GPD loan (Note 9(b)).

(b) A restricted deposit of US$3.5million, representing an amount made available for on-lending to the concessionaire under the terms of a Working Capital Reserve Agreement. An amount of $249,045,000 (2004 - $235,868,000) is being held in escrow with National Commercial Bank Jamaica Limited under the terms of an Escrow Agreement (Note 9).

(c) A restricted deposit of $117,096,000 (2004 - $926,486,000) which represents a portion of the funds deposited in the Escrow Reserve (Note 10(b)).

The weighted effective interest rate on short term investments during the year was 6% (2004 – 5.87%). These investments have an average maturity of 31 days (2004 -31 days).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2005

14. Payables

	2005	2004
	$'000	$'000
Accrued expenses	646,670	132,995
Accrued interest and finance charges	204,974	118,359
Due to Development Bank of Jamaica Limited	79,421	9,749
Other	967	133
	932,032	261,236

15. Short Term Loans

	2005	2004
	$'000	$'000
Development Bank of Jamaica Limited -		
US$13,210,000 (2004 - $6,680,000) loan at 7.5%/9.5%	808,619	407,518
J$ denominated loan at 15%	373,998	73,939
	1,182,617	481,457

The loans with Development Bank of Jamaica Limited are secured by promissory notes issued by the company.

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16. Share Capital

	2005 $'000	2004 $'000
Authorised and issued -		
1,000,000 ordinary shares of $1 each	1,000	1,000

17. 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 18(a)). No transfer has been made in the current year due to the loss incurred.

18. Long Term Loans

	2005 $'000	2004 $'000
(a) Real Return Convertible Bonds, due 6 February 2032	4,927,308	4,342,996
(b) Wachovia Bank, National Association - US$75,000,000, due 23 January 2019	4,500,789	4,452,219
(c) Barita Investments Limited - US$2,500,000, due 30 June 2006	153,860	-
	9,581,957	8,795,215

(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 9).

National Road Operating and Constructing Company Limited

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18. Long Term Loans (Continued)

(a) (Continued)

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.

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

	2005	**2004**
	$'000	**$'000**
Face value of bonds	3,552,000	3,552,000
Inflation compensation	1,433,768	851,632
Less: Transaction costs	(58,460)	(60,636)
	4,927,308	4,342,996

(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 10(b)).

The company was in breach of the Credit Agreement with Wachovia Bank. This breach related to the company exceeding debt of $10,000,000 without obtaining prior written consent of both Wachovia Bank and OPIC.

(c) This loan is secured by promissory notes issued by the company at 10% per annum.

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19. Cash Flows from Operating Activities

	2005 $'000	2004 $'000
Net loss	(1,079,496)	(457,584)
Items not affecting cash:		
Depreciation	25,656	12,726
Interest income	(445,971)	(631,186)
Interest expense	575,951	317,395
Tax expense	82,372	119,606
Effect of exchange rate on foreign balances	51,903	(212,227)
Unrealised fair value losses/(gains) on available-for-sale investment securities	141,618	(31,754)
Inflation compensation on Real Return Convertible Bonds	582,136	631,959
	(65,831)	(251,065)
Changes in operating assets and liabilities:		
Receivables	(75,149)	1,144
Taxation recoverable	(17,613)	(139,521)
Payables	584,181	83,809
Cash provided by/(used in) operating activities	425,589	(305,633)

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

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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.

	2005			
	Jamaican	US$	GBP	Total
	J$'000	J$'000	J$'000	J$'000
Assets				
Loans receivable	2,085,231	3,734,644	-	5,819,875
Investment securities	-	1,511,472	-	1,511,472
Reverse repurchase agreements	136,505	-	-	136,505
Receivables	44,072	192,914	-	236,986
Cash and short term deposits	1,903	485,995	-	487,898
Other	2,082,681	-	-	2,082,681
Total assets	4,350,392	5,925,025	-	10,275,417
Liabilities				
Payables	92,329	834,366	5,337	932,032
Short term loans	373,998	808,619	-	1,182,617
Long term loans	4,927,308	4,654,649	-	9,581,957
Other	133,809	-	-	133,809
Total liabilities	5,527,444	6,297,634	5,337	11,830,415
Net position	(1,177,052)	(372,609)	(5,337)	(1,554,998)
	2004			
Total assets	3,162,348	5,926,283	-	9,088,631
Total liabilities	4,571,643	4,992,490	-	9,564,133
Net position	(1,409,295)	933,793	-	(475,502)

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.

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20. Financial Risk Management (Continued)

(d) 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.

	2005				
	Up to One Year	One to Five Years	Over 5 Years	Non-Interest Bearing	Total
	$'000	$'000	$'000	$'000	$'000
Assets					
Loans receivable	-	-	5,819,875	-	5,819,875
Investment securities	169,681	1,341,791	-	-	1,511,472
Reverse repurchase agreements	136,505	-	-	-	136,505
Receivables	-	-	-	236,986	236,986
Cash and short term investments	485,951	-	-	1,947	487,898
Other	-	-	-	2,082,681	2,082,681
Total assets	792,137	1,341,791	5,819,875	2,321,614	10,275,417
Liabilities					
Payables	-	-	-	932,032	932,032
Short term loans	1,182,617	-	-	-	1,182,617
Long term loans	-	153,860	9,428,097	-	9,581,957
Other	-	-	-	133,809	133,809
Total liabilities	1,182,617	153,860	9,428,097	1,065,841	11,771,054
On balance sheet interest sensitivity gap	(390,480)	1,187,931	(3,608,222)	1,255,773	(1,554,998)
Cumulative interest sensitivity gap	(390,480)	797,451	(2,810,771)	(1,554,998)	

	2004				
Total assets	2,414,600	1,367,885	4,268,876	1,037,270	9,088,631
Total liabilities	481,457	-	8,795,215	287,461	9,564,133
On balance sheet interest sensitivity gap	1,933,143	1,367,885	(4,526,339)	749,809	(475,502)
Cumulative interest sensitivity gap	1,933,143	3,301,028	(1,225,311)	(475,502)	

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

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20. Financial Risk Management (Continued)

(e) 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.

	2005					
	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						
Loans receivable	-	-	-	5,819,875	-	5,819,875
Investment securities	-	169,681	1,341,791	-	-	1,511,472
Reverse repurchase agreements	-	136,505	-	-	-	136,505
Receivables	-	236,986	-	-	-	236,986
Cash and short term investments	3,655	484,243	-	-	-	487,898
Other	-	-	-	-	2,082,681	2,082,681
Total assets	3,655	1,027,415	1,341,791	5,819,875	2,082,681	10,275,417
Liabilities						
Payables	-	932,032	-	-	-	932,032
Short term loans	1,182,617	-	-	-	-	1,182,617
Long term loans	-	-	153,860	9,428,097	-	9,581,957
Other	-	133,809	-	-	-	133,809
Total liabilities	1,182,617	1,065,841	153,860	9,428,097	-	11,830,415
Net Liquidity Gap	(1,178,962)	(38,426)	1,187,931	(3,608,222)	2,082,681	(1,554,998)
Cumulative Liquidity Gap	(1,178,962)	(1,217,388)	(29,457)	(3,637,679)	(1,554,998)	

	2004					
Total assets	20,779	2,519,836	1,367,885	4,268,876	911,255	9,088,631
Total liabilities	-	764,771	-	8,795,215	4,147	9,564,133
Net Liquidity Gap	20,779	1,755,065	1,367,885	(4,526,339)	907,108	(475,502)
Cumulative Liquidity Gap	20,779	1,775,844	3,143,729	(1,382,610)	(475,502)	

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Notes to the Financial Statements

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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 investments, 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 18(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:

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$'000	$'000	$'000	$'000
Financial Assets				
Originated debt investment securities	177,520	175,578	454,520	458,425

22. Restatement

The financial statements were restated to reflect the effect of inflation on the Real Return Convertible Bonds included in Long term loans (Note 18).

The balance carried for retained earnings and Long term loans were adjusted by $631,959,000 (2003 – $219,674,000).

National Road Operating and Constructing Company Limited

Administration Expenses

Year ended 31 March 2005

	2005	2004
	$'000	$'000
Accommodation, travel and entertainment	2,936	3,509
Advertising and publicity	3,095	5,668
Auditors' remuneration	1,400	1,260
Bank charges	97	225
Conferences and seminars	-	198
Depreciation	25,656	12,726
Development costs	86,262	-
Directors' fees	32	6
Donations	8,976	11,469
General office expenses	472	517
Legal and professional fees	28,066	141,254
Letter of credit fees	2,900	22,664
Motor vehicle expenses	388	468
Miscellaneous expenses	658	319
Opening of toll road	2,046	11,721
Relocation expenses	11	(136)
Repairs and maintenance	121	199
Salaries, wages and related costs	16,317	13,800
Technical fees	22,835	30,816
Utilities and rent	4,603	3,192
	206,871	259,875