

**National Road Operating and
Constructing Company Limited**

**Financial Statements
31 March 2007**

National Road Operating and Constructing Company Limited

Index

31 March 2007

	Page
Independent Auditors' Report to the Members	
Financial Statements	
Profit and loss account	1
Balance sheet	2
Statement of changes in shareholders' equity	3
Statement of cash flows	4
Notes to the financial statements	5 – 34

Independent Auditors' Report

To the Members of
National Road Operating and
Constructing Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of National Road Operating and Constructing Company Limited, set out on pages 1 to 34, which comprise the balance sheet as of 31 March 2007 and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Members of National Road Operating and
Constructing Company Limited
Independent Auditors' Report Page 2

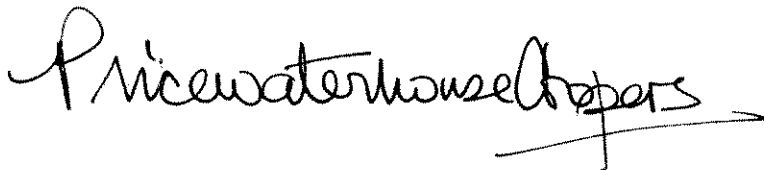
Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the company as of 31 March 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

Report on Other Legal and Regulatory Requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying financial statements are in agreement therewith and give the information required by the Act, in the manner so required.



Chartered Accountants
18 October 2007
Kingston, Jamaica

National Road Operating and Constructing Company Limited

Profit and Loss Account

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Revenue		-	-
Administration expenses		(492,156)	(389,845)
Operating Loss		(492,156)	(389,845)
Finance income	8	1,291,736	1,012,179
Finance costs	9	(2,328,102)	(1,301,727)
Inflation compensation on Real Return Convertible Bonds	23(a)	(368,340)	(569,802)
Loss before Taxation		(1,896,862)	(1,249,195)
Taxation	10	1,981	98,284
NET LOSS		(1,894,881)	(1,150,911)

National Road Operating and Constructing Company Limited

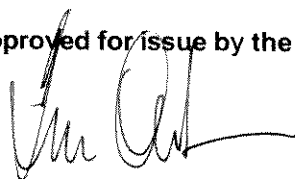
Balance Sheet

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2007 \$'000	2006 \$'000
Non-Current Assets			
Fixed assets	11	2,350,028	2,264,448
Deferred tax assets	12	185,560	167,635
Loans receivable	13	7,687,208	6,907,634
Investment securities	14	658,463	1,142,907
		<u>10,881,259</u>	<u>10,482,624</u>
Current Assets			
Reverse repurchase agreements	15	231,401	27,628
Taxation recoverable		62,050	-
Receivables	16	276,931	15,768
Cash and short term deposits	17	4,086,914	539,112
		<u>4,657,296</u>	<u>582,508</u>
Current Liabilities			
Payables	18	55,969	522,904
Taxation payable		126,551	126,551
Short term loans	19	203,400	2,780,458
		<u>385,920</u>	<u>3,429,913</u>
Net Current Assets/(Liabilities)			
		<u>4,271,376</u>	<u>(2,847,405)</u>
		<u>15,152,635</u>	<u>7,635,219</u>
Shareholders' Equity			
Share capital	20	1,000	1,000
Inflation reserve	21	152,066	152,066
Fair value reserve	22	(179,349)	(147,463)
Accumulated deficit		(4,691,198)	(2,796,317)
		<u>(4,717,481)</u>	<u>(2,790,714)</u>
Non-Current Liabilities			
Long term loans	23	19,870,116	10,425,933
		<u>15,152,635</u>	<u>7,635,219</u>

Approved for issue by the Board of Directors on 18 October 2007 and signed on its behalf by:



Ivan Anderson

Director



Calvin Gray

Director

National Road Operating and Constructing Company Limited

Statement of Changes in Shareholders' Equity

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	Share Capital	Inflation Reserve	Fair Value Reserve	Accumulated Deficit	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 April 2005	1,000	152,066	(73,243)	(1,645,406)	(1,565,583)
Unrealised loss on fair value adjustment, net of deferred taxation	-	-	(74,220)	-	(74,220)
Net loss recognised directly in shareholders' equity	-	-	(74,220)	-	(74,220)
Net loss	-	-	-	(1,150,911)	(1,150,911)
Total expense recognised in current year	-	-	(74,220)	(1,150,911)	(1,225,131)
Balance at 31 March 2006	1,000	152,066	(147,463)	(2,796,317)	(2,790,714)
Unrealised loss on fair value adjustment, net of deferred taxation	-	-	(31,886)	-	(31,886)
Net loss recognised directly in shareholders' equity	-	-	(31,886)	-	(31,886)
Net loss	-	-	-	(1,894,881)	(1,894,881)
Total expense recognised in current year	-	-	(31,886)	(1,894,881)	(1,926,767)
Balance at 31 March 2007	1,000	152,066	(179,349)	(4,691,198)	(4,717,481)

National Road Operating and Constructing Company Limited

Statement of Cash Flows

Year ended 31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

	2007 \$'000	2006 \$'000
Cash Flows from Operating Activities		
Cash used in operating activities (Note 25)	(1,402,366)	(508,624)
Cash Flows from Investing Activities		
Road construction and acquisition of land	(261,781)	(274,488)
Purchase of other fixed assets	(16,222)	-
Loans granted to concessionaire	-	(236,713)
Purchase of investment securities	(162,154)	(761,233)
Proceeds from sale of investment securities	640,542	1,100,920
Reverse repurchase agreements, net	-	109,174
Short term deposits	123,113	(47,977)
Interest received	304,887	195,680
Cash provided by investing activities	<u>628,385</u>	<u>85,363</u>
Cash Flows from Financing Activities		
Short term loans received	-	1,087,813
Short term loans repaid	(2,296,627)	-
Long term loan received	13,165,885	-
Long term loan repaid	(4,912,133)	-
Interest paid	(1,600,566)	(664,040)
Cash provided by financing activities	<u>4,356,559</u>	<u>423,773</u>
Increase in cash and cash equivalents	3,582,578	512
Effect of exchange rate on cash and cash equivalent	372,462	2,245
Cash and cash equivalents at beginning of year	6,412	3,655
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>3,961,452</u></u>	<u><u>6,412</u></u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

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 Travaux Publics of France.
- (d) The company has also entered into an agreement dated 12 March 2002, to lease to the concessionaire for a period of 35 years, certain lands upon which Phase 1 of Highway 2000 will be constructed. Lands required for the project include lands leased by the Commissioner of Lands to the company for a period of 99 years.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Although these estimates are based on managements' best knowledge of current events and action, actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2006

Certain interpretations and amendments to existing standards have been published that became effective during the current financial year. The company has assessed the relevance of all such new interpretations and amendments, and has adopted the following IFRSs, which are relevant to its operations. The 2006 comparative figures have been amended as required, in accordance with the relevant requirements.

IAS 39 (Amendment)	The Fair Value Option
IFRIC 4	Determining whether an Arrangement contains a Lease

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Interpretations and amendments to published standards effective in 2006 (continued)

The adoption of IAS 39 and IFRIC 4 did not result in substantial changes to the company's accounting policies. In summary:

- **IAS 39 (Amendment) – The Fair Value Option**, Following amendment to IAS 39 Financial Instruments: Recognition and Measurement in June 2005, the ability of entities to designate any financial instrument as fair value through the profit and loss has been limited. As the company classifies its financial instruments as available-for-sale and held-to-maturity, adoption of this amendment has no impact on these financial statements.
- **IFRIC 4 - Determining whether an Arrangement contains a Lease**, IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The company assessed the impact of IFRIC 4 and concluded that there are no transactions to which this applies.

There was no impact on opening retained earnings at 1 April 2006 from the adoption of any of the above-mentioned standards.

Standards, interpretations and amendments to published standards that are not yet effective

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not yet effective at the balance sheet date, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, has determined that the following may be relevant to its operations, and has concluded as follows:

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 April 2007.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(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.

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. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial year which they are incurred.

Land is not depreciated. Depreciated on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated using lives, as follows:

Roads and leasehold improvements	2½%
Office furniture, fixtures and equipment	10%
Computer equipment	25%
Motor vehicles	20%

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount of an asset is greater than its estimated 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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful life of two years. Costs associating with developing or maintaining computer software programs are recognised as an expense as incurred.

(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.

(h) Financial instruments

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

The company classifies its financial assets in the following categories: loans and receivables, held to maturity, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'loans receivable and receivables' in the balance sheet (Note 13 and 16).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial instruments (continued)

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity. Were the company required to sell other than an insignificant amount of held-to-maturity assets, the entire category would be compromised and reclassified as available-for-sale. These assets are classified as non-current assets on the balance sheet.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Purchases and sales of investments are recognised on the settlement date - the date on which an asset is delivered to or by the company. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the profit and loss account, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in shareholders' equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in shareholders' equity are included in the profit and loss account as 'gains and losses on investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the profit and loss account, and other changes in carrying amount are recognised in shareholders' equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in shareholders' equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account as 'gains and losses on investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial instruments (continued)

Available-for-sale financial assets (continued)

The company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from shareholders' equity and recognised in the profit and loss account.

Financial liabilities

The company's financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. These liabilities are classified as 'short term and long term loans and are included in current liabilities and non-current liabilities on the balance sheet

(i) 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.

(j) 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.

(k) Payables

Payables are stated at cost.

(l) 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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Share capital

Ordinary shares are classified as equity.

(n) 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.

(o) Comparative information

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

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

In the process of applying the company's accounting policies, management has made the following significant judgements on the amounts recognised in the financial statements.

Income taxes

Judgement is required in determining the provision for income taxes. Income tax in these financial statements is determined by treating the company as an Investor for tax purposes. Management has determined that the company is not in the business of raising funds but to construct the building of a tolled highway. Incidental to this mandate is arranging the financing of the construction.

(b) Key sources of estimation uncertainty

In the process of applying the company's accounting policies, management has made no significant estimates on the amounts recognised in the financial statements.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance.

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.

(i) Market risk

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.

	2007			
	Jamaican	US\$	Euro	Total
	J\$'000	J\$'000	J\$'000	J\$'000
Assets				
Loans receivable	2,711,997	4,975,211	-	7,687,208
Investment securities	-	658,463	-	658,463
Reverse repurchase agreements	19,679	211,722	-	231,401
Receivables	76,595	200,336	-	276,931
Cash and short term deposits	3,294,719	792,195	-	4,086,914
Other	2,597,638	-	-	2,597,638
Total assets	8,700,628	6,837,927	-	15,538,555
Liabilities				
Payables	55,969	-	-	55,969
Short term loans	-	203,400	-	203,400
Long term loans	5,908,186	-	13,961,930	19,870,116
Other	126,551	-	-	126,551
Total liabilities	6,090,706	203,400	13,961,930	20,256,036
Net position	2,609,922	6,634,527	(13,961,930)	(4,717,481)
	2006			
Total assets	4,858,881	6,206,251	-	11,065,132
Total liabilities	(6,547,605)	(7,308,241)	-	(13,855,846)
Net position	(1,688,724)	(1,101,990)	-	(2,790,714)

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(i) Market risk (continued)

Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or the issuer or factors affecting all instruments traded in the market. The company is exposed to securities price risk because of investments held by the company and classified on the balance sheet as available-for-sale. Price risks arise from open positions in interest earning products which are exposed to general and specific market movements.

The company reduces this risk through diversification of investments.

(ii) 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 is 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.

(iii) Liquidity risk

Liquidity risk is the risk that an enterprise 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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(iii) Liquidity risk (continued)

	2007					
	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	-	-	-	7,687,208	-	7,687,208
Investment securities	-	204,795	419,886	33,782	-	658,463
Reverse repurchase agreements	-	231,401	-	-	-	231,401
Receivables	-	276,931	-	-	-	276,931
Cash and short term deposits	45,143	4,041,771	-	-	-	4,086,914
Other	-	-	-	247,610	2,350,028	2,597,638
Total assets	45,143	4,754,898	419,886	7,968,600	2,350,028	15,538,555
Liabilities						
Payables	-	55,969	-	-	-	55,969
Short term loans	-	-	-	-	203,400	203,400
Long term loans	-	-	-	19,870,116	-	19,870,116
Other	-	126,551	-	-	-	126,551
Total liabilities	-	182,520	-	19,870,116	203,400	20,256,036
Net Liquidity Gap	45,143	4,572,378	419,886	(11,901,516)	2,146,628	(4,717,481)
Cumulative Liquidity Gap	45,143	4,617,521	5,037,407	(6,864,109)	(4,717,481)	
2006						
Total assets	6,412	1,047,643	671,360	6,907,634	2,432,083	11,065,132
Total liabilities	(2,416,199)	(817,229)	(10,425,933)	-	(196,485)	(13,855,846)
Net Liquidity Gap	(2,409,787)	230,414	(9,754,573)	6,907,634	2,235,598	(2,790,714)
Cumulative Liquidity Gap	(2,409,787)	(2,179,373)	(11,933,946)	(5,026,312)	(2,790,714)	

(iv) Cash flow 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

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

4. Financial Risk Management (Continued)

(iv) Cash flow interest rate risk (continued)

The company manages its interest rate risk by constantly reviewing rates and borrowing in foreign currency rather than local currency.

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.

	2007				
	Up to One Year	One to Five Years	Over 5 Years	Non- Interest Bearing	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Assets					
Loans receivable	-	-	7,471,149	216,059	7,687,208
Investment securities	193,700	419,886	33,782	11,095	658,463
Reverse repurchase agreements	230,141	-	-	1,260	231,401
Receivables	-	-	-	276,931	276,931
Cash and short term deposits	4,083,263	-	-	3,651	4,086,914
Other	-	-	-	2,597,638	2,597,638
Total assets	4,507,104	419,886	7,504,931	3,106,634	15,538,555
Liabilities					
Payables	-	-	-	55,969	55,969
Short term loans	-	-	-	203,400	203,400
Long term loans	-	-	19,671,606	198,510	19,870,116
Other	-	-	-	126,551	126,551
Total liabilities	-	-	19,671,606	584,430	20,256,036
On balance sheet interest sensitivity gap	4,507,104	419,886	(12,166,675)	2,522,204	(4,717,481)
Cumulative interest sensitivity gap	4,507,104	4,926,990	(7,239,685)	(4,717,481)	
2006					
Total assets	1,037,357	671,360	6,907,634	2,448,781	15,406,191
Total liabilities	(2,583,973)	-	(10,425,933)	(845,940)	(13,855,846)
On balance sheet interest sensitivity gap	(1,546,616)	671,360	(3,518,299)	1,602,841	(2,790,714)
Cumulative interest sensitivity gap	(1,546,616)	(875,256)	(4,393,555)	(2,790,714)	

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

5. Fair Value Estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the company is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

- (a) The amounts included in the financial statements for cash and bank balances, short term investments, reverse repurchase agreements, receivables, payables and short term loans reflect their approximate fair value because of the short term maturity of these instruments;
- (b) 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;
- (c) 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.;
- (d) As explained in Note 23(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:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets				
Held-to-maturity investment securities	57,572	57,321	188,719	186,162

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

6. Expenses by Nature

	2007	2006
	\$'000	\$'000
Accommodation, travel and entertainment	1,504	16,548
Advertising and public relations	208	1,909
Auditors' remuneration -		
Current year	2,100	1,500
Prior year	400	300
Depreciation (Note 11)	54,964	49,896
Delay compensation (Note 18)	250,393	198,000
Donations	621	4,415
Gain on disposal of fixed assets	(6,291)	-
Legal and professional fees	42,783	66,467
Relocation expenses	-	540
Repairs and maintenance	60	230
Staff costs (Note 7)	18,873	14,338
Technical fees	18,000	28,003
Toll subsidies (Note 18)	101,555	-
Utilities	5,272	4,477
Other operating expenses	1,714	3,222
	<u>492,156</u>	<u>389,845</u>

Included in accommodation expense are expenses amounting to \$740,000 (2006 - \$13,000,000) relating to travel in respect of the negotiation of new loan facilities from the Government of Venezuela.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

7. Staff Costs

	2007	2006
	\$'000	\$'000
Salaries and wages	17,524	13,260
Statutory contributions	1,066	798
Other	283	280
	<u>18,873</u>	<u>14,338</u>

The number of persons employed by the company on a full - time basis at the end of the year was 7 (2006- 8).

8. Finance Income

	2007	2006
	\$'000	\$'000
Foreign exchange gains	387,218	350,350
Interest income -		
Investment securities and short term deposits	290,223	185,623
Loans receivable	612,035	470,541
Reverse repurchase agreements	13,017	11,086
	<u>915,275</u>	<u>667,250</u>
Other	(10,757)	(5,421)
	<u>1,291,736</u>	<u>1,012,179</u>

9. Finance Costs

	2007	2006
	\$'000	\$'000
Foreign exchange losses	869,720	395,140
Interest on loans	1,454,007	878,096
Other	4,375	28,491
	<u>2,328,102</u>	<u>1,301,727</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

10. Taxation

- (a) Taxation in the profit and loss account is as a result of deferred income tax (Note 12).
- (b) The tax on profit as reported differs from the theoretical amount that would arise using the basic statutory rate of 33½% as follows:

	2007	2006
	\$'000	\$'000
Loss before taxation	<u>(1,896,862)</u>	<u>(1,249,195)</u>
Tax calculated at a tax rate of 33½%	(632,287)	(416,398)
Adjusted for the effect of:		
Expenses not deductible for tax purposes	135,201	129,116
Inflation compensation on Real Return Convertible Bonds	122,780	189,934
Deferred tax not recognised on tax losses (Note 12)	377,050	-
Other net adjustments and allowances	<u>(4,725)</u>	<u>(936)</u>
Tax credit	<u>(1,981)</u>	<u>(98,284)</u>

Subject to agreement with the Taxpayer Audit and Assessment Department, losses of approximately \$1,131,151,000 (2006 - \$6,963,000) are available for set off against future taxable profits and can be carried forward indefinitely.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

11. Fixed Assets

	Land, Road Construction and Leasehold Property & Improvements \$'000	Office Furniture, Fixtures & Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Total \$'000
2007					
Cost -					
1 April 2006	2,338,643	4,336	1,464	8,082	2,352,525
Additions	261,781	16,014	208	-	278,003
Disposals	(143,750)	-	-	-	(143,750)
31 March 2007	2,456,674	20,350	1,672	8,082	2,486,778
Depreciation -					
1 April 2006	79,104	1,758	1,110	6,105	88,077
Charge for the year	52,072	1,177	100	1,615	54,964
Relieved on disposal	(6,291)	-	-	-	(6,291)
31 March 2007	124,885	2,935	1,210	7,720	136,750
Net Book Value -					
31 March 2007	2,331,789	17,415	462	362	2,350,028
2006					
Cost -					
1 April 2005	2,064,634	4,231	5,097	8,082	2,082,044
Additions	274,009	105	374	-	274,488
31 March 2006	2,338,643	4,336	5,471	8,082	2,356,532
Depreciation -					
1 April 2005	31,951	1,335	4,412	4,490	42,188
Charge for the year	47,153	423	705	1,615	49,896
31 March 2006	79,104	1,758	5,117	6,105	92,084
Net Book Value -					
31 March 2006	2,259,539	2,578	354	1,977	2,264,448

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

12. 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:

	2007 \$'000	2006 \$'000
At 1 April	167,635	32,240
Credited to the profit and loss (Note 10)	1,981	98,284
Charged to shareholders' equity	15,944	37,111
At 31 March	<u>185,560</u>	<u>167,635</u>

Deferred income tax assets are due to the following items:

	2007 \$'000	2006 \$'000
Deferred income tax assets -		
Available-for-sale investment securities	89,675	73,731
Interest payable	63,246	141,031
Tax losses carried forward	-	2,321
Unrealised foreign exchange losses	110,736	16,631
	<u>263,657</u>	<u>233,714</u>
Deferred income tax liabilities -		
Accelerated tax depreciation	(740)	(704)
Interest receivable	(77,357)	(65,375)
	<u>(78,097)</u>	<u>(66,079)</u>
	<u>185,560</u>	<u>167,635</u>

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

	2007 \$'000	2006 \$'000
Interest payable	(77,786)	72,591
Tax losses carried forward	(2,321)	2,321
Unrealised foreign exchange losses	94,106	39,615
Accelerated tax depreciation	(36)	491
Interest receivable	(11,982)	(16,734)
	<u>1,981</u>	<u>98,284</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

12. Deferred Income Taxes (Continued)

These balances include the following:

	2007 \$'000	2006 \$'000
Deferred tax assets to be settle after more than 12 months	200,411	73,731
Deferred tax liabilities to be recovered after more than 12 months	740	704

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The company did not recognise deferred income tax assets of \$377,050,000 in respect of accumulated tax available (Note 10), because the company is not expected to make taxable profits in the foreseeable future.

13. Loans Receivable

These are due from Transjamaican Highway Limited and include:

	2007 \$'000	2006 \$'000
Loans -		
(a) Subordinated Loan	1,888,446	1,661,120
(b) Grantor Procured Debt	5,582,703	5,067,601
	7,471,149	6,728,721
Interest receivable -		
(a) Subordinated Loan	62,573	50,679
(b) Grantor Procured Debt	153,486	128,234
	216,059	178,913
	7,687,208	6,907,634

- (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) Drawdown's by the concessionaire were nil as at 31 March 2007 (2006 – US\$1,867,000 and J\$118,667,000) 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.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

13. Loans Receivable (Continued)

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:

- (a) On the SLA loan at LIBOR plus 4.5% per annum;
- (b) 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 \$181,316,000 (2006 - \$120,718,000), while that for the GPD loan amounted to \$429,757,000 (2006 - \$310,542,000).

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 18). No drawdowns on this facility had been made at 31 March 2007 by the concessionaire (Note 17). 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. This amount has been guaranteed by the Development Bank of Jamaica Limited in the event that the amount cannot be paid by the company.

14. Investment Securities

	2007 \$'000	2006 \$'000
Held-to-maturity securities -		
Wachovia Bank -		
Debt Service Reserve Account - 5.22%	-	97,403
Offshore Escrow Reserve Account - 5.22%	57,572	91,316
	<u>57,572</u>	<u>188,719</u>
Available-for-sale securities -		
Wachovia Bank -		
Offshore Escrow Reserve Account (2.875% - 7.375%)	589,796	937,751
	<u>647,368</u>	<u>1,126,470</u>
Interest receivable	11,095	16,437
	<u>658,463</u>	<u>1,142,907</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

14. Investment Securities (Continued)

Investment securities comprise US\$ denominated securities held in a Debt Service Reserve Account (DSRA) and an Offshore Escrow Reserve Account (Escrow Reserve), which were 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 was 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 23(b)).

During the year, the principal balance with Wachovia Bank was fully repaid (Note 23 (b)).

15. 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.

Reverse repurchase agreements include interest receivable of \$1,260,000 (2006 - \$297,000).

The weighted effective interest rate on reverse repurchase agreements during the year was 7.65% (2006 - 12.56%).

16. Receivables

	2007	2006
	\$'000	\$'000
Deposit on land acquisitions	9,855	7,155
Deposit on Dyke Road fishing beach	309	-
Receivable from Development Bank of Jamaica Limited (a)	54,545	-
Receivable from Ministry of Transport & Works (b)	64,142	-
Receivable from Port Authority Jamaica Limited	-	6,476
Receivable from Transjamaican Highway Limited (c)	145,791	-
Other	2,289	2,137
	<u>276,931</u>	<u>15,768</u>

(a) This balance represents funds received by Development Bank of Jamaica Limited from Banco de Desarrollo Economico y Social de Venezuela (Bandes) to be on-lent to the company. These funds were not invested at year end. Interest rate earned on this amount was 5%.

(b) The company acted as facilitator in respect of road rehabilitation projects on behalf of the Ministry of Transport and Works. The balance receivable represents expenses incurred by the company in excess of funds received.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

16. Receivables (Continued)

- (c) This balance represents credit notes issued by Transjamaican Highway Limited in respect of the Portmore Causeway Delay claim that was previously paid by the company.

17. Cash and Short Term Deposits

	2007	2006
	\$'000	\$'000
Cash at bank and in hand	45,143	6,412
Short term deposits	4,038,120	532,220
	4,083,263	538,632
Interest receivable	3,651	480
	<u>4,086,914</u>	<u>539,112</u>

Included in short term deposits are:

- (a) 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. In 2006, an amount of \$276,474,000 was being held in escrow with National Commercial Bank Jamaica Limited under the terms of an Escrow Agreement (Note 13).

During the year, the funds held in escrow with of the National Commercial Bank Jamaica Limited were used to finance payments made to the developer of the Highway 2000 project, Transjamaican Highway Limited. The company has undertaken to replace this amount into the escrow account within 120 days demand of Transjamaican Highway Limited as stated in the Portmore Causeway Compensation Agreement.

- (b) A restricted deposit of \$356,853,000 (2006 - \$249,717,000) which represents a portion of the funds deposited in the Escrow Reserve (Note 13(b)).
- (c) Pursuant to the loan agreement between the DBJ and the company, it was acknowledged that DBJ will on-lend to the company funds obtained from Bandes and that the loan shall be available and disbursed to the company as of the date that the funds are received by DBJ from Bandes.

Amounts valued at \$3,580,712,000 represent funds invested by DBJ on behalf of the company as permitted by the loan agreement between DBJ and the company. These investments are registered in DBJ's name.

The weighted effective interest rate on short term deposits during the year was 11.6% (2006 – 5.73%). These investments have an average maturity of 29 days (2006 -31 days).

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

17. Cash and Short Term Deposits (Continued)

Cash and cash equivalents include the following for the purpose of the cash flow statement –

	2007	2006
	\$'000	\$'000
Cash at bank and in hand	45,143	6,412
Short term deposits	3,684,908	-
Repurchase agreements	231,401	-
	<u>3,961,452</u>	<u>6,412</u>

18. Payables

	2007	2006
	\$'000	\$'000
Accrued expenses	53,077	366,892
Due to Development Bank of Jamaica Limited	2,655	155,626
Other	237	386
	<u>55,969</u>	<u>522,904</u>

Included in accrued expenses for 2007 is an amount of \$42,891,000 due to Transjamaican Highway Limited in respect of toll subsidies which represents financial losses arising from charging adjusted toll rates.

Included in accrued expenses for 2006 is an amount of \$198,000,000 due to Transjamaican Highway Limited in respect of the delay in the opening of the Portmore Causeway section of the highway.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

19. Short Term Loans

	2007 \$'000	2006 \$'000
(a) Development Bank of Jamaica Limited -		
US\$26,075,000 loan at 7.5%	-	1,707,803
J\$ denominated loan at 15%	-	425,087
	-	2,132,890
Interest payable -		
US\$ denominated loans	-	181,366
J\$ denominated loan	-	101,942
	-	283,308
	-	2,416,198
(b) Barita Investments Limited (Note 23) -		
US\$2,500,000 due 30 June 2006	-	163,738
Interest payable	-	4,037
	-	167,775
(c) Ministry of Finance and Planning		
US\$3,000,000	203,400	196,485
	<u>203,400</u>	<u>2,780,458</u>

- (a) The loans with Development Bank of Jamaica Limited were secured by promissory notes issued by the company. The loans were fully repaid during the year.
- (b) The loan was secured by promissory notes issued by the company at 10% per annum and was fully repaid during the year.
- (c) An amount of US\$3,000,000 was received from the Ministry of Finance and Planning during 2006 to assist in the financing of the Portmore Causeway.

Currently, there are no repayment terms, and no amounts being charged for interest

20. Share Capital

	2007 \$'000	2006 \$'000
Authorised and issued -		
1,000,000 ordinary shares	<u>1,000</u>	<u>1,000</u>

The company did not elect, under section 37 of the Companies Act 2004, to maintain its shares at par or nominal value. As of 1 August 2005, therefore, the issued shares of the company are deemed to have been converted to shares without a nominal or par value.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

21. 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 23(a)). No transfer has been made in the current year due to the loss incurred.

22. Fair Value Reserve

This represents the unrealised gains or losses on the revaluation of available-for-sale investments.

23. Long Term Loans

	2007 \$'000	2006 \$'000
(a) Real Return Convertible Bonds -		
J\$3,552,000,000 due 6 February 2032	5,869,801	5,499,286
Interest payable	38,385	36,274
	5,908,186	5,535,560
(b) Wachovia Bank, National Association -		
US\$75,000,000, due 23 January 2019	-	4,805,352
Interest payable	-	85,021
	-	4,890,373
(c) Development Bank of Jamaica/Venezuela -		
€153,290,000	13,808,905	-
Interest payable	153,025	-
	13,961,930	-
	<u>19,870,116</u>	<u>10,425,933</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

23. Long Term Loans (Continued)

- (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 13).

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:

	2007	2006
	\$'000	\$'000
Face value of bonds	3,552,000	3,552,000
Inflation compensation	2,371,910	2,003,569
Less: Transaction costs	<u>(54,109)</u>	<u>(56,283)</u>
	5,869,801	5,499,286
Interest payable	38,385	36,274
	<u>5,908,186</u>	<u>5,535,560</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

23. Long Term Loans (Continued)

- (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 5.73%.

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 year, interest on the Base Rate Loan will accrue at base rate plus 1%.

Of the aggregate loan proceeds obtained, US\$31,255,000 was used to fund the Offshore Escrow Account and the DSRA (Note 14(b)).

During the year, the principal balance was fully repaid via funds received from a facility negotiated by the Development Bank of Jamaica Limited with Banded (Note 23(c)).

- (c) This loan represents a new facility negotiated with Banco de Desarrollo Economico y Social de Venezuela (Banded) through Development Bank of Jamaica Limited to repay loans incurred to finance the Highway 2000 project and to provide working capital to the company. The loan is supported by promissory notes issued by the company to DBJ.

The total loan facility is €204,386,000 and the amount drawn during the year amounted to €153,290,000.

The principal amount for each disbursement is repayable in sixteen equal quarterly payments of principal beginning on the last business day of the first quarter in the fifteenth year after the disbursement of the loan. Interest rate on the loan is fixed at 7.75% per annum and is payable semi-annually in arrears on 15 January and 15 July of each year.

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

23. Long Term Loans (Continued)

(c) (Continued)

The loan balance is recognised in the balance sheet as follows:

	2007 \$'000
Face value of loan	13,851,975
Less: Transaction costs	<u>(43,070)</u>
	13,808,905
Interest payable	<u>153,025</u>
	<u><u>13,961,930</u></u>

24. Related Party Balances and Transactions

Related companies include Government related entities and ministries.

(a) Year end balances with related parties are as follows:

	2007 \$'000	2006 \$'000
Receivable from related parties -		
Development Bank of Jamaica	58,233	-
Ministry of Finance and Planning	64,142	-
Port Authority of Jamaica	<u>-</u>	<u>6,476</u>
Payable to related parties -		
Development Bank of Jamaica Limited -		
(i) Payables	2,655	2,416,199
(ii) Short term loans	-	153,470
(iii) Long term loans	<u>13,961,930</u>	<u>-</u>
Ministry of Finance and Planning -		
Short term loan	<u>203,400</u>	<u>196,485</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

24. Related Party Balances and Transactions (Continued)

(b) Transactions with related parties are as follows:

	2007	2006
	\$'000	\$'000
Development Bank of Jamaica Limited -		
Interest income	<u>1,741</u>	<u>-</u>
Expenses -		
Interest expense	539,776	197,738
Professional fees	<u>7,292</u>	<u>12,000</u>

(c) Key management compensation

	2007	2006
	\$'000	\$'000
Salaries and other short-term employee benefits	6,160	5,600
Statutory contributions	340	321
Pension benefits	<u>1,400</u>	<u>1,288</u>
	<u>7,900</u>	<u>7,209</u>
Directors' emoluments -		
Fees	-	-
Management remuneration	<u>7,900</u>	<u>7,209</u>

National Road Operating and Constructing Company Limited

Notes to the Financial Statements

31 March 2007

(expressed in Jamaican dollars unless otherwise indicated)

25. Cash Flows from Operating Activities

	2007	2006
	\$'000	\$'000
Net loss	(1,894,881)	(1,150,911)
Adjustments for:		
Depreciation	54,964	49,896
Gain of disposal of fixed assets	(6,291)	-
Interest income	(915,275)	(667,250)
Interest expense	1,454,007	878,096
Tax credit	(1,981)	(98,284)
Effect of exchange rate on foreign balances	185,149	46,046
Inflation compensation on Real Return Convertible Bonds	368,340	569,802
	<u>(755,968)</u>	<u>(372,605)</u>
Changes in operating assets and liabilities:		
Receivables	(261,163)	75,393
Taxation recoverable	(62,050)	-
Payables	(323,185)	(211,412)
Cash used in by operating activities	<u>(1,402,366)</u>	<u>(508,624)</u>