

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

FINANCIAL STATEMENTS

MARCH 31, 2012



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Chartered Accountants
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INDEPENDENT AUDITORS' REPORT

To the Members of
National Road Operating and Constructing Company Limited

Report on the Financial Statements

We have audited the financial statements of National Road Operating and Constructing Company Limited ("the company"), set out on pages 3 to 35, which comprise the statement of financial position as at March 31, 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including our assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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 control. 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.



To the Members of
National Road Operating and Constructing Company Limited

Report on the Financial Statements, cont'd

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as at March 31, 2012, and of its financial performance, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Jamaican Companies Act.

Report on additional matters as required by the Jamaican Companies Act

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

Chartered Accountants
Kingston, Jamaica

June 13, 2012

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Statement of Comprehensive Income

Year ended March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	<u>Notes</u>	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Revenue	7	-	-
Administrative and general expenses	8	(310,235)	(384,032)
Operating loss		(310,235)	(384,032)
Impairment loss	10	-	(10,467,893)
Gain on sale of bonds	11	7,743,850	-
Miscellaneous income		316	3,266
Finance income	12	196,479	258,746
Finance costs	13	(4,310,903)	(2,934,343)
Inflation compensation on Real Return Convertible Bonds	21(a)	(647,409)	(886,542)
Profit/(loss) before income tax		2,672,098	(14,410,798)
Income tax credit	14	-	165,086
Profit/(loss) for the year, being total comprehensive income/(loss) for the year		<u>2,672,098</u>	<u>(14,245,712)</u>

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

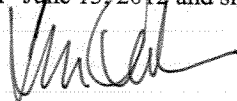
Statement of Financial Position

March 31, 2012

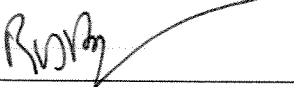
(Expressed in Jamaican dollars unless otherwise indicated)

	<u>Notes</u>	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Non-current assets			
Property and equipment	15	12,724,056	12,270,596
Investment securities	16	<u>3,477,232</u>	<u>3,458,101</u>
		<u>16,201,288</u>	<u>15,728,697</u>
Current assets			
Income tax recoverable		108,638	88,300
Other receivables	17	109,612	105,989
Resale agreements	18	2,522,062	-
Cash and cash equivalents		<u>5,721</u>	<u>2,922</u>
		<u>2,746,033</u>	<u>197,211</u>
Total assets		<u>18,947,321</u>	<u>15,925,908</u>
Equity			
Share capital	19	1,000	1,000
Inflation reserve	20	1,220,905	152,066
Accumulated deficit		<u>(29,460,054)</u>	<u>(31,063,313)</u>
Total equity		<u>(28,238,149)</u>	<u>(30,910,247)</u>
Non-current liabilities			
Long-term loans and advances	21	<u>45,913,015</u>	<u>45,672,180</u>
Current liabilities			
Short-term loan	22	-	400
Other payables	23	1,266,124	1,157,244
Income tax payable		<u>6,331</u>	<u>6,331</u>
		<u>1,272,455</u>	<u>1,163,975</u>
Total liabilities		<u>47,185,470</u>	<u>46,836,155</u>
Total equity and liabilities		<u>18,947,321</u>	<u>15,925,908</u>

The financial statements on pages 3 to 35 were approved for issue by the Board of Directors on June 13, 2012 and signed on its behalf by:


 _____ Managing Director

Ivan Anderson


 _____ Director

Rezworth Burchenson

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Statement of Changes in Equity

Year ended March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	<u>Share capital</u> \$'000 (Note 19)	<u>Inflation reserve</u> \$'000 (Note 20)	<u>Accumulated deficit</u> \$'000	<u>Total</u> \$'000
Balances at March 31, 2010	1,000	152,066	(16,817,601)	(16,664,535)
Total comprehensive loss:				
Loss for the year	-	-	(14,245,712)	(14,245,712)
Balances at March 31, 2011	1,000	152,066	(31,063,313)	(30,910,247)
Total comprehensive income:				
Profit for the year	-	-	2,672,098	2,672,098
Transfer (note 20)	-	1,068,839	(1,068,839)	-
Balances at March 31, 2012	<u>1,000</u>	<u>1,220,905</u>	<u>(29,460,054)</u>	<u>(28,238,149)</u>

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Statement of Cash Flows

Year ended March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

	<u>Notes</u>	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Cash flows from operating activities			
Profit/(loss) for the year		2,672,098	(14,245,712)
Adjustments for:			
Depreciation	15	52,352	52,480
Interest income		(89,017)	(713,518)
Interest expense	13	3,098,518	3,110,729
Income tax credit		-	(165,086)
Impairment loss		-	10,467,893
Effect of exchange rate movements on foreign currency			
long-term loans and advances, receivables and payables		1,069,209	287,314
Inflation compensation on Real Return Convertible Bonds		<u>647,409</u>	<u>886,542</u>
		7,450,569	(319,358)
Changes in operating assets and liabilities:			
Short-term loan		(400)	(4,590)
Other receivables		1,050	209,061
Income tax recoverable		(20,338)	(1,296)
Other payables		(270,712)	(202,770)
Cash used by operating activities		<u>7,160,169</u>	<u>(318,953)</u>
Cash flows from investing activities			
Acquisition of land and construction of roads	15	(494,252)	(612,580)
Purchase of other property and equipment	15	(11,560)	(270)
Resale agreements		(2,586,085)	165,853
Investment securities		21,349	9,786
Long-term investments		-	(644,391)
Interest received		<u>84,344</u>	<u>7,632</u>
Cash used by investing activities		<u>(2,986,204)</u>	<u>(1,073,970)</u>
Cash flows from financing activities			
Long-term loans and advances received		(1,444,355)	4,178,107
Interest paid		<u>(2,723,853)</u>	<u>(2,785,096)</u>
Cash provided by financing activities		<u>(4,168,208)</u>	<u>1,393,011</u>
Increase in cash and cash equivalents		5,757	88
Effect of exchange rate movements on cash and cash equivalents		(2,958)	(2,225)
Cash and cash equivalents at beginning of year		<u>2,922</u>	<u>5,059</u>
Cash and cash equivalents at end of year		<u><u>5,721</u></u>	<u><u>2,922</u></u>

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

1. Identification and principal activities

- (a) National Road Operating and Constructing Company Limited ("the company" or "NROCC") is a public limited company incorporated and domiciled in Jamaica. The company 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 (dated November 21, 2001 and expiring November 20, 2036) with Transjamaican Highway Limited ("the Concessionaire"), which is a limited liability company registered under the Jamaican Companies Act, and owned by Bouygues Travaux Publics S.A., Autoroutes du Sud de la France, Société de Promotion et de Participation pour la Coopération Economique S.A., all of France, and International Finance Corporation.
- (d) The company has also entered into an agreement, dated March 12, 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. Basis of preparation

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and comply with the relevant provisions of the Jamaican Companies Act.

New, revised and amended standards and interpretations effective in the current year

Certain new, revised and amended standards and interpretations have been published that became effective during the current financial year. The company has assessed their relevance and has concluded that their adoption had no significant effect on the financial statements, except that the amendment to IFRS 7, *Financial Instruments: Disclosures*, led to some changes in the qualitative and quantitative disclosures relating to credit risk. The changes are reflected in note 5(a) to these financial statements, viz:

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

New, revised and amended standards and interpretations effective in the current year (continued)

- (i) Disclosure of the amount of the Company's 'maximum exposure to credit risk without considering any collateral held' is now made only if the carrying amount of the financial asset does not already reflect such exposure.
- (ii) Previously, the Company was required to disclose the existence and nature of collateral held as security and other credit enhancements in respect of a financial instrument. With the amendment, it is now, in addition, required to disclose the financial effect of such collateral.

New, revised and amended standards and interpretations that are not yet effective

At the date of authorisation of these financial statements, certain new, revised and amended standards and interpretations which have been issued were not yet effective and had not been early adopted by the company. The company has assessed their relevance and has determined that the following may be relevant to the company when they become effective:

- IAS 1, *Presentation of Financial Statements*, has been amended by the issue of a document entitled *Presentation of Items of Other Comprehensive Income*, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles.
- IFRS 7, *Financial Instruments: Disclosures*, has been amended by the issue of "Amendment to IFRS 7, *Disclosures – Transfer of Financial Assets*", which is effective for annual reporting periods beginning on or after July 1, 2011. The amendment requires disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities and to evaluate the nature of and risks associated with the entity's continuing involvement in these derecognised assets.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

New, revised and amended standards and interpretations that are not yet effective (continued)

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2015 (previously January 1, 2013), retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It also includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement*, on the recognition and de-recognition of financial assets and financial liabilities.
- IFRS 13, *Fair Value Measurement* which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

The company is assessing the impact the new, revised and amended standards and interpretations will have on its financial statements when they become effective.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, modified for the inclusion of available-for-sale securities at fair value.

(c) Functional and presentation currency

The financial statements are presented in Jamaican dollars, which is the functional currency of the company, unless otherwise indicated.

(d) Assumptions, estimates and judgements

The preparation of financial statements in conformity with IFRS 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 management's best knowledge of current events and actions, 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 4.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

2. Basis of preparation (continued)

(e) Going concern basis

The financial statements have been prepared on the going concern basis, notwithstanding that the company, although reporting a profit for the year under review, following losses for preceding years, had a significant accumulated deficit as at the reporting date. The appropriateness of this basis is dependent on the ability of the company to obtain financing and, ultimately, on future profitable operations. The Government of Jamaica has indicated that it will continue to provide such financial assistance as the company may require to meet its obligations for the foreseeable future. Management, therefore, is of the opinion that the preparation of the financial statements on the going concern basis continues to be appropriate.

3. Summary of significant accounting policies

(a) Revenue recognition

Revenue, which arises from road tolls as described in note 7, are recognised on the accrual basis.

(b) Finance income and finance costs

(i) Finance income

Finance income comprises interest income and foreign currency gains.

Interest income is recognised in profit or loss for all interest-earning instruments on the accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investments and amortisation of discount on instruments brought at other than par.

(ii) Finance costs

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(c) Employee benefits

Employee benefits are all forms of consideration given by the company in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions and vacation leave; as well as long-term employee benefits such as termination benefits.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Summary of significant accounting policies (continued)

(c) Employee benefits (continued)

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Long-term benefits are not considered material and are charged off when incurred.

(d) Foreign currency translation

Foreign currency transactions are converted at the exchange rates prevailing at the dates of the transactions. At the year-end date, monetary assets and liabilities denominated in foreign currencies are translated using the closing exchange rate. Exchange differences arising from the settlement of transactions 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 profit or loss.

(e) Income taxes

Income tax expense comprises current and deferred tax charges.

Current income tax charges or credits are based on taxable profit for the year, which differs from the profit or loss 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 as at year-end date.

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

(f) Property and equipment

Property and equipment 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 replaced parts is derecognised. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Summary of significant accounting policies (continued)

(f) Property and equipment (continued)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write down their costs to their estimated residual values over their expected useful 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 November 21, 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 year-end date.

The carrying amount of the company's property and equipment is reviewed at each reporting date to determine whether there is any indication of impairment. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. The recoverable amount is assessed when there is an indication of impairment.

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

(g) Financial instruments

A financial instrument is any contract that gives rise to 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 purposes for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012*(Expressed in Jamaican dollars unless otherwise indicated)***3. Summary of significant accounting policies (continued)****(g) Financial instruments (continued)*****Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Available-for-sale financial assets comprise preference shares.

Held to maturity financial assets

Held-to-maturity investments are those with fixed or determinable payment and fixed maturity and which the company has the positive intent and ability to hold to maturity. These investments are measured initially at cost and subsequently at amortised cost, less impairment losses.

Held-to-maturity investments are recognised/derecognised on the day they are transferred to/by the company. Gains and losses arising from disposal of investments are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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, respectively, in the statement of financial position.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

3. Summary of significant accounting policies (continued)

(h) Cash and cash equivalents

Cash comprises cash in hand and demand and call deposits with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These include instruments maturing within 90 days of the date of acquisition. Bank overdrafts that are repayable on demand and form an integral part of the company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Resale agreements

Resale agreements are short-term contracts under which the company buys securities and simultaneously agrees to resell them on a specified date and at a specified price. Resale agreements are accounted for as short-term collateralised lending – i.e., the securities purchased are reported not as securities but as receivables, and are carried in the statement of financial position at amortised cost.

The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the agreements, using the effective interest method, and is included in interest income.

(j) Other 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 profit or loss over the period of the borrowings using the effective interest method.

Where convertible bonds are issued, the fair value of the liability portion of the proceeds of issue is determined using a market interest rate for an equivalent bond without the conversion feature. 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 of issue is allocated to the conversion option, which is included in equity. The carrying 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 and carried at cost.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

4. Key sources of estimation uncertainty and critical accounting judgements

Judgements, assumptions 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) Uncertainties arising from significant assumptions and estimates

(i) Residual value and expected useful life of property and equipment

The residual value and the expected useful life of an asset are reviewed at least at each reporting date, and if expectations differ from previous estimates, the change is accounted for. The useful life of an asset is defined in terms of the asset's expected utility to the company.

(ii) Allowances for credit losses

Financial assets accounted for at amortised cost are evaluated for impairment on a pre-established basis.

The component of the total allowance for impairment that is specific applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about the counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are individually approved by management.

(iii) Determination of fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 6. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of estimation depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

In the process of applying the company's accounting policies, management has not made any critical accounting judgements.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Financial risk management

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk, and other price 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.

The Board of Directors is ultimately responsible for the establishment and oversight of the company's risk management framework. The Board is assisted by Development Bank of Jamaica Limited (DBJ) which, under the terms of a financial management agreement, implements and monitors risk management policies and makes decisions on financial matters on a daily basis.

(a) Credit risk

The company takes on exposure to credit risk, which is the risk that its counterparties will cause a financial loss to the company by failing to discharge their contractual obligations. Credit risk is the most important risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally from the company's receivables and investment activities.

Maximum exposure to credit risk

The maximum exposure to credit risk is the carrying amount of assets with such risk on the statement of financial position.

Management of credit risk

Management manages the credit risk to which it is exposed as follows:

(i) Receivables

The company's main exposure to credit risk lies in its advances to or on behalf of the Ministry of Transport and Works (MTW) i.e., 45.68% (2011: 47.24%) of receivables. Exposure to this credit risk is managed through follow up of amounts due from MTW and other debtors. The company does not obtain collateral for its receivables.

(ii) Investment securities

Because of the objectives the company is pursuing at this time and the nature of its operations, it has only a very limited holding of securities involving credit risk. Investment securities comprise corporate bonds and a non-equity investment in the form of a preference share. Such limited investments are subject to prior review and approval by the Board of Directors. Accordingly, management does not expect any counterparty to fail to meet its obligations.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Cash and cash equivalents and resale agreements

Cash and cash equivalents, and resale agreements are limited to high credit quality financial institutions.

None of the company's financial assets are considered impaired and, therefore, no provision for impairment has been made, except for investment securities for which an impairment charge of \$10,467,893,000 was made in 2011 (see note 10).

During the year there was no change in the nature of the company's exposure to credit risk or the manner in which it measures and manages this risk.

(b) Liquidity risk

Liquidity risk is the risk that the company will be unable to meet its payment obligations associated with its financial liabilities when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and ensuring the availability of funding through an adequate amount of committed credit facilities.

Liquidity risk management process

The company's liquidity management process, as carried out within the company by Development Bank of Jamaica Limited, and monitored by the Board of Directors, includes:

- (i) Monitoring future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows;
- (ii) Optimising cash returns on investments; and
- (iii) Maintaining committed lines of credit.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest and exchange rates.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Financial risk management (continued)

(b) Liquidity risk (continued)

Financial liabilities cash flows

The tables below summarise the maturity profile of the company's financial liabilities as at reporting date, based on contractual undiscounted payments.

	On Demand or Subject to Notice \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total cash flows \$'000	Carrying amount \$'000
2012							
Long-term loans	261,900	-	-	-	45,651,115	45,913,015	45,913,015
Other payables	-	1,266,124	-	-	-	1,266,124	1,266,124
Total financial liabilities	261,900	1,266,124	-	-	45,651,115	47,179,139	47,179,139
2011							
Short-term loan	400	-	-	-	-	400	400
Long-term loans	257,245	-	-	-	45,414,935	45,672,180	45,672,180
Other payables	-	1,157,244	-	-	-	1,157,244	1,157,244
Total financial liabilities	257,645	1,157,244	-	-	45,414,935	46,829,824	46,829,824

Interest to be paid has not been included in expected cash outflows as it cannot be practicably estimated.

During the year there was no change in the nature of the company's exposure to liquidity risk or the manner in which it measures and manages this risk.

Off-balance sheet items – capital commitments

At the reporting date, the company had capital commitments arising on the Mount Rosser bypass project.

The total estimated cost of the project was US\$124,400,000 (J\$10,860,120,000, using the exchange rate ruling at the reporting date). An amount of J\$331,240,000 (2011: J\$413,712,000) has been included as construction-in-progress in property and equipment (note 15) at year-end in respect of this project. At the financial year-end, the company is, therefore, contractually committed to spend a further US\$11,576,000 (J\$1,010,640,000), using the exchange rate ruling at the reporting date).

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Financial risk management (continued)

(c) Market risk

The company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by DBJ, based on guidelines set by the Board of Directors, which carries out research and monitors the price movement of financial assets on the local and international markets.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company is exposed to foreign currency risk on transactions that are denominated in currencies other than the Jamaican dollar. The main currencies giving rise to this risk are the US Dollar and Euro. The company has significant exposure to foreign currency risk.

At the financial year-end, the net foreign currency assets/(liabilities), in nominal amounts, were as follows:

	2012	
	US\$ \$'000	Euro \$'000
Assets		
Investment securities	40,000	-
Resale agreements	29,012	-
Cash and cash equivalents	<u>42</u>	<u>-</u>
Total financial assets	<u>69,054</u>	<u>-</u>
Liabilities		
Long-term loans	431,021	-
Other payables	<u>13,629</u>	<u>-</u>
Total financial liabilities	<u>444,650</u>	<u>-</u>
Net foreign currency position	<u>(375,596)</u>	<u>-</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency risk (continued)

	2011	
	US\$ \$'000	Euro \$'000
Assets		
Investment securities	40,250	-
Cash and cash equivalents	<u>33</u>	<u>-</u>
Total financial assets	<u>40,283</u>	<u>-</u>
Liabilities		
Long-term loans	73,409	204,386
Other payables	<u>5,466</u>	<u>3,705</u>
Total financial liabilities	<u>78,875</u>	<u>208,091</u>
Net foreign currency position	<u>(38,592)</u>	<u>(208,091)</u>

Sensitivity to movement in foreign exchange rates

A 2 percent (2011: 2 percent) strengthening/weakening of the Jamaican dollar against the following currencies at March 31 would have increased/(decreased) the profit by the amounts shown in the table below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	2012		2011	
	% Change in exchange rate	Effect on profit \$'000	% Change in exchange rate	Effect on loss \$'000
Change in rate of exchange of J\$ for:				
USD -				
Revaluation	2	(654,402)	2	(63,316)
Devaluation	2	654,402	2	63,316
EURO -				
Revaluation	-	-	2	502,373
Devaluation	<u>-</u>	<u>-</u>	<u>2</u>	<u>(502,373)</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

5. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Variable rate instruments expose the company to cash flow interest risk, whereas fixed interest rate instruments expose the company to fair value interest risk.

The company's interest rate risk mainly arises from its investment securities and loans payable. This risk is managed by analysing the economic environment and, as far as practicable, obtaining fixed rate loans where interest rates are expected to rise. The company is exposed to interest rate risk to the extent that the duration of its interest-bearing liabilities is longer than the duration of interest-earning financial assets.

At March 31, 2012 and 2011, the company's loans payable were fixed rate instruments.

During the year there was no change in the nature of the company's exposure to market risk or the manner in which it measures and manages this risk.

(d) Capital management

The company is not a regulated entity and, therefore, has no externally imposed capital requirements. However, the company seeks to maintain a minimum capital to safeguard its ability to continue as a going concern, so that it can continue to provide benefits to its stakeholders and support the development of its business. The company defines its capital base as share capital, capital and other reserves and retained earnings (or minus accumulated deficit). The Board's determination of what constitutes a sound capital position is informed by the mission of the company (see note 1) and the fact of its government ownership. The Board's policy is to maintain a balance between a sound capital position, the shareholders' demand for dividends, and the risks of borrowing to finance its activities. The policies in respect of capital management are reviewed from time to time by the Board of Directors.

The company has negative shareholders' equity and obtains long-term financing from various financial institutions and the Government of Jamaica.

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

6. Fair Value Estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The appropriate quoted market price to be used for financial instruments is the bid price at the reporting date.

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 reporting date. Quoted market prices or dealer quotes for similar instruments or discounted present value 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, resale agreements, other payables and short-term loans reflect their approximate fair value because of the short-term maturity of these instruments.
- (b) The fair value of substantially all of other receivables cannot practicably be determined because of the nature of these amounts.
- (c) As explained in note 21(a), the fair value of the convertible bond cannot be reliably determined. The fair value of the long term bond (9.375% Amortizing Notes due 2024) is determined by reference to prices quoted on Luxembourg Stock Exchange. As at the reporting date, the fair value was \$30,006,360,000. The fair value of loan payable to the PetroCaribe Development Fund and the Advance from the Ministry of Finance and the Public Service cannot be reliably estimated because of their terms and conditions for which similar terms and conditions are not available in the market.
- (d) The fair value of investment securities is estimated 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. The projected financial information used to determine the fair value of the preference share held in Transjamaican Highway Limited (TJH) is derived from a financial model developed by a related party, Bouygues Travaux Publics S.A. [see note 1(c)].

The classification of the fair value of financial instruments according to levels of reliability is based on the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted process included in Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie directly from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There are no financial instruments classified in Levels 1 and 2.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

6. Fair Value Estimation (continued)

(d) (Continued)

Although the company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one of the assumptions used to reasonably possible alternative assumptions would, in the case of its more significant investment security, the preference share in TJH, have the following effects:

2012		
	Change in discount rate	Effect on profit or loss S'000
Increase (percentage points)	1.5	(475,385)
Decrease (percentage points)	<u>1.5</u>	<u>583,970</u>
2011		
	Change in discount rate	Effect on profit or loss S'000
Increase (percentage points)	1.5	(466,996)*
Decrease (percentage points)	<u>1.5</u>	<u>573,665 *</u>

* Restated

The favourable and unfavourable effects of using reasonably possible alternative assumptions have been calculated by recalibrating the model values using expected cash flows and risk-adjusted discount rates. Key inputs and assumptions used in the model at March 31, 2011 include:

Discount rate

The discount rate applied to the cash flows of TJH operations is based on the risk free rate for the US Dollar bond issued by the Government of Jamaica which matures in 2036, adjusted for an equity market risk premium and other risks.

Traffic volume and toll rates

Projected total annual toll revenue is based on a twenty-five year projection of total annual vehicle traffic provided by management. Toll rates are set within a certain range, with an established ceiling, which rates cannot exceed without authorisation by Government of Jamaica.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

7. Revenue

As per clause 22 of the Concession Agreement, the Concessionaire has sole rights to revenues arising out of the collection of tolls during the concession period. However, under the terms of the Loan Conversion Agreement (and specified in more detail in Schedule 18 to the Concession Agreement), revenue in excess of a specified level shall be shared with the company. The amount to which the company will be entitled depends on the amount of the excess above the specified revenue threshold in prescribed bands, and ranges from 50% of the distributions of the Concessionaire at the lowest band up to 100% at the highest. For the year under review there were no distributions and, accordingly, no revenue was recognised.

8. Administrative and general expenses

	<u>2012</u>	<u>2011</u>
	<u>\$'000</u>	<u>\$'000</u>
Advertising and public relations	744	408
Auditors' remuneration	5,115	3,308
Depreciation (note 15)	52,352	52,480
Donations and subscriptions	176	253
Legal and other professional fees	63,510	41,099
Repairs and maintenance	1,100	1,148
Resettlement expenses:		
Compensation for crops – Mount Rosser project	1,515	5,878
Relocation expenses	32,045	17,824
Legal and other professional fees	223	799
Repairs to Government of Jamaica roads adjoining the Highway	-	140,493
Staff costs (note 9)	59,055	57,388
Technical fees	51,311	53,623
Rent	5,372	5,342
Utilities	570	669
Commitment fees	30,640	-
Other operating expenses	<u>6,507</u>	<u>3,320</u>
	<u>310,235</u>	<u>384,032</u>

9. Staff costs

	<u>2012</u>	<u>2011</u>
	<u>\$'000</u>	<u>\$'000</u>
Salaries and wages	54,082	51,913
Statutory payroll contributions	3,131	2,961
Other	<u>1,842</u>	<u>2,514</u>
Total (note 8)	<u>59,055</u>	<u>57,388</u>

10. Impairment loss

This represents the impairment loss recognised on the conversion of the long-term receivables to a single preference share in TJH (note 16).

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

11. Gain on sale of bonds

This represents a gain on settlement at full value of long-term loan payable to Development Bank of Jamaica ("DBJ") [note 21(b)] with DBJ bonds acquired at a discount during the period.

12. Finance income

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Foreign exchange gains/(losses) on financial investments	107,462	(454,772)
Interest income:		
Investment securities and short term deposits	88,987	7,518
Long-term receivables	<u>30</u>	<u>706,000</u>
	<u>196,479</u>	<u>258,746</u>

13. Finance costs

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Net foreign exchange losses/(gains) on financial liabilities	1,176,671	(180,960)
Interest on loans	3,098,518	3,110,729
Other	<u>35,714</u>	<u>4,574</u>
	<u>4,310,903</u>	<u>2,934,343</u>

14. Income tax

- (a) Income tax in the statement of comprehensive income represents deferred income tax (note 24).
- (b) The income tax on profit /(loss) as reported differs from the amount expected from applying the statutory rate of 33 $\frac{1}{3}$ %, as follows:

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Profit/(loss) before income tax	<u>2,672,098</u>	<u>(14,410,798)</u>
Income tax calculated at the statutory rate of 33 $\frac{1}{3}$ %	890,699	(4,803,599)
Adjusted for the tax effect of:		
Inflation compensation on real return convertible bonds	215,803	295,514
Disallowed expenses	<u>1,500,817</u>	<u>1,378,229</u>
Income tax charge before remission	2,607,319	1,673,743
Income tax charge remitted [note 14(c)]	(2,607,319)	(1,673,743)
Reversal of temporary differences	<u>-</u>	<u>(165,086)</u>
Income tax credit	<u>-</u>	<u>(165,086)</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

14. Income tax (continued)

- (c) By the Income Tax (National Road Operating and Constructing Company Limited) (Remission) Notice, 2011, the Minister of Finance and the Public Service, with effect from February 8, 2011, remitted the whole of the income tax which may be charged or chargeable on any income, gains, or profits derived by the company in connection with or arrangement of the establishment, development, financing, operation or maintenance of tolled highways in Jamaica, including any investment income or gains derived in the ordinary course of conducting such activities.

15. Property and equipment

	Land, Roads, Leasehold Property & Improvements \$'000	Office Furniture, Fixtures & Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Construction In Progress \$'000	Total \$'000
Cost:						
March 31, 2010	2,821,705	4,134	7,609	3,459	9,678,987	12,515,894
Additions	-	230	40	-	612,580	612,850
Transfers	-	-	-	-	(515,513)	(515,513)
March 31, 2011	2,821,705	4,364	7,649	3,459	9,776,054	12,613,231
Additions	2,248	1,847	577	6,888	494,252	505,812
March 31, 2012	2,823,953	6,211	8,226	10,347	10,270,306	13,119,043
Depreciation:						
March 31, 2010	278,252	2,870	5,574	3,459	-	290,155
Charge for the year	50,959	411	1,110	-	-	52,480
March 31, 2011	329,211	3,281	6,684	3,459	-	342,635
Charge for the year	50,992	471	773	116	-	52,352
March 31, 2012	380,203	3,752	7,457	3,575	-	394,987
Net Book Value						
March 31, 2012	2,443,750	2,459	769	6,772	10,270,306	12,724,056
March 31, 2011	2,492,494	1,083	965	-	9,776,054	12,270,596
March 31, 2010	2,543,453	1,264	2,035	-	9,678,987	12,225,739

Construction in progress comprises the cost of work being done to construct the Mount Rosser bypass.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

16. Investment securities

	<u>2012</u> \$'000	<u>2011</u> \$'000
Held to maturity:		
AIC (Barbados) Bonds	-	21,349
Available-for-sale:		
Preference share	<u>3,477,232</u>	<u>3,436,752</u>
	<u>3,477,232</u>	<u>3,458,101</u>

The rights and restrictions attaching to the preference share include the following:

- (a) 50% of the dividend declared and paid during the period commencing on Financial Close 1B and ending upon termination of the concession agreement [note 1(c)] (the “participation period”), such payment to be made contemporaneously with the payment of the remaining 50%;
- (b) No entitlement to attend or vote at meetings of the members of TJH;
- (c) Entitlement to attend (but without participation in certain discussions or access to certain documents), but not to vote at, meetings of the directors of TJH;
- (d) Not to have the share redeemed during the participation period, except with the company’s prior written consent. The share may be redeemed after the participation period on payment of US\$1 if all accumulated dividends have been paid;
- (e) Entitlement to receive annual budget of TJH and to require explanations for over-expenditure of in excess of 10%, and in certain situations to have oversight of annual budget approvals;
- (f) Transfer of the preference share only to an acceptable transferee and only after prior written consent of TJH and certain lenders to TJH; and
- (g) No share in any surplus on a winding up of TJH other than accrued and unpaid dividends.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

17. Other receivables

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Deposit on land acquisitions [see note 5(b) for capital commitment]	28,886	51,902
Receivable from Ministry of Transport and Works:		
- Road rehabilitation work [see note (*) below]	50,072	50,072
Interest receivable	5,166	493
Other	<u>25,488</u>	<u>3,522</u>
	<u>109,612</u>	<u>105,989</u>

(*) The company acted as facilitator in respect of rehabilitation of roads adjoining the Tolled Highway on behalf of the Ministry of Transport and Works and the balance receivable represents cash advanced for project expenses in excess of funds received.

18. Resale agreements

Under collateralised resale agreements, the company obtains securities on terms which permit it to repledge or resell them to others under repurchase agreements. At March 31, 2012, securities with such permission that the company held had a fair value of \$3,270,832,998 (2011: \$Nil).

19. Share capital

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Authorised and issued - 1,000,000 ordinary shares of no par value	<u>1,000</u>	<u>1,000</u>

The settlement for the shares issued is still pending as at the financial year-end.

Each ordinary share entitles the holder to such dividend per share as is declared from time to time and entitles the holder to attend and vote at meetings of the company, in accordance with the Articles of Incorporation.

20. Inflation reserve

The company transfers a minimum of 40% of profit for 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 21(a)].

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

21. Long-term loans and advances

	<u>2012</u> \$'000	<u>2011</u> \$'000
(a) Real Return Convertible Bonds (face value J\$3,552,000,000 due February 6, 2032)	10,391,132	9,741,548
(b) Development Bank of Jamaica Limited Nil (2011 – €204,386,000)	-	24,672,458
(c) PetroCaribe Development Fund US\$77,434,889 (2011 – US\$70,408,871)	6,760,067	6,037,462
(d) Ministry of Finance and the Public Service		
Advances - (i) Interest paid on behalf of company	6,198,612	4,963,466
- (ii) Portmore Causeway	261,900	257,246
(e) Long-term bond (face value US\$294,180,000 due 2024)	22,301,304	-
	<u>45,913,015</u>	<u>45,672,180</u>
(a) This represents 4.5% convertible bonds issued by the company on February 7, 2002. The aggregate proceeds received from subscribers totalled \$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” revised 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 February 7 and August 7 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 but that loan was, in substance, replaced in 2011 by one preference share in Trans Jamaica Highway (note 16).

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

21. Long-term loans and advances (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 statement of financial position as follows:

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Face value of bonds, being proceeds of issue	3,552,000	3,552,000
Inflation compensation - at beginning of year	6,234,955	5,348,413
- amount for year	<u>647,409</u>	<u>886,542</u>
- at end of year	<u>6,882,364</u>	<u>6,234,955</u>
	10,434,364	9,786,955
Less: Unamortised transaction costs	<u>(43,232)</u>	<u>(45,407)</u>
	<u>10,391,132</u>	<u>9,741,548</u>

- (b) This was a loan facility negotiated with Banco de Desarrollo Economico y Social de Venezuela (Bandes) through Development Bank of Jamaica Limited to repay amounts borrowed to finance the Highway 2000 project and to provide working capital to the company. The loan was supported by promissory notes issued by the company to DBJ.

The principal amount for each disbursement was repayable in sixteen equal quarterly instalments 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 was variable and was payable semi-annually in arrears on February 15 and August 15 of each year.

On February 15, 2008, Development Bank of Jamaica Limited, in relation to the Bandes loan, entered into a cross-currency swap agreement with Citibank N.A. for the payment of interest on the DBJ loan. Based on the terms of the agreement, DBJ was required to pay interest on US\$310,896,000 at a rate of 8.29% (2011 – 8.29%) per annum. In exchange, Citibank N.A. would pay interest on the loan amount of €204,400,000 at a rate of 7.5% (2011 – 7.50%) per annum.

In August 2009, a Parliamentary Guarantee was issued under the provisions of the Approved Organizations and Approved Authorities Loans (Government Guarantee) Act, in respect of the loan of €204,400,000 from Development Bank of Jamaica Limited and DBJ's satisfaction of certain conditions required by Citibank N.A. under the terms of a cross-currency swap entered into on March 1, 2008, to cover the amount of the maximum Mark-to-Market (MTM) exposure of the transaction (estimated at US\$79 million).

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

21. Long-term loans and advances (continued)

(b) (Continued)

The loan balance is recognised in the statement of financial position as follows:

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Face value of loan	-	24,705,996
Less: Unamortised transaction costs	<u>-</u>	<u>(33,538)</u>
	<u>-</u>	<u>24,672,458</u>

The Development Bank of Jamaica Limited loan was repaid during the period (note 11).

- (c) This represents a loan facility totalling US\$70,600,000 negotiated with the PetroCaribe Development Fund to provide working capital to the company. In particular, the facility was negotiated to complete the Mount Rosser leg of the Highway 2000 project. The loan is supported by promissory notes issued by the company. The total amount drawn down to date is US\$77,434,889 which includes interest capitalised of US\$6,834,889.

The principal amount is repayable in semi-annual instalments, the first of which is due and payable on December 30, 2013, with final repayment due on December 30, 2028. The interest rate is 5% per annum and shall be paid semi-annually in arrears on the last day of each interest period, commencing December 30, 2011. The loan is guaranteed by hypothecation of the inflows expected of toll revenues from the Linstead to Moneague leg of Highway 2000.

- (d) (i) This represents payments made by the Ministry of Finance and the Public Service on behalf of the company. There is no agreement in place and the interest rate, repayment date and other terms of the advances have not yet been determined.
- (ii) An amount of US\$3,000,000 was received from the Ministry of Finance and the Public Service during 2006 to assist in the financing of the Portmore Causeway. There is no agreement in place and the interest rate, repayment date and other terms of the advances have not yet been determined.

These amounts have been classified as non-current or subject to notice because management is of the view that, when agreed with the Ministry of Finance and the Public Service, the repayment dates will be more than a year after the reporting date.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

21. Long-term loans and advances (continued)

- (e) This represents 9.375% Amortizing Notes due 2024 issued by the company on November 10, 2011. The aggregate proceeds received from subscribers totalled US\$294,180,000.

The payment of principal and interest on the bonds will be in United States dollars and is guaranteed by the Government of Jamaica. The bonds will rank *pari passu* with all similar future unsecured indebtedness of the company.

The principal amount is repayable in two equal instalments, the first of which is due and payable on November 10, 2023, with final repayment due on November 10, 2024. The interest is payable semi-annually in arrears on May 10 and November 10 of each year, commencing on May 10, 2012.

22. Short-term loan

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Development Bank of Jamaica Limited	<u>-</u>	<u>400</u>

This represented advances from Development Bank of Jamaica Limited and was unsecured, interest free and repayable on demand.

23. Other payables

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Accrued expenses	4,011	104,025
Due to Transjamaican Highway Limited	-	166,227
Due to Halcrow	4,045	9,691
Due to Development Bank of Jamaica Limited	181,466	175,547
Interest payable	1,073,769	699,104
Other	<u>2,833</u>	<u>2,650</u>
	<u>1,266,124</u>	<u>1,157,244</u>

Included in due to Transjamaican Highway Limited is an amount of \$Nil (2011: \$132,537,000) relating to the Mount Rosser Bypass project (included in Construction-in-Progress in note 15).

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

24. Deferred income tax

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

The movement in the deferred income tax balance is as follows:

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
At beginning of year	-	(165,086)
Recognised in profit or loss (note 14)	-	<u>165,086</u>
At end of year	-	<u>-</u>

Deferred income tax assets/(liabilities) are attributable to the following items:

	<u>2012</u> <u>\$'000</u>	<u>Movement</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Deferred income tax assets –			
Interest payable	-	(161,033)	161,033
Unutilised tax losses	-	<u>(1,796,284)</u>	<u>1,796,284</u>
	-	<u>(1,957,317)</u>	<u>1,957,317</u>
Deferred income tax liabilities –			
Accelerated tax depreciation	-	1,464	(1,464)
Interest receivable	-	1,283,137	(1,283,137)
Unrealised foreign exchange gains, net	-	<u>837,802</u>	<u>(837,802)</u>
	-	<u>2,122,403</u>	<u>(2,122,403)</u>
	-	<u>165,086</u>	<u>(165,086)</u>

The deferred income tax credited in arriving at the loss for the year ended March 31, 2011 is attributable to reversals of the following temporary differences, due largely to the remission of income tax [note 14(c)]:

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Interest payable	-	(161,033)
Unrealised foreign exchange gains, net	-	837,802
Unutilised tax losses	-	(1,796,284)
Accelerated tax depreciation	-	1,464
Interest receivable	-	<u>1,283,137</u>
	-	<u>165,086</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

25. Related party balances and transactions

Related parties include Government-related entities and ministries.

(a) The statement of financial position includes balances with related parties, as follows:

	<u>2012</u> \$'000	<u>2011</u> \$'000
Receivable from related parties:		
Ministry of Transports and Works		
- Road rehabilitation (note 17)	<u>50,072</u>	<u>50,072</u>
Payable to related parties:		
Development Bank of Jamaica Limited		
- Short-term loan (note 22)	-	400
- Payables (note 23)	181,466	175,547
- Long-term loans	<u>-</u>	<u>25,153,119</u>
Ministry of Finance and the Public Service		
- Long-term loan (note 21)	6,198,612	4,963,466
- Short-term loan (note 21)	<u>261,900</u>	<u>257,246</u>

(b) The statement of comprehensive income includes income earned from, and expenses incurred in, transactions with related parties, as follows:

	<u>2012</u> \$'000	<u>2011</u> \$'000
Development Bank of Jamaica Limited		
Expenses:		
Interest	16,487	68,058
Professional fees	<u>5,640</u>	<u>5,648</u>

(c) Key management personnel compensation:

	<u>2012</u> \$'000	<u>2011</u> \$'000
Salaries and other short-term employee benefits [including salaries of directors who are executives (see below)]	14,605	12,074
Statutory payroll contributions	<u>25</u>	<u>21</u>
	<u>14,630</u>	<u>12,095</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2012

(Expressed in Jamaican dollars unless otherwise indicated)

25. Related party balances and transactions (continued)

(c) Key management personnel compensation (continued):

	<u>2012</u> <u>\$'000</u>	<u>2011</u> <u>\$'000</u>
Directors' emoluments:		
Fees	619	446
Management remuneration	<u>13,190</u>	<u>10,803</u>
	<u>13,809</u>	<u>11,249</u>

26. Contingent liability

As a result of the geological ground conditions discovered in Mt. Rosser, additional expenditures will be required to complete the Kingston to Ocho Rios leg of Highway 2000 ("the works"). Discussions are taking place with China Harbour Engineering and Construction Company Limited ("CHEC") with a view to CHEC completing the works in place of the current contractor, Bouygues Travaux Publics ("Bouygues"). The additional expenditures arising from the resolution of the afore-mentioned ground conditions will be included in the Concession Agreement, if an agreement is reached with CHEC. In the event that no agreement is reached with CHEC, the detailed designs and additional costs to deal with these ground conditions will be completed by Bouygues. Such additional costs will be shared in the proportion 66% Bouygues and 34% NROCC. As the additional costs have not yet been estimated, the portion for which NROCC is contingently liable has not been determined.