

NATIONAL ROAD OPERATING AND  
CONSTRUCTING COMPANY LIMITED

FINANCIAL STATEMENTS

MARCH 31, 2010





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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 (company), set out on pages 3 to 37, which comprise the statement of financial position as at March 31, 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, 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 the financial statements in accordance with International Financial Reporting Standards and the Jamaican Companies Act. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and consistently applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *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 or not the financial statements are free from material misstatement.

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



To the Members of  
National Road Operating and Constructing Company Limited

**Report on the Financial Statements, cont'd**

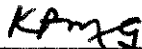
*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the company as at March 31, 2010, 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.

The previous year's financial statements were reported on by another firm of Chartered Accountants, which gave an unqualified opinion, dated March 15, 2010.



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Chartered Accountants  
Kingston, Jamaica

January 12, 2011



NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Statement of Comprehensive Income

Year ended 31 March 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

	<u>Notes</u>	<u>2010</u> <u>\$'000</u>	<b>Restated*</b> <u>2009</u> <u>\$'000</u>
Revenue		-	-
Administrative expenses	7	( 466,930)	( 395,729)
Operating loss		( 466,930)	( 395,729)
Miscellaneous income		97,639	-
Finance income	9	825,947	2,686,478
Finance costs	10	(3,170,064)	(3,463,114)
Inflation compensation on Real Return Convertible Bonds	20(a)	( 839,882)	( 892,374)
Loss before income tax		(3,553,290)	(2,064,739)
Income tax	11	<u>389,892</u>	( 136,063)
Loss for the year		(3,163,398)	(2,200,802)
Other comprehensive income:			
Realised losses on maturity and disposal of available-for-sale investment securities, net of income tax		<u>-</u>	( 116,217)
Total comprehensive income for the year		<u>(3,163,398)</u>	<u>(2,317,019)</u>

\* See note 24

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED


Statement of Financial Position

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

	<u>Notes</u>	<u>2010</u> <u>\$'000</u>	<u>Restated*</u> <u>2009</u> <u>\$'000</u>
<b>Non-current assets</b>			
Property and equipment	12	12,225,739	8,458,272
Long-term receivables	13	12,263,510	11,416,898
Investment securities	14	<u>31,135</u>	<u>43,977</u>
		<u>24,520,384</u>	<u>19,919,147</u>
<b>Current assets</b>			
Other receivables	15	556,445	505,843
Income tax recoverable		87,004	213,692
Resale agreements	16	165,853	-
Cash and cash equivalents	17	<u>11,758</u>	<u>1,542</u>
		<u>821,060</u>	<u>721,077</u>
<b>Total assets</b>		<u>25,341,444</u>	<u>20,640,224</u>
<b>Equity</b>			
Share capital	18	1,000	1,000
Inflation reserve	19	152,066	152,066
Accumulated deficit		<u>(16,817,601)</u>	<u>(13,654,203)</u>
Total equity		<u>(16,664,535)</u>	<u>(13,501,137)</u>
<b>Non-current liabilities</b>			
Long-term loans and advances	20	40,785,884	32,119,960
Deferred tax liability	21	<u>165,086</u>	<u>554,978</u>
		<u>40,950,970</u>	<u>32,674,938</u>
<b>Current liabilities</b>			
Payables	22	1,036,989	1,460,092
Income tax payable		6,331	6,331
Short-term loan	23	4,990	-
Bank overdraft (unsecured)	17	<u>6,699</u>	<u>-</u>
		<u>1,055,009</u>	<u>1,466,423</u>
Total liabilities		<u>42,005,979</u>	<u>34,141,361</u>
<b>Total equity and liabilities</b>		<u>25,341,444</u>	<u>20,640,224</u>

The financial statements on pages 3 to 37 were approved for issue by the Board of Directors on January 12, 2011 and signed on its behalf by:

  
 \_\_\_\_\_ Director  
  
 \_\_\_\_\_ Director

\* See note 24.

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, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

	<u>Share Capital</u> \$'000	<u>Inflation Reserve</u> \$'000	<u>Fair Value Reserve</u> \$'000	<u>Accumulated Deficit</u> \$'000	<u>Total</u> \$'000
<b>Balances at April 1, 2008</b>					
As previously reported	1,000	152,066	(116,217)	(11,041,900)	(11,005,051)
Prior year adjustments (note 24)	-	-	-	( 447,915)	( 447,915)
As restated	<u>1,000</u>	<u>152,066</u>	<u>(116,217)</u>	<u>(11,489,815)</u>	<u>(11,452,966)</u>
Total comprehensive income:					
Loss for the year:					
As previously reported	-	-	-	( 2,189,198)	( 2,189,198)
Prior year adjustment (note 24)	-	-	-	( 11,604)	( 11,604)
As restated	-	-	-	( 2,200,802)	( 2,200,802)
Other comprehensive income, net of taxes					
Realised losses on fair value adjustment	-	-	116,217	-	116,217
Total comprehensive income, as restated	-	-	116,217	( 2,200,802)	( 2,084,585)
Deferred tax on fair value adjustment	-	-	-	36,414	36,414
<b>Balances at March 31, 2009</b>	<u>1,000</u>	<u>152,066</u>	<u>-</u>	<u>(13,654,203)</u>	<u>(13,501,137)</u>
Balances at March 31, 2009					
As previously reported	1,000	152,066	-	(13,231,098)	(13,078,032)
Prior year adjustments (note 24)	-	-	-	( 423,105)	( 423,105)
As restated	<u>1,000</u>	<u>152,066</u>	<u>-</u>	<u>(13,654,203)</u>	<u>(13,501,137)</u>
Total comprehensive income:					
Loss for the year	-	-	-	( 3,163,398)	( 3,163,398)
<b>Balances at March 31, 2010</b>	<u>1,000</u>	<u>152,066</u>	<u>-</u>	<u>(16,817,601)</u>	<u>(16,664,535)</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, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

	<u>Notes</u>	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
<b>Cash flows from operating activities</b>			
Loss for the year		(3,163,398)	(2,200,802)*
Adjustments for:			
Depreciation	12	45,826	58,206
Loss/(gain) on disposal of property and equipment		858	( 1,886)
Interest income		( 867,230)	( 920,499)
Interest expense		2,488,549	2,370,056
Income tax charge		( 389,892)	136,063
Effect of exchange rate movements on foreign currency receivables and payables		250,116	( 598,202)
Inflation compensation on Real Return Convertible Bonds		<u>839,881</u>	<u>892,374</u>
		( 795,290)	( 264,690)
Changes in operating assets and liabilities:			
Short-term loan		4,990	-
Other receivables		( 71,409)	( 113,123)*
Income tax recoverable		126,688	( 40,465)
Payables		<u>( 572,293)</u>	<u>676,065</u>
Cash (used)/provided by operating activities		<u>(1,307,314)</u>	<u>257,787</u>
<b>Cash flows from investing activities</b>			
Acquisition of land and construction of roads	12	(3,504,262)	(2,460,501)
Purchase of other property and equipment	12	( 309,889)	( 3,394)
Proceeds of sale of property and equipment		-	1,886
Resale agreements		( 165,853)	-
Proceeds of sale of investment securities		-	379,759
Investment securities		12,842	1,970,901*
Long-term receivables		( 826,156)	( 440,213)*
Interest received		<u>55,546</u>	<u>224,530</u>
Cash used by investing activities		<u>(4,737,772)</u>	<u>( 327,032)</u>
<b>Cash flows from financing activities</b>			
Long-term loans and advances received		7,986,170	-
Interest paid		<u>(1,945,209)</u>	<u>(2,289,727)</u>
Cash provided/(used) by financing activities		<u>6,040,961</u>	<u>(2,289,727)</u>
Increase /(decrease) in cash and cash equivalents		4,125	(2,358,972)
Effect of exchange rate movements on cash and cash equivalents		( 608)	30,738
Cash and cash equivalents at beginning of year		<u>1,542</u>	<u>2,329,776</u>
<b>Cash and cash equivalents at end of year</b>	17	<u>5,059</u>	<u>1,542*</u>

\* After reclassifications to conform to the 2010 presentation.  
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, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

### **1. Identification and principal activities**

- (a) National Road Operating and Constructing Company Limited (“company” or “NROCC”) is a private limited liability 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 with Transjamaican Highway Limited (the concessionaire), which is a limited liability company registered under the Jamaican Companies Act, and is a wholly-owned by Bouygues Travaux Publics (Bouygues) of France.
- (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, and comply with the provisioning of the Jamaican Companies Act.

#### **New standards, and interpretations of and amendments to published standards, effective in the current year**

Certain new standards, and interpretations of 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 standards, interpretations and amendments, and has put into effect the following standard, which is immediately relevant to its operations:

**NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED**

Notes to the Financial Statements (continued)

March 31, 2010*(Expressed in Jamaican dollars unless otherwise indicated)***2. Basis of preparation (continued)****(a) Statement of compliance (continued)****New standards, and interpretations of and amendments to published standards, effective in the current year (continued)**

IAS 1 (Revised), *Presentation of Financial Statements*, which is effective for annual reporting periods beginning on or after January 1, 2009), prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity and requires 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and a statement of comprehensive income). Components of other comprehensive income are not permitted to be presented in the statement of changes in equity. As a result, the company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. The revision to IAS 1 impacts only presentation aspects of the company's financial statements.

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

At the date of authorisation of the financial statements, certain new standards, and amendments to and interpretations of existing standards, have been issued which are effective for annual reporting periods beginning on or after 1 January 2010, and which the company has not early adopted. The company has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the only new standard that is relevant to the company is as follows:

IAS 24 Revised, *Related Party Disclosures*, which is effective for annual reporting periods beginning on or after January 1, 2011, introduces changes to the related party disclosure requirements for government-related entities and amends the definition of a related party. The standard also expands the list of transactions that require disclosure. The revisions are not expected to have any significant impact on the company's financial statements.

**(b) Basis of measurement**

The financial statements have been prepared on the historical cost basis.

**(c) Functional and presentation currency**

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**2. Basis of preparation (continued)**

**(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 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 4.

**(e) Going concern basis**

The financial statements have been prepared on the going concern basis, although the company continues to report a loss for the year, and has 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**

**Toll revenue:** 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 statement of comprehensive income 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 the statement of comprehensive income for all interest-earning instruments on the accrual basis using the effective yield method. Interest income includes coupons earned on fixed income investments and amortization of discount or premium on instruments brought at other than par.

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.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010*(Expressed in Jamaican dollars unless otherwise indicated)***3. Summary of significant accounting policies (continued)****(b) Finance income and finance costs (continued)****(ii) Finance costs**

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, constructing 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, vacation leave; and other long-term employee benefits such as termination benefits.

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. Other long-term benefits are not considered material and are charged off when incurred.

**(d) Foreign currency translation**

Foreign currency transactions are converted for 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 the statement of comprehensive income.

**(e) Income taxes**

Income tax expense in the statement of comprehensive income comprises current and deferred tax charges.

Current tax charges 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 at year-end 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.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**3. Summary of significant accounting policies (continued)**

**(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 the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write down their costs 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 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.

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

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 the statement of comprehensive income when the expenditure is incurred. Improvement expenditure is included in the cost of the related asset or in leasehold improvement as is appropriate.

**(g) Loans and receivables and provisions for credit losses**

Loans and receivables are recognised when cash is advanced to borrowers or when expenditures are incurred on terms, whereby, they are recoverable from specified parties. They are initially recorded at cost, which is the cash disbursed, including any transaction costs, and are subsequently measured at amortised cost using the effective interest method.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010*(Expressed in Jamaican dollars unless otherwise indicated)***3. Summary of significant accounting policies (continued)****(g) Loans and receivables and provisions for credit losses (continued)**

A provision for credit losses is established if there is objective evidence that a loan or amount receivable is impaired. A loan or receivable 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 or receivable has been identified as impaired, its carrying amount 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 or other receivable.

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, even if they are contractually in arrears.

For non-performing and impaired loans and receivables, the accrual of interest income based on the original terms of the debt 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 is forgiven. 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 profit or loss.

**(h) Investment securities**

Management determines the classification of investments at the time of purchase and takes account of the purposes for which the investments are made.

Investment securities are classified as held-to-maturity. Held-to-maturity investments are those with fixed or determinable payment and fixed maturity and for 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.

**(i) 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 were 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, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**3. Summary of significant accounting policies (continued)**

**(i) Financial instruments (continued)**

***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 year-end date, which are classified as non-current assets. Loans and receivables are classified as 'long-term receivables' and 'other receivables' in the statement of financial position (notes 13 and 15).

***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, on the statement of financial position

**(j) Cash and cash equivalents**

Cash and cash equivalents are carried in the statement of financial position 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 investments. 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.

**(k) 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 yield method, and is included in interest income.

**(l) Payables**

Payables are stated at cost.

**(m) 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 comprehensive income over the period of the borrowings using the effective yield method.

**NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED**

Notes to the Financial Statements (continued)

March 31, 2010*(Expressed in Jamaican dollars unless otherwise indicated)***3. Summary of significant accounting policies (continued)****(m) Borrowings (continued)**

Where convertible bonds are issued, the fair value of the liability portion 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 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.

**(n) Share capital**

Ordinary shares are classified as equity.

**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) Income taxes**

In the ordinary course of the company's business, it undertakes transactions, and is subject to events, the tax effects of which are uncertain. In the face of such uncertainty, the company, based on its best understanding of law and practice, makes estimates and judgements in determining the provision for income taxes. In particular, income tax in these financial statements is determined by treating the company as a capital investor. Management has determined that the company is not in the business of raising funds but of arranging the construction, operation, maintenance, management and financing of Phase 1 of Highway 2000.

The final tax outcome attributable to matters subject to such estimates, assumptions and interpretations may be materially different from that which was initially recognised. Any such difference will impact the current and deferred income tax provisions in the period in which such determination is made.

The potential increase or reduction in income tax that may arise for the company from judgements and interpretations on matters included in these financial statements being exercised differently from the way in which judgements were exercised by management was not practicably determinable at the financial year-end.

**(ii) 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.

## NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

### **4. Key sources of estimation uncertainty and critical accounting judgements**

#### **(a) Uncertainties arising from significant assumptions and estimates**

##### **(iii) Allowances for credit losses:**

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.

##### **(iv) 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 judgement 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

### **5. 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, cash flow interest rate risk and other price risk), credit risk and liquidity 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 which implements and monitors risk management policies and makes decisions on financial matters on a daily basis.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**5. Financial Risk Management (continued)**

**(a) Credit risk**

The company takes on exposure to credit risk, which is the risk that its counterparties will cause a financial loss for 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 following table summarises the company's credit exposure to financial instruments:

	<u>2010</u> \$'000	<u>2009</u> \$'000
Long-term receivables	12,263,510	11,416,898
Other receivables	<u>556,445</u>	<u>505,843</u>
	12,819,955	11,922,741
Investment securities	31,135	43,977
Resale agreements	165,853	-
Cash and cash equivalents	<u>11,758</u>	<u>1,542</u>
	<u>13,028,701</u>	<u>11,968,260</u>

*Management of credit risk*

Management manages the credit risk to which it is exposed, as set out in the foregoing table, as follows:

**(i) Receivables**

The company's main exposure to credit risk lies in its lending activities to the concessionaire and advances to or on behalf of the Ministry of Transport and Works (MTW) i.e., 97.89% (2009: 96.18%) of receivables. Exposure to this credit risk is managed through close monitoring of the concessionaire's ability to meet interest and principal repayments in accordance with the terms and conditions of the various loan agreements, and follow up of amounts due from MTW and other debtors. The company does not obtain collaterals for its receivables.

**(ii) Investment securities**

Due to the specificity of the company's operating objectives, most of its interest earning investment securities are placed with a few financial institutions in fulfillment of conditions associated with credit arrangements extended by those institutions. Investments are also placed with the Bank of Jamaica. 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, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**5. Financial Risk Management (continued)**

**(a) Credit risk (continued)**

*Management of credit risk (continued)*

(iii) Cash and cash equivalents, and resale agreements

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

None of the company's financial assets are considered impaired and, therefore, no provision for impairment is made.

**(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, ensuring the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

**Liquidity risk management process**

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

- (i) Monitoring future cash flows and liquidity on a regular basis. This incorporates an assessment of expected cash flows;
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Optimising cash returns on investments; and
- (iv) 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 rates and exchange rates.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

**5. Financial Risk Management (continued)**

**(b) Liquidity risk (continued)**

**Liquidity risk management process (continued)**

Financial liabilities cash flows

The tables below summarise the maturity profile of the company's financial liabilities as at year-end, 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 \$'000
			<b>2010</b>			
Payables	-	1,036,989	-	-	-	1,036,989
Bank overdraft	6,699	-	-	-	-	6,699
Short-term loan	4,990	-	-	-	-	4,990
Long-term loans	<u>268,524</u>	-	-	-	40,517,360	40,785,884
<b>Total financial liabilities (contractual maturity dates)</b>	<u>280,213</u>	<u>1,036,989</u>	<u>-</u>	<u>-</u>	<u>40,517,360</u>	<u>41,834,562</u>
			<b>2009</b>			
Payables	-	1,460,092	-	-	-	1,460,092
Long-term loans	<u>266,447</u>	<u>108,507</u>	<u>1,507,972</u>	<u>10,053,144</u>	<u>49,962,292</u>	<u>61,898,362</u>
<b>Total financial liabilities (contractual maturity dates)</b>	<u>266,447</u>	<u>1,568,599</u>	<u>1,507,972</u>	<u>10,053,144</u>	<u>49,962,292</u>	<u>63,358,454</u>

***Off-balance sheet items – capital commitments***

The company has the following capital commitments at year-end:

(i) Mount Rosser bypass project

The initial total estimated cost of the project was US\$99,500,000. During the previous year, a variation order of US\$24,900,000 was approved by the company, increasing expected project cost to US\$124,400,000. An amount of J\$9,301,261,000 (2009 - J\$6,071,946,000) has been included as construction-in-progress in property and equipment (note 12) at year-end in respect of this project. At the financial year-end, the company is therefore contractually committed to spend a further US\$20,485,000.

(ii) Dyke Road Fishing Village Complex project

At the end of the financial year, the company had capital commitments of \$Nil (2009: J\$78,734,000) in respect of the Dyke Road Fishing Village Complex.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

(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 Development Bank of Jamaica, 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 takes on exposure to address the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. 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 Jamaican dollar equivalent of net foreign currency assets/(liabilities) was as follows:

	<u>2010</u>	
	<u>US\$</u> <u>JS'000</u>	<u>Euro</u> <u>JS'000</u>
<b>Assets</b>		
Long-term receivables	9,336,865	-
Investment securities	31,135	-
Other receivables	-	-
Resale agreements	-	-
Cash and cash equivalents	<u>1,183</u>	<u>-</u>
Total financial assets	<u>9,369,183</u>	<u>-</u>
<b>Liabilities</b>		
Payables	529,829	393,285
Bank overdraft	-	-
Short-term loan	4,990	-
Long-term loan	<u>5,116,734</u>	<u>24,522,493</u>
Total financial liabilities	<u>5,651,553</u>	<u>24,915,778</u>
<b>Net position</b>	<u>3,717,630</u>	<u>(24,915,778)</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

**5. Financial Risk Management (continued)**

**(c) Market risk (continued)**

**(i) Foreign currency risk (continued)**

	<u>2009</u>	
	<u>US\$ J\$'000</u>	<u>Euro J\$'000</u>
<b>Assets</b>		
Long-term receivables	8,683,415	-
Investment securities	43,977	-
Other receivables	-	-
Cash and investment securities	<u>683</u>	<u>-</u>
Total financial assets	<u>8,728,075</u>	<u>-</u>
<b>Liabilities</b>		
Payables	1,042,528	342,474
Long-term loans	<u>266,447</u>	<u>23,842,739</u>
Total financial liabilities	<u>1,308,975</u>	<u>24,185,213</u>
<b>Net position</b>	<u>7,419,100</u>	<u>(24,185,213)</u>

**Foreign currency sensitivity**

A 5 percent strengthening/weakening of the Jamaican dollar against the following currencies at March 31 would have (decreased)/increased 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 2009.

	<u>2010</u>		<u>2009</u>	
	<u>% Change in Currency Rate</u>	<u>Effect on Net Profit \$'000</u>	<u>% Change in Currency Rate</u>	<u>Effect on Net Profit \$'000</u>
<b>Currency:</b>				
<b>USD -</b>				
Revaluation	5	(146,315)	4	( 197,843)
Devaluation	5	146,315	10	494,606
<b>EURO -</b>				
Revaluation	5	922,855	4	644,939
Devaluation	5	<u>(922,855)</u>	10	<u>(1,612,348)</u>



NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(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.

Floating 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 long-term investments and loans. 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 were longer than the duration of interest earning financial assets.

**Loans**

At March 31, 2010 and 2009, the company's loans were fixed rate instruments.

**(d) Capital management**

The company is not subject to any externally imposed capital requirements.

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.

**6. 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 year-end 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 year-end 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:

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**6. Fair Value Estimation (continued)**

- (a) The amounts included in the financial statements for cash and bank balances, resale 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 cannot be reliably determined as there are no similar instruments in the market from which a market rate of interest can be derived for use in the pricing model;
- (d) As explained in note 19(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.

**7. Expenses by nature**

	<u>2010</u>	<u>2009</u>
	\$'000	\$'000
Advertising and public relations	199	279
Auditors' remuneration	2,200	2,750
Depreciation (Note 12)	45,826	58,206
Donations & subscriptions	489	661
Loss/(gain) on disposal of property and equipment	858	(1,886)
Legal and other professional fees	30,157	27,473
Repairs and maintenance	859	733
Resettlement expenses:		
Compensation for crops – Mount Rosser project	17,075	59,631
Relocation expenses	184,307*	9,382
Legal and other professional fees	631	1,088
Staff costs (note 8)	47,157	43,730
Technical fees	31,149	35,067
Toll subsidies	94,872	147,996
Rent	5,351	5,868
Utilities	539	1,314
Other operating expenses	<u>5,261</u>	<u>3,473</u>
	<u>466,930</u>	<u>395,729</u>

\* This amount includes \$167 million expended to establish the Dyke Road fishing complex in order to relocate the fish vendors.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

<b>8. Staff costs</b>		
	<b><u>2010</u></b>	<b><u>2009</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Salaries and wages	42,790	39,375
Statutory payroll contributions	2,394	2,262
Other	<u>1,973</u>	<u>2,093</u>
	<u>47,157</u>	<u>43,730</u>
<b>9. Finance income</b>		
	<b><u>2010</u></b>	<b><u>2009</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Foreign exchange (losses)/gains	(41,284)	1,918,611
Interest income:		
Investment securities and short term deposits	11,383	188,295
Loans receivable	<u>855,848</u>	<u>732,204</u>
	825,947	2,839,110
Cumulative losses reclassified from equity to other comprehensive income	<u>-</u>	<u>( 152,632)</u>
	<u>825,947</u>	<u>2,686,478</u>
<b>10. Finance costs</b>		
	<b><u>2010</u></b>	<b><u>2009</u></b>
	<b><u>\$'000</u></b>	<b><u>\$'000</u></b>
Foreign exchange losses	679,432	1,092,637
Interest on loans	2,488,549	2,370,056
Other	<u>2,083</u>	<u>421</u>
	<u>3,170,064</u>	<u>3,463,114</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**11. Income tax**

- (a) Income tax in the statement of comprehensive income represents deferred income tax (note 21).
- (b) The tax on profit or loss as reported differs from the expected amount that would arise using the basic statutory rate of 33 $\frac{1}{3}$ %, as follows:

	<u>2010</u> \$'000	<u>2009</u> \$'000
Loss before taxation	(3,553,290)	(2,064,739)
Tax calculated at a tax rate of 33 $\frac{1}{3}$ %	(1,184,430)	( 688,247)
Adjusted for the effect of:		
Expenses not deductible for tax purposes	517,334	188,187
Inflation compensation on Real Return Convertible Bonds	279,961	297,458
Deferred tax not recognised on unrealised foreign exchange losses	-	326,718
Deferred tax on tax losses in prior years now recognised	-	( 694,468)
Deferred tax on unrealised foreign exchange losses now de-recognised	-	434,926
Other net adjustments and allowances	( 2,757)	( 637)
Tax charge	<u>389,892</u>	<u>( 136,063)</u>

Taxation losses, subject to agreement by the Commissioner, Taxpayer Audit and Assessment, of approximately \$5,388,850,867 (2009 - \$3,551,797,706) 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 (continued)

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

**12. Property and equipment**

	<u>Land, Road &amp; Leasehold Property &amp; Improvements</u> \$'000	<u>Office Furniture, Fixtures &amp; Equipment</u> \$'000	<u>Computer Equipment</u> \$'000	<u>Motor Vehicles</u> \$'000	<u>Construction In Progress</u> \$'000	<u>Total</u> \$'000
Cost:						
April 1, 2008	2,484,720	20,861	7,653	8,082	3,723,662	6,244,978
Additions	9,438	739	80	2,575	2,451,063	2,463,895
Disposals	-	-	-	(2,568)	-	(2,568)
April 1, 2009	2,494,158	21,600	7,733	8,089	6,174,725	8,706,305
Additions	-	26	152	-	3,504,262	3,504,440
Disposals	-	-	-	(4,630)	-	(4,630)
Transfer/reallocation	<u>327,547</u>	<u>(17,492)</u>	<u>(276)</u>	-	-	<u>309,779</u>
March 31, 2010	<u>2,821,705</u>	<u>4,134</u>	<u>7,609</u>	<u>3,459</u>	<u>9,678,987</u>	<u>12,515,894</u>
Depreciation:						
April 1, 2008	177,416	5,026	1,871	8,082	-	192,395
Charge for the year	52,692	2,143	2,126	1,245	-	58,206
Eliminated on disposals	-	-	-	(2,568)	-	(2,568)
April 1, 2009	230,108	7,169	3,997	6,759	-	248,033
Charge for the year	48,144	(4,389)	1,599	472	-	45,826
Eliminated on disposals	-	-	-	(3,772)	-	(3,772)
Transfer/reallocations	-	90	(22)	-	-	68
March 31, 2010	<u>278,252</u>	<u>2,870</u>	<u>5,574</u>	<u>3,459</u>	<u>-</u>	<u>290,155</u>
Net Book Value						
March 31, 2010	<u>2,543,453</u>	<u>1,264</u>	<u>1,923</u>	<u>-</u>	<u>9,678,987</u>	<u>12,225,739</u>
March 31, 2009	<u>2,264,050</u>	<u>14,431</u>	<u>3,736</u>	<u>1,330</u>	<u>6,174,725</u>	<u>8,458,272</u>
March 31, 2008	<u>2,484,720</u>	<u>20,861</u>	<u>7,653</u>	<u>8,082</u>	<u>3,723,662</u>	<u>6,244,978</u>

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

**13. Long-term receivables**

These are due from Transjamaican Highway Limited and include:

	<u>2010</u> \$'000	<u>2009</u> \$'000
Loans:		
(a) Subordinated Loan	3,163,826	2,944,981
(b) Grantor Procured Debt	8,302,507	7,684,097
(c) Other receivable	<u>797,177</u>	<u>787,820</u>
	<u>12,263,510</u>	<u>11,416,898</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010*(Expressed in Jamaican dollars unless otherwise indicated)***13. Long-term receivables (continued)**

- (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), dated November 21, 2001, between the company and the concessionaire.
- (b) This is the Jamaica dollar equivalent of the US\$72.0 million drawn down under a US\$87.5 million Grantor Procured Debt (GPD) loan agreement dated November 21, 2001. At year-end, the US\$15.5 million not drawn down was no longer available as the facility had expired.

The duration and repayment of both loans is dependent on the expected cash flows of the concessionaire. Interest has been accrued as of the drawdown dates of the loans and is calculated as follows:

- (i) On the SLA loan at LIBOR plus 4.5% per annum;
- (ii) On the GPD loan at LIBOR plus 4% per annum on the US dollar drawdown portion and at 5% per annum on the Jamaican dollar drawdown, adjusted for inflation.

Pursuant to the SLA and GPD loan agreements, interest accrued on both loans is payable on May 30 and November 30 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 \$196,801,000 (2009 - \$197,669,000), while that for the GPD loan amounted to \$563,993,000 (2009 - \$537,472,000).

Under the terms of a Working Capital Reserve Agreement, dated February 22, 2002, between the company and the concessionaire US\$3.5 million has been made available for on-lending to the concessionaire. No draw-downs on this facility had been made at March 31, 2010. 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. The availability of this amount has been guaranteed by Development Bank of Jamaica Limited in the event that the amount cannot be made available by the company.

- (c) This is the amount receivable for additional costs incurred arising from Developers Variation Orders for Marcus Garvey Drive, Phase 2.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

**14. Investment securities**

	<u>2010</u> \$'000	<u>2009</u> \$'000
Held to maturity:		
AIC (Barbados) Bonds	31,135	43,997

**15. Other receivables**

	<u>2010</u> \$'000	<u>2009</u> \$'000
Deposit on land acquisitions	25,122	102,248
Deposit on Dyke Road fishing village	-	75,539
Receivable from Ministry of Transport and Works:		
- Road rehabilitation work [see note (a) below]	190,565	50,071
- Compensation for delay in adjustment to toll rates	94,872	-
Interest receivable	241,888	262,695
Other	3,998	15,290
	<u>556,445</u>	<u>505,843</u>

(a) The company acted as facilitator in respect of road rehabilitation project on behalf of the Ministry of Transport and Works and the balance receivable represents cash advanced for projects expenses in excess of funds received.

**16. Securities purchased under resale agreement**

	<u>2010</u> \$'000	<u>2009</u> \$'000
Jamaican dollar agreements	165,853	-

These instruments mature within one month (2009: Nil) after year-end, with interest rates ranging between 6% and 9.75% (2009: Nil) per annum. As at March 31, 2010 the interest receivable included in the carrying value of the instruments amounted to approximately \$801,369 (2009: Nil). The nominal value of the underlying securities at March 31, 2010 was \$16,505,532 (2009: Nil). The fair value of the securities is considered to approximate the carrying value.

**17. Cash and cash equivalents**

	<u>2010</u> \$'000	<u>2009</u> \$'000
Cash at bank and in hand	1,183	1,542
Short-term deposits	10,575	-
	<u>11,758</u>	<u>1,542</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**17. Cash and cash equivalents (continued)**

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

	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Cash at bank and in hand	1,183	1,542
Short term deposits	<u>10,575</u>	<u>-</u>
	11,758	1,542
Bank overdraft	<u>( 6,699)</u>	<u>-</u>
	<u>5,059</u>	<u>1,542</u>

**18. Share capital**

	<u>2010</u> <u>\$'000</u>	<u>2009</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.

**19. 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 20(a)]. No transfer has been made in the current year due to the loss incurred.

**20. Long-term loans and advances**

	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
(a) Real Return Convertible Bonds J\$3,552,000,000 due February 6, 2032	8,852,831	8,010,774
(b) Development Bank of Jamaica €204,386,000 (2009 – €204,386,000)	24,522,493	23,842,739
(c) PetroCaribe Development Fund US\$70,800,000 (2009 – US\$Nil)	4,848,210	-
(d) Ministry of Finance and the Public Service		
Advances		
- (i) Interest paid on behalf of company	2,293,826	-
- (ii) Portmore Causeway	<u>268,524</u>	<u>266,447</u>
	<u>40,785,884</u>	<u>32,119,960</u>



NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

**20. Long-term loans and advances (continued)**

- (a) This represents 4.5% convertible bonds issued by the company on February 7, 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" revised Consumer Price Index (see note 19). 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 (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 statement of financial position as follows:

	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Face value of bonds, being proceeds of issue	3,552,000	3,552,000
Inflation compensation	5,348,414	4,508,532
Less: Transaction costs	( 47,583)	( 49,758)
	<u>8,852,831</u>	<u>8,010,774</u>

- (b) This loan represents 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 is supported by promissory notes issued by the company to DBJ.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**20. Long-term loans and advances (continued)**

(b) (Continued)

The principal amount for each disbursement is 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 is variable and is payable semi-annually in arrears on February 15 and August 15 of each year.

On February 15, 2008, Development Bank of Jamaica Limited on behalf of NROCC 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 will pay interest on US\$310,896,000 at a rate of 8.29% (2009 – 8.29%). In exchange Citibank N.A. will pay interest on the loan amount of €204,400,000 at a rate of 7.50% (2009 – 7.50%).

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 the 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).

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

	<u>2010</u> \$'000	<u>2009</u> \$'000
Face value of loan	24,558,430	23,881,074
Less: Transaction costs	( 35,937)	( 38,335)
	<u>24,522,493</u>	<u>23,842,739</u>

- (c) This represents a loan facility totalling US\$70,800,000 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\$54,282,045.

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.

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**20. Long-term loans and advances (continued)**

- (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 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 financial year end.

**21. Deferred income tax**

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 33 $\frac{1}{3}$ %.

The movement in the deferred tax balance is as follows:

	<u>2010</u> \$'000	<u>2009</u> \$'000
At beginning of year	(554,978)	(418,915)
Charged to the statement of comprehensive income (note I1)	<u>389,892</u>	(136,063)
At end of year	<u>(165,086)</u>	<u>(554,978)</u>

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

	<u>2010</u> \$'000	<u>Movement</u> \$'000	<u>2009</u> \$'000
Deferred income tax assets –			
Interest payable	161,033	46,885	114,148
Unutilised tax losses	<u>1,796,284</u>	<u>612,352</u>	<u>1,183,932</u>
	<u>1,957,317</u>	<u>659,237</u>	<u>1,298,080</u>
Deferred income tax liabilities –			
Accelerated tax depreciation	( 1,464)	459	( 1,923)
Interest receivable	(1,283,137)	(246,739)	(1,036,398)
Unrealised foreign exchange gains, net	<u>( 837,802)</u>	<u>( 23,065)</u>	<u>( 814,737)</u>
	<u>(2,122,403)</u>	<u>(269,345)</u>	<u>(1,853,058)</u>
	<u>( 165,086)</u>	<u>389,892</u>	<u>( 554,978)</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**21. Deferred income tax (continued)**

The deferred tax (charged)/credited to the statement of comprehensive income comprise the following temporary differences:

	<u>2010</u> \$'000	<u>2009</u> \$'000
Interest payable	46,885	26,330
Unrealised foreign exchange gains, net	(23,065)	(500,740)
Unutilised tax losses	612,352	566,240
Accelerated tax depreciation	459	( 1,923)
Interest receivable	(246,739)	(225,970)
	<u>389,892</u>	<u>(136,063)</u>

**22. Payables**

	<u>2010</u> \$'000	<u>2009</u> \$'000
Accrued expenses	11,717	25,192
Due to Transjamaican Highway Limited	474,219	1,033,081
Due to Development Bank of Jamaica Limited	5,469	6,675
Interest payable	543,340	394,150
Other	<u>2,244</u>	<u>994</u>
	<u>1,036,989</u>	<u>1,460,092</u>

Included in due to Transjamaican Highway Limited is an amount of \$345,142,000 (2009: \$1,033,081,000) relating to the Mount Rosser Bypass project (included in Construction-in-Progress in note 12).

**23. Short-term loan**

	<u>2010</u> \$'000	<u>2009</u> \$'000
Development Bank of Jamaica Limited	<u>4,990</u>	<u>-</u>

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

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**24. Prior year adjustments and reclassifications**

During the year, the company changed the basis on which it computes its taxable income; it redesignated itself as a “capital investor”, instead of the previous designation of “financial trader”. Under the new basis, certain expense items are treated differently for income tax purposes. The effects of the change on amounts reported previously in the statement of comprehensive income and the statement of financial position are set out below.

Also, some comparative figures have been reclassified to conform to the current year's presentation.

(a) Reconciliation of surplus for the years ended March 31, 2008 and March 31, 2009

	2009			2008		
	As previously reported \$'000	Adjustments \$'000	As restated \$'000	As previously reported \$'000	Adjustments \$'000	As restated \$'000
Revenue	-	-	-	-	-	-
Administrative expenses	( 395,729)	-	( 395,729)	( 513,196)	-	( 513,196)
Operating loss	( 395,729)	-	(395,729)	( 513,196)	-	(513,196)
Finance income	2,686,478	-	2,686,478	1,485,399	-	1,485,399
Finance costs	(3,463,114)	-	(3,463,114)	6,095,578	-	(6,095,578)
Inflation compensation on Real Return/Convertible bonds	( 892,374)	-	( 892,374)	(1,244,248)	-	(1,244,248)
Loss before income tax	(2,064,739)	-	(2,064,739)	(6,367,623)	-	6,367,623
Income tax [note c (i)]	( 124,459)	( 11,604)	( 136,063)	16,921	( 16,921)	-
Loss for the year	(2,189,198)	( 11,604)	(2,200,802)	(6,350,702)	( 16,921)	(6,367,623)

**NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED**

Notes to the Financial Statements (continued)

March 31, 2010

(Expressed in Jamaican dollars unless otherwise indicated)

**24. Prior year adjustments and reclassifications (continued)**

(b) Reconciliation of statements of financial position as at March 31, 2008 and March 31, 2009.

	2009			2008		
	As previously reported \$'000	Adjustments \$'000	As restated \$'000	As previously reported \$'000	Adjustments \$'000	As restated \$'000
<b>Non-current assets</b>						
Property and equipment	8,458,272	-	8,458,272	6,052,583	-	6,052,583
Deferred tax assets	-	-	-	149,220	(149,220)	-
Loans receivable [note (d)(i),(ii)]	10,890,814	526,084	11,416,898	8,656,497	-	8,656,497
Investment securities	-	43,977	43,977	100,769	-	100,769
	<u>19,349,086</u>	<u>570,061</u>	<u>19,919,147</u>	<u>14,959,069</u>	<u>(149,220)</u>	<u>14,809,849</u>
<b>Current assets</b>						
Income tax recoverable	213,692	-	213,692	173,227	-	173,227
Receivables [note (d)(i),(ii)]	1,030,968	(525,125)	505,843	477,632	-	477,632
Cash and short-term investments [note (d)(iii)]	46,478	(44,936)	1,542	4,400,374	-	4,400,374
	<u>1,291,138</u>	<u>(570,061)</u>	<u>721,077</u>	<u>5,051,233</u>	<u>-</u>	<u>5,051,233</u>
<b>Total assets</b>	<u>20,640,224</u>	<u>-</u>	<u>20,640,224</u>	<u>20,010,302</u>	<u>(149,220)</u>	<u>19,861,082</u>
<b>Equity</b>						
Share capital	1,000	-	1,000	1,000	-	1,000
Inflation reserve	152,066	-	152,066	152,066	-	152,066
Fair value reserve	-	-	-	(116,217)	-	(116,217)
Accumulated deficit [note (c)(i),(ii)]	(13,231,098)	(423,105)	(13,654,203)	(11,041,900)	(447,915)	(11,489,815)
	<u>(13,078,032)</u>	<u>(423,105)</u>	<u>(13,501,137)</u>	<u>(11,005,051)</u>	<u>(447,915)</u>	<u>(11,452,966)</u>
<b>Non-current liabilities</b>						
Long-term loans	32,247,663	(127,703)	32,119,960	30,285,659	-	30,285,659
Deferred tax liability [note (c)(i)]	11,653	543,325	554,978	-	418,915	418,915
	<u>32,259,316</u>	<u>415,622</u>	<u>32,674,938</u>	<u>30,285,659</u>	<u>418,915</u>	<u>30,704,574</u>
<b>Current liabilities</b>						
Payables	1,065,942	394,150	1,460,092	389,877	-	389,877
Income tax payable [note (c)(ii)]	126,551	(120,220)	6,331	126,551	(120,220)	6,331
Short-term loans [note (d)(iv)]	266,447	(266,447)	-	213,266	-	213,266
	<u>1,458,940</u>	<u>7,483</u>	<u>1,466,423</u>	<u>729,694</u>	<u>(120,220)</u>	<u>609,474</u>
	<u>33,718,256</u>	<u>423,105</u>	<u>34,141,361</u>	<u>31,015,353</u>	<u>298,695</u>	<u>31,314,048</u>
	<u>20,640,224</u>	<u>-</u>	<u>20,640,224</u>	<u>20,010,302</u>	<u>(149,220)</u>	<u>19,861,082</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**24. Prior year adjustments and reclassification (continued)**

- (c) The nature of the prior year adjustments is as follows:
- (i) Deferred tax was previously provided for; however, the change in the basis on which the company's taxable income is computed has resulted in an increase in deferred tax liabilities being recognized in the financial statements.
  - (ii) Additional current income tax for previous years has been recognised; it arises from revision of the income tax computations on the basis of the re-designation of the company as a capital investor for income tax purposes.
- (d) The nature of the reclassifications is as follows:
- (i) Amounts receivable from the Ministry of Transport & Works has been treated as a long-term receivable and was therefore reclassified from other receivables.
  - (ii) Interest receivable has been reclassified from long-term receivables to other receivables.
  - (iii) Investment in AIC bonds, which was previously treated as cash and short-term investments, has been reclassified to investment securities .
  - (iv) The loans from Ministry of Finance and the Public Service, the repayment dates for which have not yet been determined, have been reclassified to long-term loans.

**25. Related party balances and transactions**

Related companies include Government-related entities and ministries.

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

	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Receivable from related parties:		
Ministry of Transport and Works		
- Road rehabilitation	190,565	50,071
- Compensation for toll increase delay	<u>94,872</u>	<u>-</u>

NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**25. Related party balances and transactions (continued)**

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

	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Payable to related parties:		
Development Bank of Jamaica Limited		
- Payables	5,469	6,675
- Short-term loan	4,990	-
- Long-term loans	<u>24,915,778</u>	<u>24,185,213</u>
Ministry of Finance and the Public Service		
- Long-term loan	2,293,826	-
- Short-term loan	<u>268,524</u>	<u>266,447</u>

(b) Income earned from and expenses incurred in transactions with related parties are as follows:

	<u>2010</u> <u>\$'000</u>	<u>2009</u> <u>\$'000</u>
Development Bank of Jamaica Limited		
Interest income	-	30,784
Expenses		
Interest expense	70,336	43,752
Professional fees	<u>5,596</u>	<u>5,592</u>



NATIONAL ROAD OPERATING AND CONSTRUCTING COMPANY LIMITED

Notes to the Financial Statements (continued)

March 31, 2010

*(Expressed in Jamaican dollars unless otherwise indicated)*

**25. Related party balances and transactions (continued)**

(c) Key management personnel compensation

	<u>2010</u> \$'000	<u>2009</u> \$'000
Salaries and other short-term employee benefits [including salaries of directors who are executives (see below)]	14,042	11,212
Statutory payroll contributions	<u>840</u>	<u>671</u>
	<u>14,882</u>	<u>11,883</u>
Directors' emoluments:		
Fees	586	654
Management remuneration	<u>8,835</u>	<u>11,224</u>
	<u>9,421</u>	<u>11,878</u>

**26. Contingent liability**

NROCC, TransJamaican Highway Limited and Bouygues are disputing responsibility for the recently discovered geological ground conditions in construction of the Mount Rosser Bypass. The discovery may require a redesign of approximately 1 km or 5% of the Project's roadway. However, the parties are working to resolve the dispute and no claim has been filed in respect of it. NROCC's lawyers and consulting engineers have reviewed this matter and have advised that NROCC has a good case in denying responsibility; accordingly, no provision has been made in these financial statements for any possible adverse outcome of this matter.

