

Cable & Wireless (St. Kitts & Nevis) Limited Research Report

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Definitions and Abbreviations

Act or Acts

The relevant “Acts” referred to throughout this document refer to the Acts of Saint Kitts and Nevis.

Currency Equivalent

“Dollars” or “EC\$” throughout this document refer to Eastern Caribbean Dollars unless otherwise stated. The exchange rate used is as follows:

US\$1.00 = EC\$2.70

EC\$1.00 = US\$0.37

CSME

CARICOM Single Market & Economy

CWSKN

Cable & Wireless (St. Kitts & Nevis) Limited

CWWI

Cable & Wireless (West Indies) Limited

DPS

Dividend Per Share

Earnings Per Share (EPS)

The amount calculated when the numerator is net income and the denominator is the weighted average number of shares in issue during the relevant financial period.

EBITDA

Earnings before Interest, Tax, Depreciation and Amortisation

ECSE

Eastern Caribbean Securities Exchange Limited

ECTEL

Eastern Caribbean Telecommunications Authority

EV

Enterprise Value

GCN

Global Caribbean Network

OECS

The Organisation of Eastern Caribbean States

Price Earnings Ratio (PE Ratio)

The ratio calculated when the numerator is the market price per share and the denominator is the earnings per share for the relevant financial period.

Return on Assets (ROA)

The percentage calculated when the numerator is net income and the denominator is the weighted average total assets during the financial period.

Return on Equity (ROE)

The percentage calculated when the numerator is net income and the denominator is the weighted average total shareholders' equity during the relevant financial period.

Substantial Shareholder

A person who has an interest in shares in the company:

- a. the stated value of which is equal to or more than 5% of the issued share capital of the company; or
- b. which entitles the person to exercise or control the exercise of 5% or more of the voting power at a general meeting of the company.

Executive Summary

This research report contains information about Cable & Wireless St. Kitts and Nevis Limited (CWSKN) and its parent company, Cable and Wireless plc, and has been prepared in accordance with requirements outlined by the Eastern Caribbean Securities Exchange (ECSE). This research report provides an independent investment recommendation on CWSKN.

The parent company, Cable and Wireless plc, is one of the world's leading full service telecoms providers with total revenues of £3.3 billion (EC\$17.5B), and provides support through its subsidiaries to CWSKN. Prior to 21 September 2007, Cable and Wireless plc, through its subsidiary Cable & Wireless (West Indies) Limited (CWWI), held a 65% interest in CWSKN. However, this has subsequently increased to 82% following the purchase of 17% from the Government of the Federation of St. Kitts and Nevis.

Despite the full liberalisation of the telecommunications sector, CWSKN has maintained market leadership of the mobile, fixed and data/internet/broadband segments of the market. Its major strengths include its expanding customer base, the high quality of its management, its full service provision of integrated and converged telecoms services, the continuous innovation demonstrated in the launch of new products and services in response to changing market characteristics and the support provided by Cable and Wireless plc. Its weakness is the public perception that the company had a relatively high rate structure prior to the liberalisation of the market.

CWSKN is well positioned to capitalize on the opportunities associated with moderate economic growth for St. Kitts and Nevis in the order of 4.0% projected over the next three (3) years. With tourism emerging as the leading economic sector, the prospects for a widening of the revenue base of the telecoms sector are positive, as typically this sector demands tremendous volumes of communications services. Furthermore, the realization of the CSME has effectively expanded the boundaries of the traditional domestic market.

Potential threats to the future viability of CWSKN essentially emanate from increasing competition, but these threats could just as easily be converted into opportunities as has been demonstrated through innovative product development, product packaging and marketing initiatives. At the macroeconomic level, a high debt to GDP ratio in excess of 190% together with inflation of 7.2% recorded over 2005-2006 is a cause for concern.

From a financial perspective, the company has performed admirably in the face of the competition it has experienced since 2003. Liquidity, although weakening slightly between 2003 and 2007, is reflective of the company's strategic focus in undertaking much needed capital upgrades. Over the same period, the company managed to improve its operational efficiency as reflected in its turnover ratios while relatively low levels of debt are observed overall.

Overall profitability was impacted mainly due to exceptional items incurred in 2004 and 2006, however expectations are for profitability levels to improve going forward with approximately 40% of CWSKN's assets financed from debt.

The company maintains a dividend policy that is highly favourable to shareholders, with the last dividend per share payment being at \$0.35. Discussions with management revealed that this is not expected to decrease in the short-to-medium term. Generally, the company has sought to maintain its payout ratios at a constant level even when faced with a decline in earnings as was witnessed in 2004.

Clearly, when compared to the wider OECS, penetration of the various segments of the telecommunications sector seems to have unfolded much more rapidly in St. Kitts and Nevis and this is widely attributed to the proactive stance assumed by the incumbent provider, CWSKN. As at March 2006 mobile penetration in St. Kitts and Nevis exceeded the 100% mark and the penetration of internet services tripled the average of other ECTEL member states that operate within the same liberalised framework.

CWSKN projects an excellent image as a good corporate partner contributing significantly to the social, economic and environmental development of the Federation through initiatives such as the Commitment to Optimising National Goals for Each Child Together (CONNECT) Programme and sponsorship of Academic Excellence Awards, the Annual Music Festival, St. Kitts Carnival and Nevis Culturama. These social ventures are viewed as a necessary complement to its operational business objectives.

On the basis of the above considerations, together with the outlook for the industry, the company's product and marketing disposition and operational outlook, an annual growth rate is projected to range between 3.00% and 3.80% over a 3 year forecast period with total revenue expected to increase to EC\$115.1M by 2010. The target for EBITDA is 35% of total revenue with a gross profit margin anticipated of 72% by 2010.

The valuation conducted as part of this research report is premised on these targets and projections utilising the Discounted Cash Flow and Market Based Valuation Methodologies to yield an indicative price per share.

An overall "Buy" recommendation has been proposed at an indicative share price ranging between EC\$6.00 and EC\$7.00.

1.0 Cable & Wireless (St. Kitts & Nevis) Limited

1.1 Introduction to Cable & Wireless (St. Kitts & Nevis) Limited

- 1.1.1 CWSKN is a public limited liability company incorporated in St. Kitts and Nevis on October 1st, 1985, under the Companies Act (Cap 335), and re-registered under the Companies Act, 1996.

The company is a subsidiary of CWWI, which operates within the International business unit of its parent company, Cable and Wireless plc. The Board of Directors of CWSKN maintains primary responsibility for the governance of CWSKN guided by the policy framework of Cable and Wireless plc.

1.2 Brief Summary about Parent Company: Cable and Wireless plc

- 1.2.1 About Cable and Wireless plc

Cable and Wireless plc is one of the world's leading international communications companies. Cable and Wireless plc is listed on the London Stock Exchange with a market capitalisation of US\$9.2 billion (EC\$24.8B).

- 1.2.2 Operational Review

Cable and Wireless plc operates through two (2) standalone business units: Europe, Asia & US and International.

The Europe, Asia & US business provides enterprise and carrier solutions to the largest users of telecoms services across the UK, US, continental Europe and Asia, and wholesale broadband services in the UK.

The International business operates integrated telecommunications companies in thirty-three (33) countries offering mobile, broadband, domestic and international fixed line services to both residential and business clients. CWSKN is part of the International business unit.

At 30 September 2007, the International business unit registered 5.7 million mobile customers across twenty-six (26) markets, an increase of 34% over the prior period. Broadband customers increased by 30% to 439,000, making Cable & Wireless International the retail market leader in all twenty-six (26) markets where it provides broadband services.

- 1.2.3 Strategic Objectives

The major objective of Cable & Wireless International is to become the leading telecommunication service business in all of its markets by:

- Offering customers attractive products and services using high quality networks coupled with a superior customer experience;
- Continuing to provide customers with the highest level of quality service; and
- Managing asset quality in keeping with international standards.

The result of the above strategies will be a preservation and enhancement of shareholder value.

Cable & Wireless International's main competitor in the Caribbean and Latin American (with the exception of Montserrat & BVI to date) region is Digicel.

Cable & Wireless International's business strategy reflects the business unit's dynamic and proactive approach in its operational markets, and with this defined business strategy Cable & Wireless International is increasing its focus on:

- a) investing for growth in mobile and broadband;
- b) expansion of its customer experience programme;
- c) increased productivity gains;
- d) continued cash management and;
- e) increased focus on mergers & acquisitions.

1.2.4 Summarised Financial Performance

Overall, Cable and Wireless plc's profitability to 2007 improved from its 2004 position. EBITDA more than doubled as it rose from £204M (EC\$1.02B) in 2004 to £414M (EC\$2.20B) in 2007. Similar growth was also observed in the company's bottom line as net income improved significantly from £(212)M (-EC\$1.06B) in 2004 to £234M (EC\$1.24B) in 2007, tables 1 and 2 below provide a summary of Cable and Wireless plc's financial performance.

Table 1: Summary of Income Statement for the year ended 31st March

Particulars	2007	2006	2005	2004
Revenues (£'M)	3,348	3,230	2,948	3,671
EBITDA (£'M)	414	390	281	204
Profit after Tax (£'M)	234	163	354	(212)
Wght Avg Shares ('000)	2,324	2,286	2,322	2,328
EPS (p)	7.50	3.30	12.7	(10.20)
DPS (p)	5.85	4.50	3.80	3.15

Table 2: Summary of Balance Sheet as at 31st March

Particulars	2007	2006	2005	2004
Total Assets (£'M)	4,491	4,751	4,800	4,926
Net Current Assets (£'M)	411	482	1,193	1,787
Long-term Liabilities (£'M)	1,039	1,134	1,265	1,306
Total Equity (£'M)	1,890	1,896	1,778	1,952
Share Capital (£'M)	615	605	599	596
Return on Equity (%)	6.2	4.5	9.5%	(4.7%)
Return on Assets (%)	5.2	3.4	7.4%	(4.3%)
Dividend Payout (%)	63.8	121.1	34.0%	(30.8%)

Preliminary results for 2007 shows that as a group, Cable and Wireless plc performed well across all regions with EBITDA increasing by 8% to £414M (EC\$2.2M) over 2006. In the International business, mobile revenue has increased by 19% to £406M (EC\$2.16B) while broadband revenue increased 45% to £77M (EC\$408M).

Cable & Wireless International is well positioned to expand its business into the wider region, while strengthening its leadership position in the local telecommunications industry.

1.3 Overview of CWSKN

1.3.1 The principal activity of CWSKN is the provision and operation of the public telecommunication services of the Federation of St. Kitts and Nevis under operating licences dated October 11, 2001. These licences have a term of fifteen years and replaced a 25-year franchise granted by the Government that would have expired on 30 November 2015.

1.3.2 CWSKN's principal lines of business include the provision of telecommunication services in:

- a) Mobile;
- b) Broadband; and
- c) Fixed line.

Mobile

This segment is currently the most dynamic of the telecommunications market due mainly to the fact that it faces the most competitive pressures, and has become a major contributor to the company's top-line. Products and services include mobile handsets, prepaid services, post paid services, prepaid roaming services, post-paid roaming services, SMS and MMS.

Internet/Data/Broadband Services

These cater to residential, business and mobile users. The residential broadband plans, "Mega Plans", have been designed to provide the best possible experience to customers, upgrading minimum speeds to 1Mb. With relative speeds of 2Mb – 8Mb, the business plans known as Premier Plans have been designed specifically to assist corporate users to optimise the operations of their businesses, in addition to other cost effective data management solutions including Direct Internet Access, International Private Leased Circuits and Frame Relay.

Fixed Line

This is one of the core business segments that is a major revenue earner and includes both Fixed International Direct Dialing and Fixed Line Domestic. It includes both residential plans and products such as "Cheap Chat" and specific

packages customized for corporate clients, i.e. Direct Exchange Line, PBXs, Key Systems, IP & VoIP Services.

1.3.3 The company has identified the following main strategic objectives to guide its operations over the next five (5) years

- Maintaining its share of the mobile market
- Increasing broadband penetration
- Promoting the value and advantages of its domestic voice service
- Slowing the decline in revenue from International Direct Dialling voice usage
- Providing superior data, internet and broadband services to locals and visitors
- Delivering exceptional customer experience
- Maintaining margin through cost base optimization

1.4 Directors and Senior Management

1.4.1 Quality of Management

CWSKN boasts a highly trained and experienced team of executive, managerial and technical personnel throughout the organisation. This cadre of professionals is well suited to the highly technical and competitive nature of the telecommunications sector where knowledge and innovation remain two (2) of the key success factors.

The composition of the Board of Directors reflects the diverse background, experience and training ranging from Finance, Management, Engineering, Natural Sciences and Legal Services.

Equally sound is the Senior Management Team that operates within a clearly defined organisational structure providing well for the overall stability and future sustainability of the company. A brief profile of the Board of Directors is provided below.

1.4.2 Profile of Board of Directors

John Boyle

Profession	:	Financial Management
Qualification	:	MBA, Finance; B.A. Economics & Business Administration
Substantive Position	:	Chief Executive Officer – East Caribbean Chairman of the Board of Cable & Wireless St. Kitts & Nevis, Cable & Wireless Grenada, and Cable & Wireless Dominica
Board Member since:		2006

A ten-year veteran of the telecommunications industry, Mr. Boyle has held senior executive positions in Finance and Network Operations at Cable & Wireless International (UK,) T-Mobile International (UK) and VoiceStream Wireless (USA.)

Mr. Boyle's role prior to joining Cable & Wireless' Eastern Caribbean area was Chief Financial Officer of Cable & Wireless International.

Patricia Walters

Profession : Accountant
Qualification : B.A. (Hons.), FCCA
Substantive Position : Chief Executive and Executive Director, CWSKN
Board Member since : 2004

Ms. Walters has over fifteen (15) years experience in the telecommunications industry. Prior to Cable & Wireless, Ms Walters worked in the retail and shipping industries and has held numerous positions including Caribbean Region Total Quality Coordinator (TQC), Financial Controller, Director and Company Secretary at Cable & Wireless Cayman Islands; Financial Controller, Company Secretary – Cable & Wireless St. Kitts & Nevis.

Her last position was Chief Financial Officer at the Telecommunication Services of Trinidad and Tobago Limited (TSTT).

Lawrence Mc Naughton

Profession : Engineer
Qualification : BSc. E.E. (Hons), Ms. Eng., Dip Mgmt
Substantive Position : EVP Carrier Services (Caribbean)
Board Member since : 2004

Mr. Mc Naughton joined Cable & Wireless Jamaica in 1980 and has held various positions during his twenty-eight (28) years service with Cable & Wireless. He is a member of the University of Technology's Engineering Advisory Board in Jamaica, the Private Sector Organization of Jamaica's standing committee on National Security and the Government of Jamaica's task force on Information and Communications Technology (ICT) for its 2030 vision.

Dr. Osbert Liburd

Profession : Plant Pathologist
Qualification : B.A. (Biology), M.P.S, PhD.
Substantive Position : Director
Board Member since : December 2007

Dr. Osbert Liburd served as Chairman of the Board of Cable & Wireless (St. Kitts & Nevis) from October 2000 to January 2005. He is an experienced international scientist and has conducted research in Africa, the USA and the Caribbean. Dr. Liburd served as a Senior Diplomat as St. Kitts and Nevis' Ambassador to the United States and Permanent Representative to the Organisation of American States (OAS) from 1995 to 2000.

Lyra Richards

Profession : Banker
Qualification : Dip. (Financial Services Management)
Substantive Position : Director
Board Member since : December 2007

Ms. Richards is a career banker, with over forty (40) years experience. Ms. Richards has served on various Government boards and committees and held previous positions including past President and Treasurer of the Nevis Historical and Conservation Society; past President of the Nevis Dramatic and Cultural Society; and was a founding member of Culturama.

Geoff Batstone

Profession : Lawyer
Qualification : B.A. (Hons), LL.B.
Substantive Position: Director
Board Member since: June 2006

Mr. Batstone has overall responsibility for Cable & Wireless legal and regulatory matters in St. Kitts and Nevis, Antigua, Dominica, St. Lucia, St. Vincent and the Grenadines and Grenada. He has held several legal and regulatory positions within Cable & Wireless since joining the Company in May of 2001, including a pan-Caribbean role advising the wholesale unit of Cable & Wireless on various matters including interconnection with new entrant Providers

Prior to joining Cable & Wireless, Mr. Batstone was Legal Counsel to the Canadian Radio-television and Telecommunications Commission.

1.4.3 Corporate Secretary

Jonathan Bass

Profession : Accountant
Qualification : B.A. (Hons) CPA
Substantive Position: Corporate Secretary
Vice President (Finance & Corporate Affairs)

Jonathan Bass joined Cable & Wireless St. Kitts & Nevis Ltd in 1999 as the Financial Accountant. Since then, he has served in several positions within the company including Vice President Finance with Cable & Wireless Anguilla and Business Controls Manager with the Cable & Wireless East Area Team.

Mr. Bass has over sixteen (16) years managerial experience and is a member of the Institute of Chartered Accountants for the Eastern Caribbean.

1.4.4 Cable & Wireless (St. Kitts & Nevis) Limited - Senior Management Team

Ms. Patricia Walters B.A. (Hons), FCCA
Chief Executive

Mr. Curtis A. Martin
Vice President Human Resources

Mr. David Lake B.Sc. (Hons), M.Sc. (Eng.)
Vice President Mobile, Consumer Sales & Indirect Channel

Mr. Jerome Rawlins
Vice President Nevis Operations

Mr. Jonathan Bass B.A. (Hons) CPA
Vice President Finance & Corporate Affairs

Mrs. Laverne Caines, B.Sc., PA
Vice President Corporate Communications & Marketing

Mr. Robert Williams
Vice President Customer Service

Mr. Rudolph Knight, HND
Vice President Networks

Mrs. Sheila DeSilva
Vice President Regulatory

Mr. Terrence Crossman, B.A. (Hons)
Vice President Corporate Accounts

1.5 CWSKN Organisational Structure and Profile

1.5.1 CWSKN organisational structure is shown at **Appendix A**.

1.6 Capital Structure

- 1.6.1 CWSKN is capitalised with ordinary shares comprising 50,000,000 authorised common shares of which 33,130,418 are issued and fully paid.
- 1.6.2 Cable and Wireless plc, through its subsidiary CWWI currently owns 82% of CWSKN, with the remaining 18% representing the interest of public shareholders.
- 1.6.3 Prior to 21 September 2007, Cable and Wireless plc through its subsidiary CWWI held a 65% interest in CWSKN. The other shareholders were the Government of the Federation of Saint Kitts and Nevis (17%) and public shareholders (18%).
- 1.6.4 Following the Government's announcement to divest its ownership interest in certain business units, CWWI began negotiations to purchase Government's 17% stake in CWSKN.
- 1.6.5 On 21 September, 2007, Cable and Wireless plc, CWWI and the Government announced an agreement pursuant to which CWWI increased its shareholding in CWSKN. Initially, CWWI purchased the additional 17% stake from the Government for EC\$36 million equating to an average price of EC\$6.40 per share. Under the Share Sale and Purchase Agreement within twelve (12) months from 21 September, 2007, CWSKN is to list on the ECSE and to sell 5% of the issued shares in the Company via a public offering to nationals of St. Kitts and Nevis.
- 1.6.6 Subsequent to the public offering, CWSKN's share capital structure will be Cable and Wireless plc / CWWI's (77%) and public shareholders (23%). An overview of the pre 21 September 2007, current and subsequent ownership of the company is presented below.

Table 3: Private Individuals and Institutions

Name	% of Holding (Pre-21st Sep 2007)	% of Holding (Current)	% of Holding (after Public Offering)
CABLE AND WIRELESS PLC / CWWI	65%	82%	77%
Government of St. Kitts & Nevis	17%	--	--
Other Shareholders	18%	18%	23%

1.7 Corporate Social Responsibility

- 1.7.1 For twenty (20) years CWSKN has been contributing to the education of youths through the CWSKN scholarship scheme. With some fifty-three (53) students currently enrolled in the scheme, the company has provided financial assistance through the provision of school books and other school supplies, clothing and examination fees to approximately one hundred and forty (140) students, since it was established in 1987.
- 1.7.2 CWSKN's sponsorship of the Annual Academic Excellence Recognition Awards Ceremony also represents a significant investment in the youths of St. Kitts and Nevis. The event recognises students who have excelled in CXC and/or Advanced level subjects, and is a collaborative effort between the Chamber of Industry and Commerce, the Ministry of Education and CWSKN. For the past nineteen (19) years CWSKN has provided full sponsorship of the event.
- 1.7.3 Another initiative that CWSKN has sponsored for over ten (10) years and which also benefits the Youths of the Federation is the annual Summer Soccer event. This event provides an avenue for any school child to improve on his / her soccer skills through professional coaching and practice sessions during the summer vacation.
- 1.7.4 From the inception of the St. Kitts Music Festival 10 years ago, CWSKN has provided sponsorship to this event, considered to be one of the premier events in St. Kitts annually. Other major annual sponsorships include the St. Kitts Carnival held annually in December and the Nevis Culturama festivities, also held annually during the month of August.
- 1.7.5 Together, these initiatives have enabled CWSKN to obtain significant value added benefits which underscore the mutual gains that are realized in private and public sector partnerships, and reflect their interest in and commitment to St. Kitts and Nevis' overall sustainable growth and development.
- 1.7.6 CWSKN remains dedicated to being the "Employer of Choice" by both current and potential employees. Further, the success of the company's change management strategies implemented following a new, liberalised and competitive market, was clearly reflected in the Cable & Wireless Global Summit Award earned for "Most Effective Change Management" during the 2006/07 period.

1.8 Operational Business Review

1.8.1 CWSKN is one of the leading business units within the Cable & Wireless Eastern Caribbean region.

1.8.2 Following the full liberalisation of the telecommunications sector, CWSKN has encountered significant competition in the marketplace, which has proved to be quite challenging, but which has also created an opportunity for the company to become more strategic and innovative.

1.8.3 The immediate response of CWSKN to a demanding and ever-changing market has enabled it to maintain its leadership position in Mobile, Fixed line and Broadband services. The company's success can be attributed to its key competitive strategies executed during the review period, namely:

- 1) technological upgrade and expansion: During the 2004/07 period, CWSKN's investment in technology included GSM mobile upgrade and broadband expansion which impacted significantly on both its top and bottom lines;
- 2) product and service development and expansion: CWSKN prides itself on being the first (1st) to introduce new products to the market including the popular Blackberry Pearl (2007); pre-paid cards (2003/04); Etop-up (2005); Voice over Internet Protocol (2005); online payments and 2-meg broadband service;
- 3) competitive pricing: flat rate residential fixed line services ("Cheap Chat"), pre-paid roaming (US/UK regions), high-speed internet packages; international rate reductions and per-second billing for international calls; post-paid free weekend calling, all of which help address the public perception issues of the Company's previous rate structure from its pre-liberalisation history; and
- 4) marketing and promotional campaigns: including the 12 weeks of Christmas Campaign, "Mobile Madness" and "Everyone's a winner this Christmas" and "It's a Mobile Party".

1.9 SWOT Analysis

1.9 The following SWOT analysis provides an overall snapshot of CWSKN's competitive market positioning.

1.9.1 Strengths

- (i) **Strong Customer Base:** CWSKN is the incumbent provider of telecommunications services with an established infrastructure and existing customer base.
- (ii) **Full Service Provider:** This affords CWSKN the scope to provide integrated communications efficiently and cost effectively thereby enabling it to maintain a competitive edge in the market.

Market Positioning: CWSKN is the main provider of fixed line services which according to industry data¹ continues to be a major part of local communications (St. Kitts & Nevis)

- (iii) **Support from International Parent Company:** Being part of a multi-national corporation provides CWSKN with access to an extensive global support network.
- (iv) **Quality of Management:** CWSKN has a high quality management team operating within a well-defined organizational structure.
- (v) **Good Corporate Citizen:** Community profile and good image as a corporate citizen.
- (vi) **Product / Service Innovation:** CWSKN remains a leading innovator of new products and services tailored to meet the demands of existing and potential customers as identified in CWSKN's "Voice of the Customer Survey". This will effectively enhance the company's competitive position.

1.9.2 Weaknesses

Pre-Liberalisation Image: The public perception that the company as the incumbent provider perpetuated a high rate structure that existed prior to liberalisation.

¹ Source: ECTEL - Annual Telecommunications Sector Review, 2006

1.9.3 Opportunities

- (i) **Economic Growth & Expansion:** St. Kitts and Nevis' economy is driven by tourism and tourism related services which require high volumes of Telecommunications. Moderate levels of GDP growth in the order of 4.0% are projected annually to 2010.
- (ii) **CSME:** Free movement of labour across the OECS and wider region under the CARICOM Single Market and Economy (CSME) will increase the size of the domestic market and the demand for telecommunications services.
- (iii) **Cost Efficiency:** The landing of the Southern Caribbean Network submarine cable system is expected to lower the cost and improve the efficiency of broadband services.
- (iv) **Public Ownership / Image:** The upcoming re-sale of 5% of the company's shareholding to the public will increase the public shareholding and bolster the level of public participation in future initiatives that CWSKN may wish to undertake.

1.9.4 Threats

- (i) **Market Liberalisation / Increasing Competition:** Continued liberalisation and increased regulation of the telecommunications sector will lead to increased competition.
- (ii) **Technology:** Technological developments may render infrastructural platform outdated and impact on the current modes of providing services.
- (iii) **Reduced Revenue:** Downward pressure on international calling and settlement rates as a result of Voice over Internet Protocol (VoIP) technology. Also the operation of unlicensed VoIP providers in the market is a major threat.
- (iv) **Number Portability:** This has the effect, as demonstrated in other markets where it has been introduced, of increasing the incidence of telecom consumers easily switching their allegiance from one provider to another without a change of number
- (v) **Threat from Natural Disasters:** St. Kitts and Nevis lies within the tropical cyclone belt and as such is susceptible to the impact of hurricanes for about half of the year. There is also the threat from earthquakes, tsunamis and other natural disasters all of which could inflict serious damage to existing telecommunications infrastructure thereby erasing some of the gains that have been made.

1.10 Financial Performance Review (2003 / September 2007)

1.10.1 **Overall Performance:** CWSKN's overall performance during the review period reflects, not only the market challenges faced by the company but also the impact of the strategic initiatives undertaken.

Total revenue rose from EC\$82.9M in 2003 to EC\$104.4M in 2007, representing an increase of 25.86% (see table 4 below). This growth in revenue is driven primarily by mobile, which has steadily become CWSKN's major revenue earner. For the half-year ended September 2007, total revenue remained relatively flat at EC\$53M compared with the same period of 2006.

Although the company's top line grew steadily throughout the review period, net profitability was affected mainly by the asset impairment write-down of the TDMA mobile network totalling EC\$4.5M in 2006. In 2004, the company's profitability was affected mainly due to exceptional items related to restructuring activities and the write-off of fixed assets totalling EC\$8.3M together with a one-off increase in tax payments. Notwithstanding this, the company remained committed to maintaining a steady dividend payment to its shareholders of EC\$0.40 during the 2003/06 period, and EC\$0.35 in 2007. The interim dividend payment for the 2007/08 period was EC\$0.10 per share which is equally comparative to its 2006/07 interim payment.

Table 4: Summary of Income Statement - Years ended 31st March 2003-07 & 6-mos ended 30th September 2007

Particulars	Sep-2007	2007	2006	2005	2004	2003
Revenues (EC\$'M)	53.00	104.40	101.04	95.20	86.18	82.95
Operating Income (EC\$'M)	11.47	22.75	14.50	25.54	21.31	19.85
Profit after Tax (EC\$'M)	7.07	12.52	6.32	15.30	6.59	13.35
Shares Outstanding ('000)	33.13	33.13	33.13	27.61	27.61	27.61
EPS (EC\$)	0.21	0.38	0.19	0.55	0.24	0.48
DPS (EC\$)	0.10 ²	0.35	0.40	0.40	0.40	0.40

As table 5 shows, total assets declined slightly by 6.97% to EC\$119.6M over the review period, reflecting, in the main, the net change in the company's acquisition and disposal of assets as part of its capital investment programme. This programme has impacted positively on its overall efficiency levels. Total assets have increased back to EC\$129.3M in the latest 6 month period.

² Interim Dividend.

Table 5: Summary of Balance Sheet - As at 31st March 2003 to 2007 & 30th September 2007

Particulars	Sep 2007	2007	2006	2005	2004	2003
Total Assets (EC\$'M)	129.31	119.59	127.54	135.06	118.60	127.92
Net Current Assets (EC\$'M)	2.26	(1.20)	(4.69)	(5.58)	4.43	6.36
Long-term Liabilities EC\$'M)	10.77	11.42	11.97	13.87	14.29	15.30
Total Equity (EC\$'M)	83.38	76.31	74.83	77.59	73.33	77.79
Share Capital (EC\$'M)	33.13	33.13	33.13	27.61	27.61	27.61

1.10.2 Liquidity Position: CWSKN's current ratio fell from 1.18 in 2003 to 0.96 in 2007. The liquidity trend (as shown below in table 6) for the company reflects its strategic focus on capital upgrades during the review period. This period was characterized by an increasingly competitive mobile market with operators offering the latest in GSM and GPRS technology. Prior to liberalization, the platform utilized by CWSKN was TDMA and this platform had to be replaced.

CWSKN's capital investments have also impacted its net current asset position which fell from EC\$6.4M in 2003 to (EC\$1.20M) in 2007, as the company funded its growth with internal, as opposed to long term external, funding.

The upgrades in technology capacity have augured well for the company, not only enhancing its efficiency levels but also enabling it to offer market competitive rates and expanded services.

In the short term, the level of capital investments is not expected to be as significant as the levels seen over the last five (5) years, thus liquidity levels are expected to improve. For the half year ended September 2007, the current ratio stood at 1.06.

Table 6: Internal Liquidity– Years ended March 31st 2003 to 2007 & 6-months ended 30th September 2007

Particulars	Sep 2007	2007	2006	2005	2004	2003
Current Ratio	1.06	0.96	0.88	0.87	1.14	1.18
Cash Ratio	0.30	0.29	0.39	0.50	0.55	0.42
Working Capital	2,258	(1,204)	(4,691)	(5,582)	4,431	6,355
Net OCF / Total Debt	0.28	0.26	0.32	0.72	0.40	0.12
Net OCF / Net Income	1.82	0.89	2.64	2.70	2.77	0.47

1.10.3 Operational Efficiency: The effective management of CWSKN's cost and operational efficiency levels is clearly reflected in the efficiency ratios summarised below in table 7.

Operating efficiency levels have increased steadily over the 2003/07 period as reflected in its total and net fixed asset and equity turnover ratios. The effective management of its operating cost base is shown in the decreasing levels of operating cost as a percentage of total revenue except for 2006 as a result of TDMA impairment and restructuring costs.

Table 7: Operational Efficiency Indicators – Years ended March 31st 2003 to 2007 & 6-months ended 30th September 2007

Particulars	Sep 2007	2007	2006	2005	2004	2003
Operating Cost as % of Total Revenue	50.7	47.8	57.0	54.1	64.1	62.8
Total Asset Turnover	0.42	0.84	0.77	0.75	0.70	0.61
Net Fixed Asset Turnover	0.60	1.17	1.09	1.09	1.04	0.90
Equity Turnover	0.09	1.44	1.38	1.31	1.19	1.13

1.10.4 **Profitability:** Table 8 below provides a summary of CWSKN's overall profitability.

Table 8: Summary of CWSKN's Profitability – Years ended 31st March 2003 to 2007 & 6-months ended 30th September 2007

Particulars	Sep 2007	2007	2006	2005	2004	2003
Net Profit Margin (%)	13.3	11.99	6.25	16.07	7.65	16.09
Gross Profit Margin (%)	72.2	69.64	71.31	80.88	88.77	86.70
Operating Profit Margin (%)	21.6	21.79	14.35	26.82	24.72	23.93
Return on Avg. Assets (%)	5.6	10.13	4.81	12.07	5.35	9.79
Return on Avg. Equity (%)	8.6	17.25	8.63	21.12	9.09	18.13

CWSKN's net profitability was affected mainly as a result of the asset impairment in 2006 and the exceptional items in 2004.

An upward trend was observed in the company's operating profit margin, with the exception of 2006 where CWSKN's cost of sales increased by 59.24% while gross revenue grew by only 6.13%.

The steady decline in the company's gross profit margin beginning in 2005 reflects its response to market competition as it incurred a higher cost of sales due primarily to handset subsidies, prepaid commissions and its broadband business strategy³. Accordingly cost of sales more than doubled rising from 13.3% of total revenue at 2003 to 30.4% at 2007.

1.10.5 **Financial Flexibility:** Overall, CWSKN's financial risk has improved steadily throughout the review period. The amount categorised as long-term debt reflects accumulated deferred taxes as the company has no long term financing.

A review of the company's debt ratios in table 9 reveals an increasing reliance on equity (internal funding) and periodic short term financing for its business operations. This is reflected in its total debt ratio, which shows that 40% of CWSKN's assets is financed with short-term debt, while the remaining 60% is financed with equity.

³ CWSKN engaged in strategic alliances with key hardware providers to provide subsidised computers to its broadband customers.

The company's interest coverage ratio further showed that for the 2003/07 period, earnings could have declined by almost 98% and the company would still be able to pay its fixed financial charges.

At September 2007 the company had previously repaid its inter-company interest bearing loan; and the increase in current liabilities over the last six months (April to September 2007) reflects an amount due to the parent company for management services.

Table 9: Financial Risk Ratios – Years ended 31st March 2003 to 2007 & 6-months ended 30th September 2007

Particulars	Sept 2007	2007	2006	2005	2004	2003
Interest Coverage (times)	---- ⁴	46.17	47.36	962.07	726.83	1029.00
Earnings Decline Threshold (%)	---	97.8	97.9	99.9	99.9	99.9
Total Debt Ratio	0.30	0.30	0.36	0.37	0.31	0.32

1.10.6 Risk Analysis

Business Risk: Since 2002 CWSKN has been operating in a fully liberalized telecommunications sector. The company currently faces competition from three (3) mobile operators, two (2) fixed line operators and three (3) operators in internet telecommunications.

Competition is expected to intensify further as competitors begin to expand their capacity and embrace emerging technology. Ultimately, such competition could drive market prices downwards and impact adversely on the company's revenue base.

Although St. Kitts and Nevis is a relatively small economy with a population of 46,000, over-saturation of the sector with numerous products and services by varied providers is not expected given the dynamic and open nature of the telecommunications sector.

The island is visited annually by an average of over 330,000 tourists and so there is sustained demand by international clients for both domestic connections and roaming interconnections in data and voice services.

With projections for continued expansion in hotel accommodation (from the current 1,859 rooms to 3,000 rooms by 2010), visitor arrivals are projected to increase by approximately 10% over the next five (5) years. As a consequence, CWSKN intends to initiate effective diversification and innovative packaging of its products and services as a key business strategy for expanding its market share to include the growing visitor segment.

⁴ During the period March and September 2007 CWSKN repaid its intercompany debt.

Economic Risk: Fortunately for St. Kitts and Nevis, the closure of the sugar industry in 2005 after 300 years has not had the adverse impact previously anticipated, mainly because most of the labour was imported.

The Federation continued to enjoy moderate levels of GDP growth averaging 4% in 2006 and 2007, and this is expected to be sustained through strong growth in the major services-oriented sectors, namely construction, distributive trade, tourism and financial services.

Central Government revenue excluding grants remained high at 36.6% of GDP in 2006 with a primary surplus of EC\$50M or 4.2% of GDP being recorded for the same year. However, any improvement in the Government's fiscal performance will have to be sustained over a long period in order to have any measurable reduction in the stock of public debt.

The purchasing power of consumers in St. Kitts and Nevis is relatively high, with a per capita income of US\$9,500 being amongst the highest in the region. However, CWSKN should show concern for the gradual erosion of consumer purchasing power as a result of the unprecedented level of inflation of the order of 7.2% experienced over the 2005/06 period.

Operational: The fact that it is the tourism industry that has replaced the sugar industry as the mainstay of the economy augurs well for the telecommunications sector, as it is a sector that demands high volumes of communications.

The newly established Southern Caribbean Network Submarine Cable System is expected to provide broadband services and capacity to local and international operators at more cost effective prices. This new fibre optic submarine cable infrastructure (2005) will link the islands via fibre and allow the delivery of internet traffic and connectivity at lower prices thereby making the market more attractive to new entrants.

CWSKN has been working at converting this potential competitive threat into an opportunity by offering increased broadband speeds at reduced prices to its business and consumer segments. The company has further capitalized on this development through its purchase in 2006 of sufficient bandwidth capacity from the fibre optical cable to deliver a higher level of efficient services to its customers well into the foreseeable future. This acquisition could also prove useful in providing additional redundancy to that which is provided through the GCN.

1.11 CWSKN Dividend Policy and Historical Dividend Payments

1.11.1 CWSKN dividend payments are determined after reviewing the company’s cash flows, earnings, financial position, debt retirement obligations if any, and other factors including the need to provide for growth and reserves as determined by the Board of Directors.

1.11.2 Dividends are paid to all shareholders from net income (earnings after taxes). Interim dividend payments are made to all shareholders after the half-year results, and the final dividend payments are made subsequent to the close of the fiscal year-end.

1.11.3 Over the four (4) year period 2003 to 2006, shareholders enjoyed a steady dividend income of EC\$0.40 per share. To achieve this steady payment, table 10 below shows that in 2004 and 2006, CWSKN funded their dividend payments mainly from its reserves, as total dividends exceeded annual income earned.

Table 10: Historic Dividend Payments, Retention Rates and Comparative Dividend Performance

Particulars	2007	2006	2005	2004	2003
Earnings per Share (EC\$)	0.378	0.193	0.55	0.24	0.483
Dividend per Share (EC\$)	0.35	0.40	0.40	0.40	0.40
Dividend Payout Ratio (%)	92.6	207.3	72.2	167.4	82.8
Retention Rate (%)	7.4	(107.3)	27.8	(67.4)	17.2

1.11.4 To preserve their retained earnings position for future organic growth, CWSKN reduced its dividend payment in 2007 to EC\$0.35 per share. Notwithstanding this, when compared with public listed companies on the ECSE, CWSKN’s dividend payments to its shareholders can be considered relatively attractive.

2.0 Economic and Industry Review

2.1 Review and Outlook (Forecast) of the Saint Kitts and Nevis Economy

- 2.1.1 St. Kitts and Nevis is a small, open, middle-income economy with a population of about 46,000 and per capita income of over US\$9,500. The sugar industry, which traditionally was the main economic activity, was closed in July 2005 as a result of a sustained annual loss of 3-4% of GDP over the last few years and the realization of the impracticality of improving competitiveness in the face of the impending loss of preferential access to the EU market.
- 2.1.2 Despite the closure of the sugar industry, economic growth accelerated to 4.6% in 2006 up from 4.1% in 2005 and is projected to have remained at this level in 2007 driven mostly by construction and tourism related developments linked to the hosting of Cricket World Cup 2007.
- 2.1.3 Although the closure of the sugar industry in 2005 has had limited impact on growth and the balance of payments, it has increased government debt and debt service costs as the closure required the government to service the debt of the sugar company which was on the scale of 29% of GDP. The stock of public debt which has soared to 190% of GDP over 2005-2006 is also attributable to recovery and rehabilitation efforts in the wake of three hurricanes in the second half of the 1990s and an accommodative policy stance.
- 2.1.4 High global prices for petroleum necessitated large adjustments in petroleum and electricity prices creating a temporary spike in inflation over 2005-2006 of 7.2% compared to 1.7% in 2004. In 2006, the central government primary surplus was estimated at 6% of GDP, which is a significant improvement from a small primary deficit recorded in 2004 of (0.4%) of GDP.
- 2.1.5 Despite the challenges of managing the high public debt, medium term growth prospects for St. Kitts and Nevis appear favorable. St. Kitts & Nevis' deliberate focus on managing the transition of the economy from agriculture to a tourism-based economy has met with some success. From all indications, tourism will continue to be the main driver of the economy with a number of very large private sector tourism projects - some with planned investments of over 50% of GDP - to come on stream over the period 2007-2008. Other sectors such as agriculture and information and communications technology are also expected to become more dynamic.
- 2.1.6 Overall the government's strategy for the medium term is to implement measures to bring down the very high public debt burden, realize the economy's growth potential, and to reduce vulnerabilities. There is also a policy thrust to create a strengthened investment climate in order to help sustain growth and competitiveness over the medium term.

- 2.1.7 The establishment of the CARICOM Single Market Economy (CSME) is expected to ease labour market constraints through enhanced labour mobility and the broadening of the available skills mix as well as offer new opportunities for the unemployed. Efforts to increase the efficiency and reliability of public utilities are also underway as in the case of the Electricity Department.
- 2.1.8 Furthermore, the liberalisation of the telecommunications sector, which commenced in 2001, has driven down costs for mobile, fixed line and broadband services. The combination of these reforms should serve to lower the cost of doing business and therefore improve the growth prospects for the St. Kitts and Nevis economy.
- 2.1.9 A review of the 2007 IMF Article IV Consultation for St. Kitts and Nevis reveals two likely scenarios for the economy of the Federation over the medium term.
- 2.1.10 Firstly an active scenario, which assumes broad tax reform; efforts to strengthen capital budgeting and the operations of public enterprises, and improved debt management. Should these interventions be executed, real GDP growth averages of 4% could be anticipated over the medium term with a primary surplus of up to 8% of GDP, and a reduction of the Debt to GDP ratio to 117% of GDP by 2010.
- 2.1.11 Under the passive scenario, which assumes no interventions aimed at tax reform, expenditure reform and debt management, growth will slow to 2.5% of GDP a year. Fiscal expenditures will escalate to high levels ultimately pushing the primary balance into deficit and further escalation of the debt to GDP ratio.

2.2 Review of the Telecommunication Sector in the OECS

- 2.2.1 With the launch of the World Bank funded OECS Telecommunications Reform Project in 1998, the States of Dominica, Grenada, St Kitts and Nevis, Saint Lucia and St Vincent and the Grenadines embarked on a process to liberalize the telecommunications sector within these States. The objectives of the project were to introduce pro-competition reforms in the telecommunications sector, lower prices of telecommunications services and increase the supply of informatics-related skills in the five (5) participating member States.
- 2.2.2 The Telecommunications Act of 2000 provided the legal framework for the liberalization rescinding the monopoly rights of Cable & Wireless in the participating member states. A treaty establishing ECTEL was signed by the five participating governments on 4 May 2000 in St George's, Grenada. The treaty provided for the establishment of the Eastern Caribbean Telecommunications Authority (ECTEL) as an inter-governmental entity to provide legal and technical advice to the OECS Contracting States on all matters relating to telecommunications liberalization.

- 2.2.3 An agreement to enable the full liberalization of the telecommunications sector in the ECTEL member states was signed between the ECTEL Member States and Cable & Wireless on 20 May, 2002. This agreement included new rates for regulated and unregulated services. With the first licences issued to new entrants in late 2002, liberalization of the telecommunications sector in the ECTEL Member States became a reality.
- 2.2.4 By the end of 2004, close to forty licences had been issued to new entrants in the ECTEL Member States for Fixed Public, Public Mobile and Internet Networks and Services. However, not every provider who was granted a licence launched the service.
- 2.2.5 The telecommunications sector in the ECTEL States remained active in 2005/06 with telecommunications accounting for an average contribution of 11% to GDP⁵ compared with 10.7% in the previous year.
- 2.2.6 Revenues continued to trend upwards, increasing by 5% to EC\$712 million at March 2006, largely as a result of increased mobile and internet subscription. The mobile telephone market continued to dominate the telecommunications sector, despite a tapering of growth to 12% over the last two (2) years. There has been a steady shift away from dial-up to broadband internet access. At March 2006, 73% of internet subscribers had broadband access, up from 28% in 2004. Employment continued on an upward path increasing 12.6% to over 1360. Investment remained robust at \$111 million though this was down 32% on March 2005 figures.
- 2.2.7 Early indications for 2007 are that revenue in the telecommunications sector is estimated to have increased further by 3.9% to \$739.6 million, remaining almost constant at an average of 10% of GDP from the previous year. Preliminary data for 2007 shows that investment in the telecom sector increased by an estimated 21% over March 2006 levels to more than \$134.8 million, remaining at an average of 2% of GDP from the previous year. This was due in large part to the landing of the Southern Caribbean Network submarine cable system in the Member States.

⁵ Based on ECCB's GDP estimates for 2005. The share of communications is a proxy for telecommunications.

2.3 Review of the Telecommunication Sector in St. Kitts and Nevis

2.3.1 According to ECTEL⁶, the St. Kitts and Nevis telecommunications sector has been dynamic since liberalisation contributing an estimated 10.2% to GDP in 2005. This compares favorably to the other OECS ECTEL member states as shown in table 11.

Table 11: Telecommunications' Sector contribution to GDP

Country	Contribution to GDP (%)
Dominica	9.1
Grenada	13.2
St Kitts and Nevis	10.2
Saint Lucia	11.1
St Vincent and the Grenadines	10.2

2.3.2 By March 2006 eleven (11) licences had been issued in St. Kitts and Nevis, three (3) for Fixed Public Telecommunications, three (3) for Public Mobile Telecommunications, four (4) for Internet Network and Services and one (1) for submarine cable. As at March 2007, ECTEL has recommended the award of one (1) more Public Mobile licence to 21st Century Telecom in St. Kitts and Nevis.

2.3.3 Data for the industry as a whole suggests that the mobile services segment was by far the largest segment of the market in St. Kitts and Nevis with growth in subscription of 76% over 2005-2006. At March 2006, mobile penetration in St. Kitts and Nevis surpassed by far any other ECTEL member state at 104% with as many as 90% of mobile subscribers holding prepaid mobile phones. Furthermore, the penetration of fixed line and internet services in St. Kitts and Nevis is the highest amongst ECTEL member states with the latter being as much as three times the average level in the other ECTEL member states.

2.3.4 Further reforms to the telecommunications sector are envisaged for St. Kitts and Nevis. The ongoing St. Kitts and Nevis **Telecommunications and ICT Development Project**, approved on 12 May 2005, aims at improving the access, quality, and use of telecommunications and ICT services to achieve greater socio-economic development in the Organization of Eastern Caribbean States (OECS). One of the major components of the project seeks to strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector.

⁶ ECTEL - Annual Telecommunications Sector Review, 2006

2.3.5 Emphasis will be given to capacity building of ECTEL and its subsidiary counterpart operating at the national level – the National Telecommunications Regulatory Commissions (NTRCs) - by providing them with assistance to revise the regional and national sector legislation, and develop a modern interconnection regime. Other components of the project will review current universal access policy, create related guidelines, provide financial support to establishment of a Universal Service Fund (USF) and improve growth and competitiveness in ICT-enabled services through promotion of broadband infrastructure.

2.3.6 Table 12 below provides a competitive analysis of the market within which CWSKN currently operates. It shows that the CWSKN strategic approach for the market as a whole (mobile and fixed voice services and data services) is to utilize its full service provider advantage to deliver efficient, reliable and leading edge telecommunication services for the best overall value and experience for its customers.

Table 12: Competitive Analysis of the Telecoms Market in St. Kitts and Nevis

CATEGORY	MOBILE	FIXED LINE (DOMESTIC & INT'L)	DATA, INTERNET & BROADBAND
Competitors	Digicel UTS / Caribglobe 21 st Century (CDMA only)	The Cable (St. Kitts) Caribbean Cable Company (Nevis)	The Cable (St. Kitts) Caribbean Cable Company (Nevis) Tek Streme (Nevis)
C &W Market Position	#1	#1	#1
Market Penetration	>100% (per population)	>100% (per household)	> 50% (per household)
CW Positioning	Innovative, Leading edge & Best Overall Value	Reliable	Fastest speed, low pricing, best overall experience
Competitor Positioning	Value (most affordable)	Cheaper alternative	Best Bundled Value

3.0 Security Valuation

3.1 Assumptions for the 3-year Forecast Period (2008 to 2010)

3.1.1 *Economic Performance:*

The economic outlook is already summarised in Section 2.1.

3.1.2 *Regulatory Environment & Market Conditions:*

A review of regulated rates as established by Regulatory Authorities is due in November 2008, and based on past trends, further reductions are anticipated. This will no doubt impact on the level of revenue generated by CWSKN in its regulated services business segment.

Competition is also expected to intensify further as the market matures, and competitors expand their overall capacity and embrace emerging technology. Ultimately, such competition could drive market prices downwards and impact adversely on the company's revenue base.

Already, the US market has witnessed the emergence of number portability whereby both mobile and domestic users can change their network provider whilst still retaining their telephone numbers, thus providing them with both portability and convenience. It is therefore likely that users in St. Kitts and Nevis and other regional markets may begin to advocate through the regulatory authorities for such freedom in their choice of telecom provider.

3.1.3 *Marketing Strategy*

Although CWSKN's marketing and promotional campaigns have been successful both from a revenue and customer-based perspective, they have also been one of the main contributors to its increasing cost of sales (and resulting impact on gross profit margins).

Going forward, CWSKN is expected to focus on developing much more cost effective marketing and promotional strategies that will impact positively on the company's bottom line, and achieve greater results in customer growth and loyalty.

Its commitment as a corporate social citizen remains un-wavering.

3.1.4 *Product Development and Expansion*

CWSKN will continue to enhance and expand its diverse range of products and services based on the market needs and by capitalising on new technology.

Currently, the development of new products and services are determined by their customers' needs and demand (through market surveys, call-in programs and focus-group sessions), and this is expected to remain their key strategy going forward.

3.1.5 Capital Investment Program

During 2008/09, CWSKN is expected to continue its capital investment program, albeit not as extensively as was previously undertaken during 2003/07. Following the re-branding of its broadband product, further technological upgrades are expected which will allow for the provision of new IP services.

However, in addition to upgrading its technological platform as the telecommunications sector continues to grow, the Company is expected to also focus on office and building improvements during the first two (2) years of the forecast period.

3.1.6 Business Growth and Diversification:

Given the above strategies CWSKN is expected to remain focused on strategically increasing its broadband and mobile segments, which should negate the anticipated decline in fixed line revenue due to the anticipated decrease in fixed line rates.

In addition to the anticipated increase in demand expected from a growing tourism sector, by capitalising on the VoIP technology the company will also seek to expand its services to foreign nationals.

Moreover following the re-branding of its broadband business in September 2007, further growth both in terms of revenue and household penetration is expected.

Overall, CWSKN's total revenue is expected to grow between 3.0% and 3.8% during the projected period, with total revenue increasing to EC\$115.2M by 2010. Gross profit should increase during the forecast period to EC\$79.1M

3.1.7 Company Efficiency Levels

Operating Efficiency: CWSKN efficiency levels have improved steadily throughout the review period, and this trend is expected to continue over the next three years due to a combination of the company's business strategies outlined above, and effective management of its assets. Operating expense as a percentage of total revenue is expected to reduce to 40% over the next three (3) years.

Cost Efficiency: Cost of Sales is expected to be less than annual growth in the company's top line based on the development of more effective marketing and promotional campaigns combined with CWSKN's capitalisation on technological upgrades and advancement.

3.1.8 Liquidity Position:

CWSKN's objective is to maintain a 1:1 current liquidity ratio over the next three (3) years, whilst simultaneously improving its net current asset position. This will be accomplished through the effective management of its short-term liabilities

3.1.9 Profitability:

Operating Expenses: Overall, CWSKN is expected to experience slight growth in operating expenses. Anticipated increases in staff costs should be negated by reduced rental costs as the company continues to build its own towers. The company's target EBITDA is 35% of total revenue and gross profit margin is expected to increase to 72% by 2010.

Projected taxes are calculated at the corporate tax rate for St. Kitts and Nevis of 35%.

3.1.11 Dividend Payment:

CWSKN is expected to continue to grow its business from retained earnings. Given the anticipated projects and capital investment programs over the forecasted period, dividend payment per share is expected to remain constant at EC\$0.35 as the company continues to expand its business operations.

Table 13: 3-year Summary of Income Projections for the period 2008 to 2010

Particulars	2007A	2008F	2009F	2010F
Revenues (EC\$'M)	104.40	107.5	110.9	115.1
Gross Income (EC\$'M)	72.7	74.2	78.7	82.9
EBITDA	31.8	34.4	37.7	40.3
Operating Income (EC\$'M)	22.75	23.4	26.2	28.2
Profit after Tax (EC\$'M)	12.52	14.9	16.7	18.0
Shares Outstanding ('000)	33.13	33.13	33.13	33.13
EPS (EC\$')	0.38	0.45	0.50	0.54
DPS (EC\$')	0.35	0.35	0.35	0.35
Net Profit Margin (%)	11.99	13.90	15.06	15.62

Table 14: 3-year Summary of Balance Sheet Projections for the period 2008 to 2010

Particulars	2007A	2008F	2009F	2010F
Total Assets (EC\$'M)	119.6	125.6	132.5	140.4
Total Liabilities (EC\$'M)	43.3	45.9	47.7	49.2
Equity (EC\$'M)	76.3	79.7	84.8	91.2
Current Liquidity	0.96	1.01	1.05	1.10
ROE (%)	17.3	19.4	20.0	20.0
ROA (%)	10.1	12.2	13.0	13.2

3.2 Security Valuation Methodology

3.2.1 *Valuation Method:* In determining the valuation of the company, the Discounted Cash Flow Method and Market Based Valuation models were used.

3.2.2 Discounted Cash Flow Method

This method is based on the determination of the present value of the expected or projected free cash flows of the firm to a horizon year, by discounting with an appropriate factor. Fundamental in this approach is the determination of the appropriate discount factor and determining the reasonableness of the projected free cash flows.

Discount Factor: In determining the discount factor several issues were taken into consideration. The Capital Asset Pricing Model (CAPM) was used to estimate the cost of debt and cost of equity, and the following variables were estimated:

- (a) *Country risk premium:* based on a Citigroup rating scale of 6+.
- (b) *Risk Free Rate:* based on the US Government risk free rate (rf) and the country risk premium;
- (c) *Asset Beta:* calculated based on the average betas for Caribbean / Latin American telecommunication companies;
- (d) *Equity Risk Premium:* based on the average betas for Caribbean / Latin American telecommunication companies; and
- (e) *Capital Structure:* A projected debt to equity structure of 15% debt and 85% equity.

An overall discount factor of 11.8% was calculated.

Indicative Price: On the basis of the foregoing a share value of EC\$6.40 was calculated.

3.2.3 Market Based Valuation (Relative Valuation)

The Market Based Valuation method is one of the most common techniques used to value telecom companies internationally, given the dynamic nature of the industry. The methods used under this approach involved the comparison of various earnings multiples for Cable and Wireless plc's industry peers in the global market. Table 15 below summarises the indicative price ranges calculated based on the both valuation models.

Table 15: CWSKN Security Valuation - Projected Share Prices by Methodology

Valuation Multiple	2008 Projected Industry Multiples	Indicative Price Range
P / E	13x - 16x	EC\$6.00 – EC\$7.00
Dividend Yield (D/P)	4.0% - 6.0%	EC\$6.50 – EC\$7.00
EV / EBITDA	6.0x to 7.5x	EC\$6.25 – EC\$7.25
Discounted Cash Flow		EC\$6.40

3.2.4 The above security valuations using both methods suggest an indicative price range between EC\$6.00 and EC\$7.00.

4.0 General Information

4.1 Corporate Governance

- 4.1.1 CWSKN's Board of Directors is responsible for the overall Corporate Governance of CWSKN and must adhere to the highest standards of Corporate Governance, which is guided by a formal Cable & Wireless International Governance Framework.
- 4.1.2 The policy document provides an overview of the governance framework for Cable & Wireless International within the context of the governance applied to Cable and Wireless plc, which the International business must comply with.
- 4.1.3 Oversight is further provided through:
- (a) Cable & Wireless International Board
 - (b) Monthly Operational Reviews (MORs)
 - (c) Financial Governance & Performance Targets; and
 - (d) Decision Rights.

4.2 Material Change Reporting

- 4.2.1 CWSKN shall issue news releases to its shareholders within seven (7) days following a material change in the business or affairs of the company. A "material change" is a matter that is likely to affect a shareholder's decision to sell or purchase shares or which is likely to affect the price of listed shares.

4.3 Material Litigation

- 4.3.1 There are no material, pending or threatened claims, and legal or arbitration proceedings against the Company or any of its directors or properties that may have a significant effect on the Company's financial position.

5.0 Material Disclosures

5.1 Material Interest

5.1.1 Shareholders with material interests are disclosed in the Table 16 below.

Table 16: Top Ten Shareholders of CWSKN

Shareholders	Shareholding
Cable and Wireless plc / CWWI	82.00%
SKNA Trading & Development Co. Limited	0.46%
National Caribbean Insurance Co. Limited	0.40%
St. Christopher & Nevis Port Authority	0.36%
Estate Of Dr. William Herbert	0.35%
St. Kitts Nevis Cable Communications Limited	0.35%
Fairfax & Merrill Limited	0.34%
The St. Kitts & Nevis Social Security Board	0.30%
S L Horsford & Company Limited	0.27%
Delisle Walwyn & Company Limited	0.27%

5.2 Directors' Interest

5.2.1 The shareholdings of the Directors are disclosed in Table 17 below.

Table 17: Directors' Interest

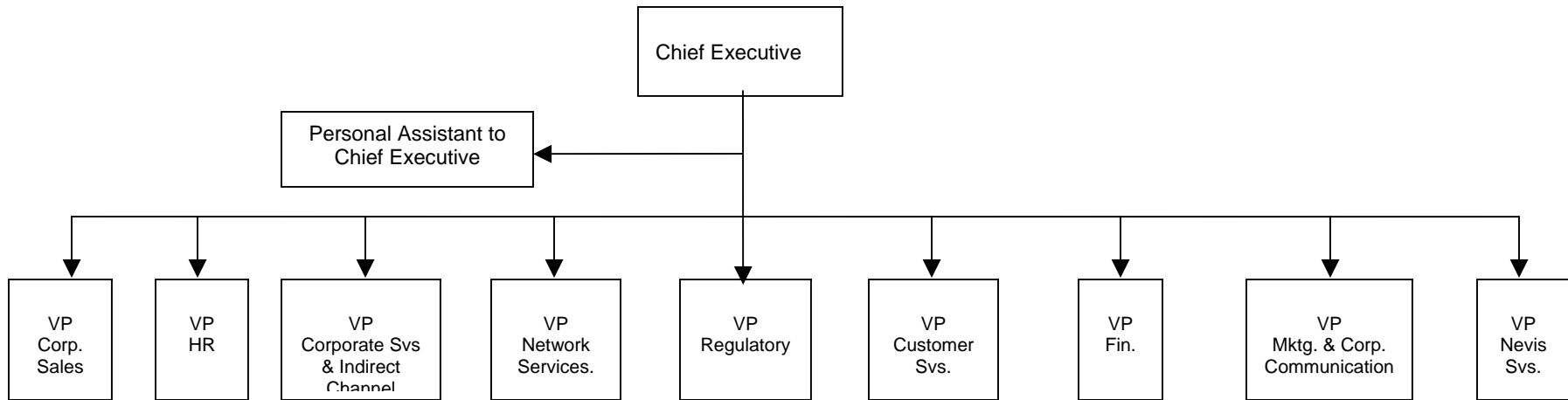
Director	Beneficial
Patricia Walters	12,600
Lyra Richards	3,600
Dr. Osbert Liburd	1,680

5.2.2 At no time during the past two years has any director had any material interest in any contract or arrangement in relation to the business of the Company and its subsidiaries.

6.0 Investment Conclusion

- 6.1 CWSKN is well positioned to capitalize on the opportunities associated with moderate economic growth for St. Kitts and Nevis over the next three (3) years. The company has undertaken a number of key strategic initiatives that are expected to auger well within the short-to-medium term.
- 6.2 Overall, the company has performed admirably in the face of competition, notwithstanding the slight weakening of its liquidity position during the review period. Going forward the company is expected to grow conservatively while effectively managing its bottom line through improved operational and administrative cost efficiency levels.
- 6.2 Its focus on staff development will continue to improve the company's human capital resources and its commitment to providing assistance to the economic and social development of St. Kitts and Nevis industry reinforces its overall Corporate Social responsibility.
- 6.3 ***Overall Recommendation: "Buy" with a medium to long-term investment horizon.***

APPENDIX A



APPENDIX B

CABLE & WIRELESS ST. KITTS & NEVIS LTD
STATEMENT OF INCOME
FOR THE PERIOD MARCH 2004 TO 2007

	2007 EC\$000	2006 EC\$000	2005 EC\$000	2004 EC\$000
Turnover	104,397	101,042	95,202	86,184
Outpayments and cost of sales	(31,700)	(28,985)	(18,202)	(9,675)
Gross Income	72,697	72,057	77,000	76,509
Operating costs	(49,951)	(57,561)	(51,464)	(55,203)
Operating Income	22,746	14,496	25,536	21,306
Net interest and other income	(1,020)	15	413	469
Profit on ordinary activities before taxation	21,726	14,511	25,949	21,775
Taxation on ordinary activities	(9,209)	(8,193)	(10,647)	(15,183)
Profit on ordinary activities after taxation	12,517	6,318	15,302	6,592

CABLE & WIRELESS ST. KITTS & NEVIS LTD
BALANCE SHEET
FOR THE PERIOD MARCH 2004 TO 2007

	2007 EC\$000	2006 EC\$000	2005 EC\$000	2004 EC\$000
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	87,736	90,528	94,794	79,639
Loan receivable from related party	-	958	2,248	3,549
Intangible Assets	<u>1,192</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non -Current Assets	<u>88,928</u>	<u>91,486</u>	<u>97,042</u>	<u>83,188</u>
CURRENT ASSETS				
Inventories	2,010	891	2,739	1,641
Accounts receivable and prepayments	19,136	18,775	12,828	15,067
Amounts due from Group companies	219	462	713	1,670
Cash at bank and in hand	<u>9,300</u>	<u>15,934</u>	21,741	17,030
Total Current Assets	<u>30,665</u>	<u>36,062</u>	<u>38,021</u>	<u>35,408</u>
Total Assets	119,593	127,548	135,063	118,596

CABLE & WIRELESS ST. KITTS & NEVIS LTD
BALANCE SHEET
FOR THE PERIOD MARCH 2005 TO 2007

	2007	2006	2005	2004
	EC\$000	EC\$000	EC\$000	EC\$000
CAPITAL, RESERVES AND LIABILITIES				
CAPITAL AND RESERVES				
Called up share capital	33,130	33,130	27,609	27,609
Share premium account	3,009	3,009	3,009	3,009
Retained earnings	40,167	38,689	46,975	42,716
Total Capital and Reserves	76,306	74,828	77,593	73,334
LONG TERM LIABILITIES				
Provision for liabilities and charges	11,418	11,967	13,867	14,285
CURRENT LIABILITIES				
Trade accounts payable	4,031	4,958	117	149
Amounts owed to Group companies	7,717	9,427	9,240	375
Provision for income tax	6,265	8,078	3,232	10,088
Other Liabilities	5,611	7,339	7,948	7,342
Accrued liabilities and deferred income	4,932	7,638	12,023	1,980
Dividends payable	3,313	3,313	11,043	11,043
Total Current Liabilities	31,869	40,753	43,603	30,977
TOTAL LIABILITIES AND EQUITY SHAREHOLDERS' FUNDS	119,593	127,548	135,063	118,596

**CABLE & WIRELESS ST. KITTS & NEVIS LTD
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED MARCH 2004 TO 2007**

	2007	2006	2005	2004
	EC\$000	EC\$000	EC\$000	EC\$000
Cash Flows from operating activities				
Income on ordinary activities before taxation	21,726	14,511	25,949	21,775
Adjustments for:				
Depreciation expense	9,079	11,025	10,365	9,193
Loss/(gain) on disposal of property, plant and equipment	267	130	(150)	(5)
Net Interest	248	(67)	(413)	(469)
Impairment	<u>-</u>	<u>4,538</u>	<u>174</u>	<u>3,398</u>
Operating cash flows before working capital changes	31,320	30,137	35,925	33,892
Decrease/(Increase) in inventories	(758)	1,848	(1,098)	1,204
(Increase)/decrease in accounts receivable	(471)	(4,405)	4,498	3,321
Increase in accounts payable and accrued liabilities	(7,333)	664	19,481	(11,031)
Net cash from operations	22,758	28,244	58,806	27,386
Income taxes paid	(11,309)	(11,648)	(17,921)	(9,572)
Interest received	233	380	440	499
Interest Paid	(481)	(313)	(27)	(30)
Net cash from operating activities	11,201	16,663	41,298	18,283

CABLE & WIRELESS ST. KITTS & NEVIS LTD
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED MARCH 2004 TO 2007

	2007 EC\$000	2006 EC\$000	2005 EC\$000	2004 EC\$000
Cash flows used in investing activities				
Purchase of tangible property, plant and equipment	(6,639)	(11,472)	(25,820)	(5,074)
Proceeds from disposal of tangible property, plant and equipment	85	45	276	126
Acquisition of intangible assets	(1,553)	-	-	-
Loans proceeds	1,311	-	-	-
Net cash used in investing activities	(6,796)	(11,427)	(25,544)	(4,948)
Cash flows used in financing activity				
Dividends paid	(11,039)	(11,043)	(11,043)	(11,043)
Net cash used in financing activity	(11,039)	(11,043)	(11,043)	(11,043)
Net change in cash and cash equivalents	(6,634)	(5,807)	4,711	2,292
Net cash and cash equivalents, beginning of year	15,934	21,741	17,030	14,738
Net cash and cash equivalents, end of year	9,300	15,934	21,741	17,030