

Nathan Associates Inc.



Live Webinar Sale of Business of TSKL

9 a.m. Tarawa/Fiji time - Friday May 23, 2014
5 p.m. Eastern US time - Thursday May 22, 2014





Webinar Program – Sale of Business of Telecom Services Kiribati Limited (TSKL)

Date and Time

Tarawa/Fiji: 9:00 a.m., Friday May 23, 2014

Eastern US: 5:00 p.m., Thursday May 22, 2014

Time Fiji/Tarawa	Presentation	Presenter and affiliation
9:00-9:15 a.m.	Set up and registration	
9:15-9:20 a.m.	Welcome remarks	Ms. Teea Tira, Chairperson, SRSC
9:20-9:25 a.m.	Introduction and Overview of Kiribati	Mr. Bruno Viani, Nathan Associates (advisors)
9:25-9:35 a.m.	Kiribati's Developing Communications Regulatory Regime	Mr. Tiare Erekena, CEO, CCK Ms. Lisa Leidig, (advisor CCK)
9:35-9:50 a.m.	Overview of TSKL	Mr. Andrew Fyfe, Nathan Associates (advisors)
9:50-10:05 a.m.	Prequalification Process	Mr. Thomas Skilton, Nathan Associates (advisors)
10:05-10:15a.m.	Proposed transaction and timeline	Mr. Thomas Skilton, Nathan Associates (advisors)
10:15-10:45 a.m.	Q&A session	All

SRSC: State Owned Enterprises Steering Committee

CCK: Communications Commission of Kiribati

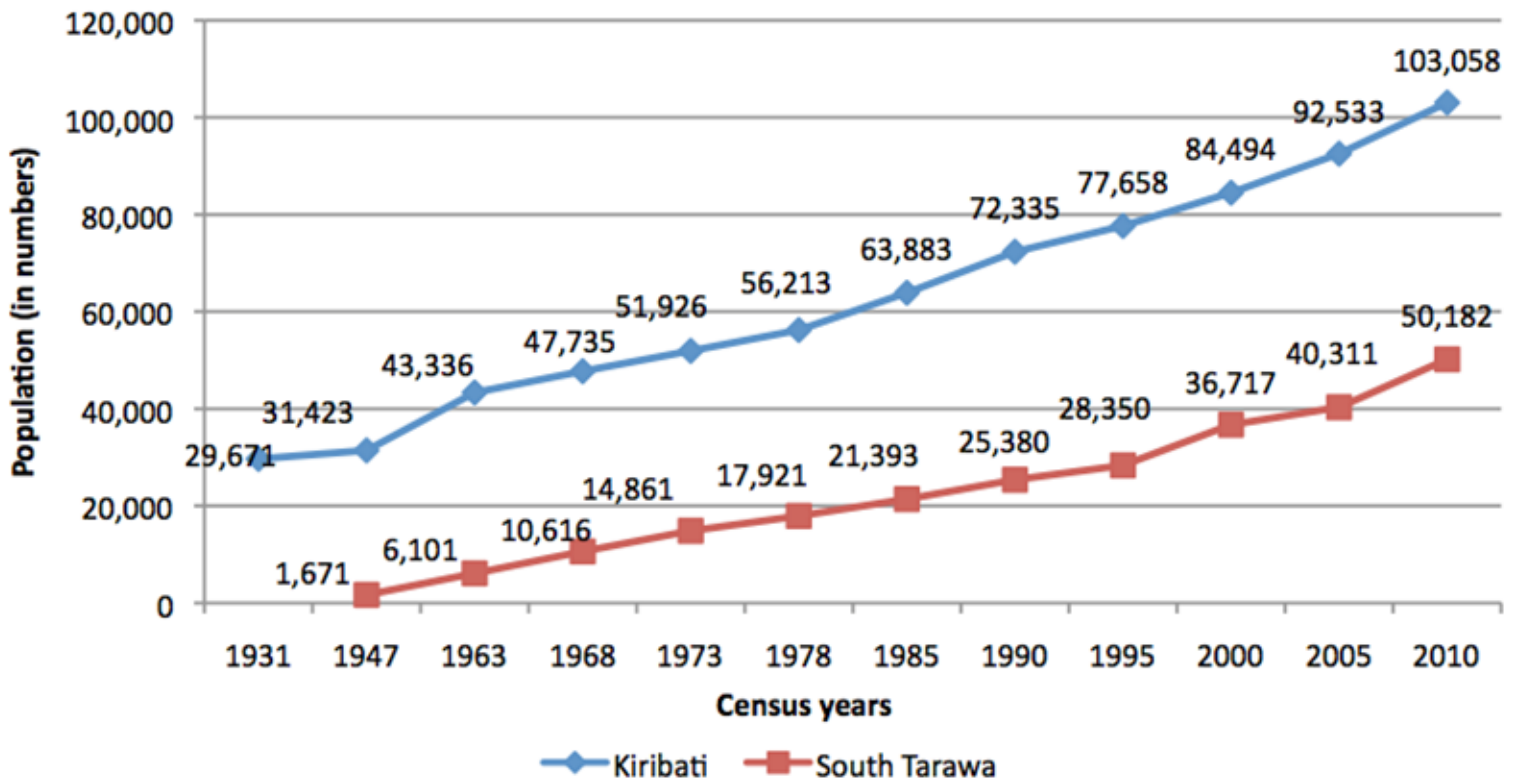


Overview - Kiribati

- Became independent in 1979 from Britain
- Consists of 32 atoll islands forming three groups (Gilbert, Phoenix, Line)
- Tarawa, the capital, is in Tarawa atoll part of the Gilbert group
- Estimated population in Kiribati is 112,000 with approximately 54% living in Tarawa atoll



Population - historical data

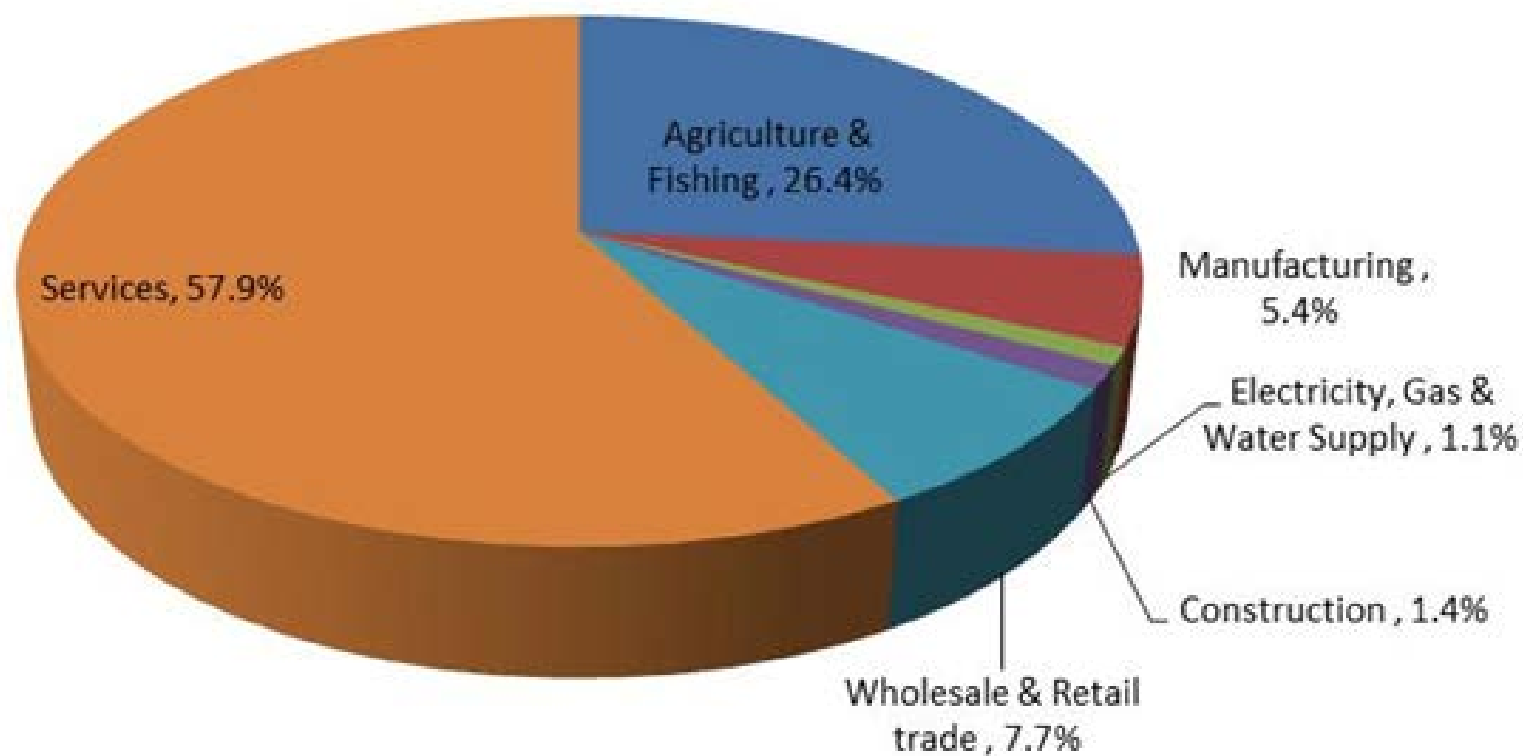


The Economy

- National currency is Australian dollar
- Government is single largest employer. It accounts for 2/3 of paid employment including SOEs.
- Economy dominated by government. Government revenue estimated to be 88%GDP
- Government revenue and grants:
 - External grants > government revenue
 - Fishing license fees 49% Gov. revenue



The Economy - structure by sector

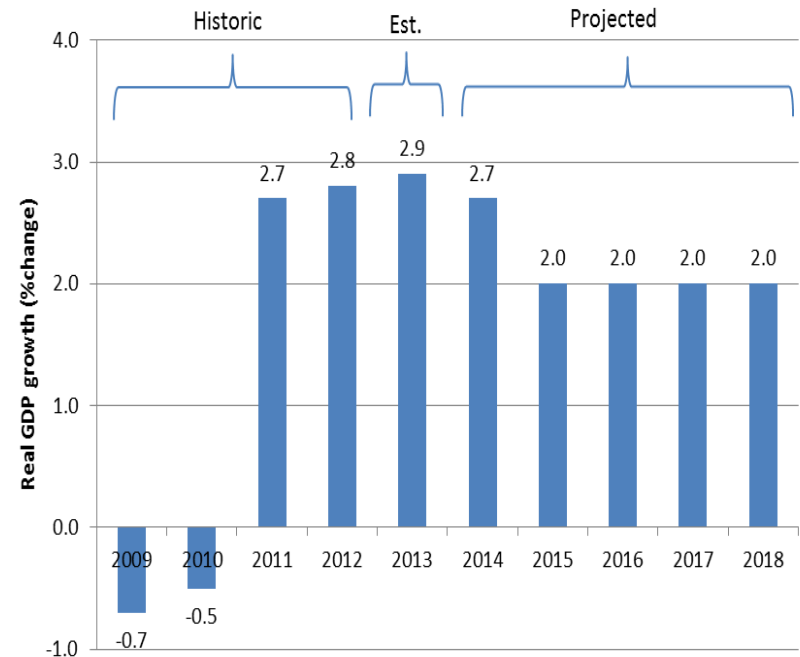


The Economy

Key statistics

- Estimated inflation = 2.5%
- Estimated 2013 GDP per capita = US\$ 1,698
- Estimated 2013 GDP = US Million \$185.7
- Real GDP growth projected for 2014 is 2.7%

IMF growth data and projections



Source: IMF. Kiribati 2013 Article IV Consultation. June 2013

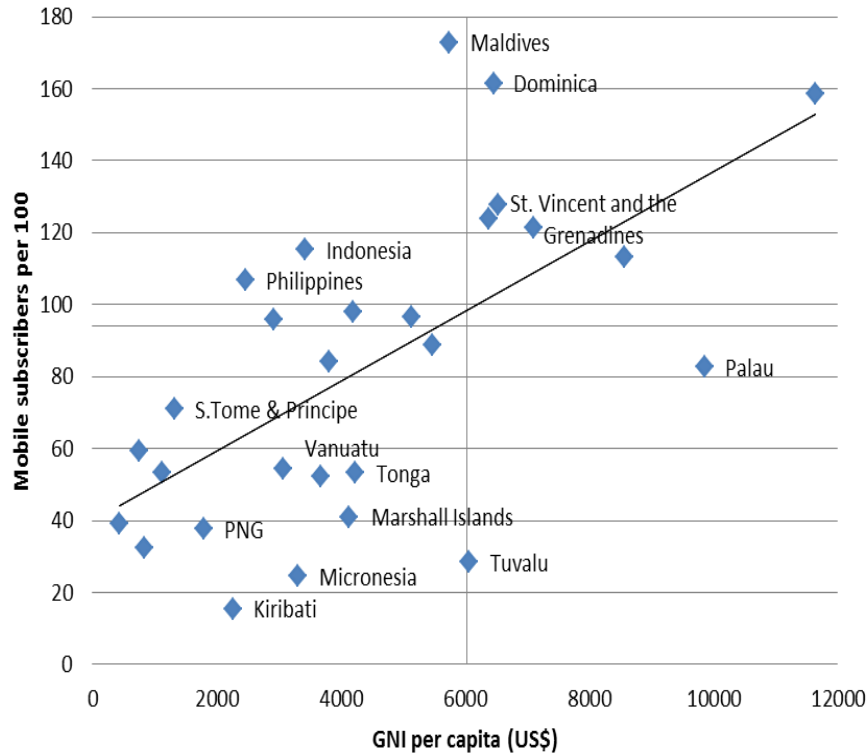


Telecommunications Overview

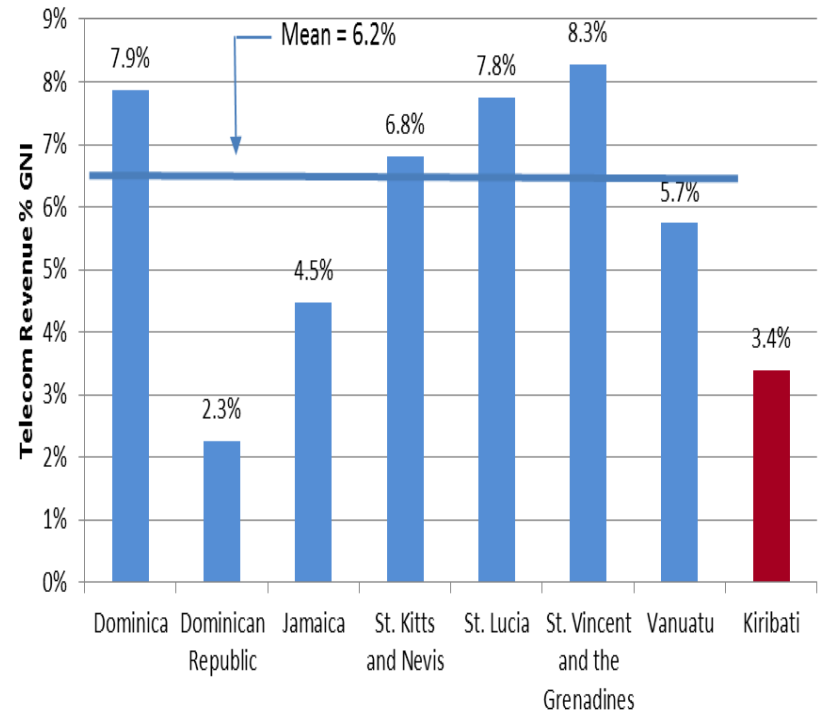
- Almost all telecommunications services are provided by TSKL. Some V-SAT service provided by PACTEL
- All international communications via satellite
- Mobile 3G service launched recently in Tarawa and Kiritimati (Christmas) island.
- Service availability lags behind other Pacific island nations or comparable countries



Telecom services lag behind other countries



Latest year for which data is available (2012).
Source: ITU and the World Bank.



Latest year for which data is available for all countries (2010). Source: various





TSKL OPERATIONAL AND FINANCIAL REVIEW

Overview

Organizational structure

Human resources

Operational review

Network

Financial performance



OPERATIONAL AND FINANCIAL REVIEW

- ***Overview***
- Organizational structure
- Human resources
- Operational review
- Network
- Financial performance



OVERVIEW

- TSKL is undermanaged and there is considerable potential upside under efficient management in the following areas:
 - Customer service
 - Cash management
 - Network operations
 - Network asset rationalization
 - International capacity costs
- New 3G/4G capability ready for greater exploitation
- Revenue can be improved due to supply limitations, poor pricing and service delivery have left considerable revenue on the table. Telecoms services are a relatively low 3.5% of GDP



OVERVIEW

- TSKL's financial statements do not reflect the true financial situation of the company
- Significant discrepancy between reported sales and collected revenue
- Grant Thornton were hired to produce normalized 2013 financial statements
- The company is profitable and there is room for significant improvement in EBITDA
- Revenue collection processes are not implemented effectively.



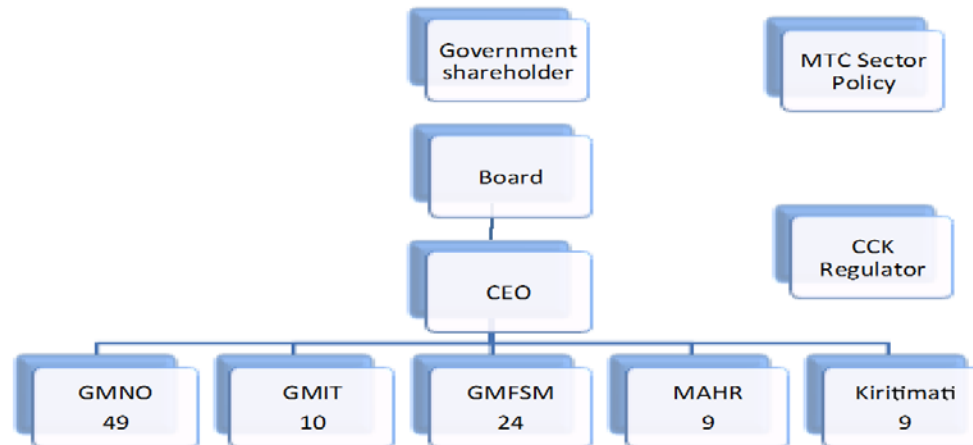
OPERATIONAL AND FINANCIAL REVIEW

- Overview
- ***Organizational structure***
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ORGANIZATIONAL STRUCTURE

TSKL Board and Management in the context of Government ownership and supervision



- Staff reduced from 164 to 94 at last count by retirement and natural attrition



OPERATIONAL AND FINANCIAL REVIEW

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HUMAN RESOURCES

- Employees have been reduced from around 164 to 94 in the last few years by natural attrition and retirement
- No restructuring has been implemented and a number of key positions remain unfilled
- All employees will be transferred to Newco on essentially the same conditions as governed by TSKL's current Employment Conditions
- Few employees have any significant employment experience elsewhere
- The CEO is on a 3 year contract
- Details will be available in the data room



OPERATIONAL AND FINANCIAL REVIEW

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- ***Operational review***
- Network
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Operational Review

- Performance is limited by poor execution in many areas
- Network operational problems
- Poor execution of financial controls
 - Accounts receivable, accounts payable
 - Work in progress transfers to Fixed Assets
- Taxes and dividends paid not always justified by the actual financial performance in recent years
- High cost of debt
- Processes not strictly adhered to
- Opportunity for improved performance
- Notwithstanding this the company makes a profit and an estimated EBITDA of 32% after adjustments



Operational Review

- 3G/4G network infrastructure brought into service in October 2013 in Tarawa and in March 2014 in Kiritimati (Christmas Island)
- Preliminary results show revenues and subscribers growing fast:
 - 2013 4th qtr revenues Au\$ 21,181 ending with 837 users
 - 2014 1st qtr revenues Au\$ 48,899 ending with 1,858 users
 - 2014 April revenue Au\$ 22,065 from 2,313 users
- End March 2G active users 17,269



OPERATIONAL AND FINANCIAL REVIEW

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Network

- The infrastructure consists of:
 - Fixed line network Alcatel E10 obsolete (Tarawa and Kiritimati-Christmas Island)
 - ADSL in Tarawa
 - Fixed wireless WiMax data (Tarawa)
 - GSM mobile Alcatel obsolete
 - 3G/4G installed 2013/14 on South Tarawa (Betio, Bairiki and Bikenau villages) and Kiritimati (Christmas) Island
 - Microwave links to the Gilbert Islands around Tarawa
 - HF radio links to remote low population islands
 - Earth stations including Intelsat Standard, RICS etc.



Kiribati Inhabited Islands

Gilbert Islands		Phoenix Islands	Line islands
Tarawa (capital)		Kanton	Kiritimati (Christmas)
Makin*	Kuria*	Nikamororo	Fanning (Tabueran)*
Butaritari	Nonouti*		Washington (Teeraina)*
Marankei	Tabiteuea*		
Abiang	Nikunau*		
Maiana*	Beru*		
Abemama*	Onotoa*		
Aranuka*	Tamana*		
Banaba (Ocean)	Arorae*		

* Possible Outer Island Trust locations



Customers by Technology

Technology	Active Customers
Fixed Line voice	2,700
ADSL	118
WiMax	1,200
2G mobile + text	17,269
3/4G mobile	1,701 (*)
3/4G USB Dongles	157 (*)

(*) Data for March 31, 2014



Network after Sale

- Most significant assets will be transferred in the sale to NEWCO
- Some minor assets will remain on the most remote islands and will be owned by an Outer Island Trust to be established by the GoK and will be replaced by cellular infrastructure and new satellite connections to Tarawa
- These assets will be operated and maintained by Newco and capacity will be available on equal access terms to licensed operators, at cost, in accordance with the new telecom law



OPERATIONAL AND FINANCIAL REVIEW

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Financial Performance

Sales Au\$ millions

Service	2010	2011	2012	2013 Grant Thorton ESTIMATE
Total	7.2	6.49	6.56	6.701
Fixed voice	4.27	2.73	1.45	3.000
Mobile voice	1.06	1.55	2.43	2.165
Internet (data mobile)	-	-	-	No information
Internet (data fixed)	0.66	0.61	0.65	0.987
Data circuits	0.27	0.14	0.14	0.140
Other	0.94	1.45	1.21	0.409

Notes:

- Revenue prior to 2013 overstated due to uncollected revenue
- 2G voice has been growing and reached capacity in 2013
- 3/4G infrastructure said to be capable of 50,000 users
- No mobile data usage from TSKL as of writing. Anecdotal evidence is that users have brought in 3G and 4G phones and are getting service and mobile data use increasing rapidly due to poor performance of the ADSL and WiMax systems



Financial Highlights 2013

Au\$ (000)	2012	2013	2013 Adjustments	2013 GT Estimate
Sales	6533	7059	-358	6701
Salaries	(1,279)	(1,225)	-	(1,225)
Space segment	(895)	(1,014)	(107)	(1,121)
Power	(580)	(527)	-	(527)
License Fees	(85)	(205)	35	(170)
Outbound settlements	(72)	(98)	-	(98)
External service fees	(340)	(235)	-	(235)
Cost of Sales	(282)	(278)	-	(278)
Bad debt provision	(240)	(240)	-	(240)
Other	(688)	(654)	-	(654)
Total Expenditure	(4,461)	(4,476)	(72)	(4,548)
EBITDA	2,085	2,612	(430)	2,182
EBITDA %	31.9%	37.0%		32.6%





Pre-qualification Process and Proposed Transaction



Prequalification Process

- Call for Prequalification
- Prequalification Criteria (IPQ)
 - Technical
 - Financial
- Process
 - Demonstrate Qualifications
 - Prequalification Fee
 - Confidentiality Deed



Prequalification Process: Criteria

Two Options: Operator and Non-Operator

- Operator:
 - Organizational
 - Operational Requirements
 - >50,000 Customers
 - GSM or 3G or Fiber Optic Network
 - Financial Requirements
 - Annual Sales: >US\$15M (3 years average)
 - Shareholders Equity: \geq US\$10M
 - EBITDA: \geq 15% total annual revenue (3 years average)



Prequalification Process: Criteria (cont.)

- Non-Operator/Financial Company
 - Organizational
 - Financial Resources
 - \geq US\$250M under management; or
 - \geq US\$50 un-invested, committed funds available
 - Investment Experience
 - Investment Experience: \geq US\$50 invested telecommunications sector (fixed, mobile, internet)



Prequalification Process: Consortia

- All consortia to be approved by Committee in sole, absolute discretion
- Prequalified Non-Operator/Financial Entity
 - Prior to Auction, must form consortium with operator meeting requirements for prequalified operators.



Prequalification Process

- Approval
 - SRSC Receipt of Prequalification Materials
 - SRSC Approval
- Prequalification Fee
 - US\$10,000
- Confidentiality Deed

Satisfaction of foregoing. Receive “Bid Package”:

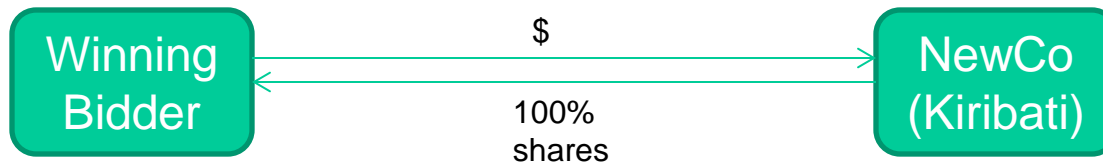
- Information Memorandum
- Bidding Rules
- Transaction Documents



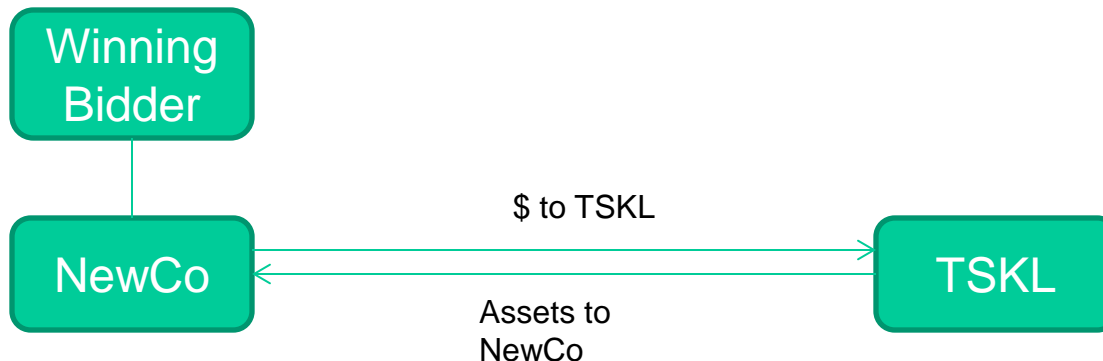
Proposed Transaction: Structure

- Asset Sale

- Winning Bidder Forms and Capitalizes NewCo

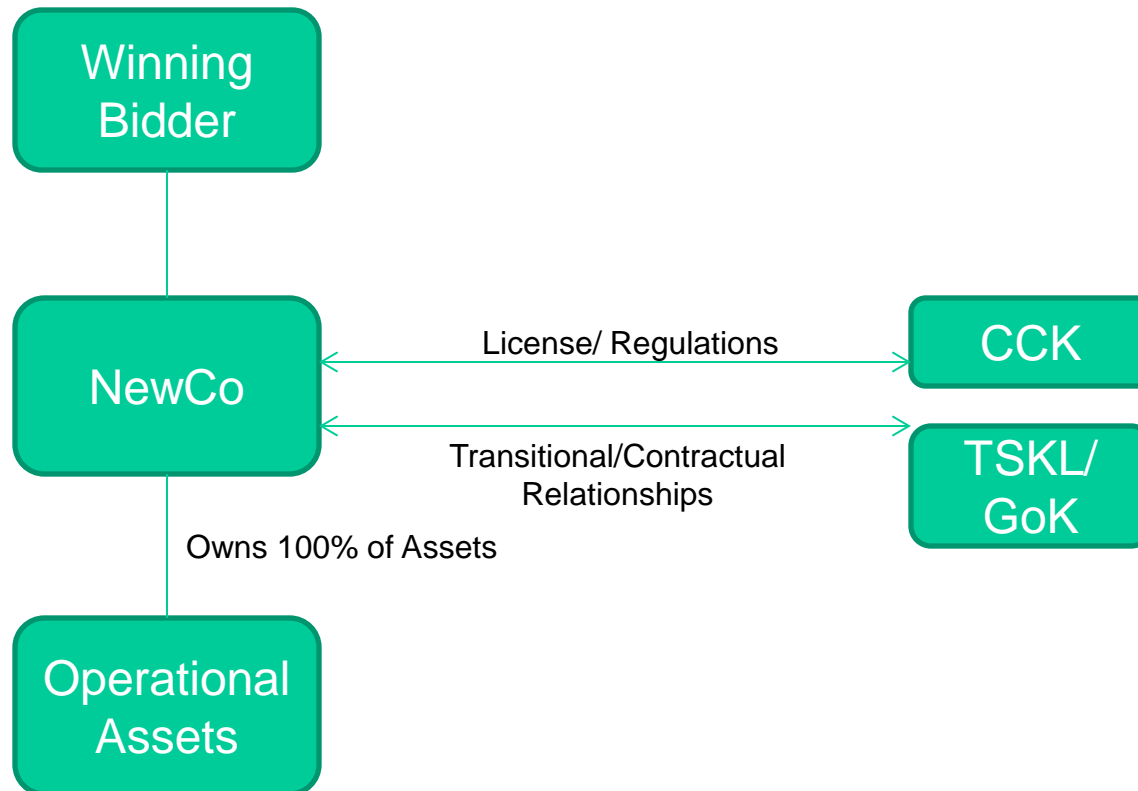


- NewCo Purchases Assets from TSKL



Proposed Transaction: Structure (cont.)

- Post-Transaction Structure



Proposed Transaction: Documentation

- Asset Purchase Agreement
 - Parent/NewCo – TSKL/GoK
 - Assets/Liabilities Defined
 - Assets to Operate the Business
 - Consider Prequalified Party Comments
- Ancillary Agreements
 - Outer Island Council Land/Assets
 - TSKL/GoK Retain Ownership. Provide for same operational relationship.
 - Transitional Services



Transaction Timeline – Key dates

Date (*)	Milestone
June 2-6	Publication of the official Call for Prequalification
June 6	Prequalification of applicants starts on a rolling basis
July 7	Last day for submission of prequalification verification documents
July 18	Last day to notify successful prequalified parties
July 14-31	Site visits to TSKL's installations in Tarawa
July 31	Last day to announce the Auction Date
August 8	Last day for prequalified parties to request approval of consortium to bid
August 15	Last day to submit written questions for clarification to the SRSC
August 15	Last day to submit written comments to transaction documents
August 20	End of due diligence period; virtual data room closes
TBD	Last day for prequalified parties to request approval of bank to issue performance secur.
TBD	Last day for bidders to submit Power of Attorney in conformity with the bidding rules
TBD	Last day for bidders to submit Performance Security form
TBD	Opening of price proposal envelopes (auction day)
TBD	Closing of sale



(*) The State Owned Enterprises Reform Steering Committee (SRSC) reserves the right to change the dates in the timeline.



Q&A Session

Please submit your questions
using the chat function on your
screen

