



Information & Communications Technology Authority

The First Two Years

**A Report on the ICT Authority's Performance and
Finances for the Period from
8th May 2002 to 30th June 2004**



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Foreword



Foreword by Stuart Diamond, Chairman of the ICT Authority

For a small Islands economy that had for many years been used to a monopoly telecommunications provider the decision to liberalize and open the sector to competitive forces was brave and far-sighted. Equally so was the decision to look at the ICT sector as the market did – convergent. The lines between a radio or television broadcaster or a telephone company would blur and the former rigid sectors converge under the broad description of Information and Communications Technology. This is evident in telephony, VoIP, broadband, vide on demand and so many other features of the modern ICT sector.

Those who drafted the ICTA Law took pains to ensure that the legislation was technology neutral. This made the legislation's "shelf life" and flexibility exceptional and gave Cayman a modern and competitive legislative framework. Another innovation in these Islands was the creation of the ICTA, a regulator that had a mandate for transparency and consumer protection whilst at the same time recognizing the needs of licensees in a newly regulated environment. The Authority's remit ran across broadcasting (including radio (commercial and private networks) and television), telephony, internet and more. Managing the introduction of competition and regulation where none had previously existed required tact, discretion and the application of that most rare of commodities – common sense.

Readers of this Report – the first produced by the ICTA since it was created – are invited to read the report, look at the new industry framework, understand the ICTA's broad sphere of governance and consider the decisions made by the Authority in the course of its administration of the ICT sector. It is for the reader to judge whether the mandate has been achieved.

For my part I can attest to the competence and capacity of the Authority's staff under the command and guidance of the Managing Director Mr David Archbold without whose valuable assistance the Board's task would be a heavy one. I would also like to thank those Board members who served in the Authority's first two years for their efforts and wisdom in the initial operation of the Authority and in the considerable task they performed in winnowing the initial

licensees from the many applicants they had then to consider.

The Cayman Islands have experienced a decrease in telecommunications costs which is in part attributable to competitive forces. For so long as the ICTA is permitted to strive to achieve its mandate the consumer, and the industry, shall surely benefit.



Introduction

The Information & Communication Technology Authority (ICTA) was created to license and regulate the broadcasting, radio, telecommunications, and internet industries in and from the Cayman Islands with a view to implementing the objectives set out in the ICTA Law (2004 Revision). This report provides an overview of the formation and history of the ICT Authority and its strategic objectives. It identifies the specific actions the ICTA took to implement the guidelines and regulations created for the statutory body. For each task the ICTA undertook, a primary concern was to balance the needs and desires of the Cayman consumer with those of the ICT sector.

A successful regulatory environment comes from understanding the perspectives of the people of Cayman along with the industry we regulate and finding a balance that will enable all parties to effectively meet their goals. The resulting report represents a concise look at the policies, decisions and guidelines of the past two years. To put this in context, it also outlines the history of telecommunications liberalisation in the Cayman Islands, and how and why the ICTA was created. Finally it discusses the future challenges and goals of the Authority.

The ICTA has initiated a number of processes in order to increase the efficiency and effectiveness of its regulatory management and to improve its ability to respond to the needs of the ICT sector and Cayman consumers. While progress is being made, the sector is one of the most dynamic – technology is changing rapidly and is converging faster than most people thought possible.



A Brief History

Background

Prior to 2003, Cable & Wireless (Cayman Islands) Ltd was the sole provider of both domestic and international telecommunications as was also the case in many other Caribbean jurisdictions. Its exclusive contract with the Cayman Islands Government had first been granted in 1966. The most recent version had been signed in 1991. It had a 20 year term that was not due to expire until 2011.

In the late 1990s, Bermuda, a close competitor of the Cayman Islands, liberalised its telecommunications sector and also enacted legislation (the Electronic Transactions Law) to enable the development of electronic commerce. In the Cayman Islands, in 1998, a *National Strategic Plan – Vision 2008* was developed by the community and was unanimously accepted in the Legislative Assembly. It included, at Strategy XII, an action plan to “develop and implement an information technology plan that optimises the economic and social development of the Cayman Islands.” Amongst its recommendations were the establishment of a single Ministry to be responsible for Information Technology and Telecommunications, and an investigation into the potential benefits of telecommunications liberalisation.

E-Business Advisory Committee

In September 1999, the then Cayman Islands Government created a joint public/private sector E-Business Advisory Committee and charged it with developing legislation that would enable the development of e-business in this country, and suitable marketing, infrastructure and human resource development plans. The drafts that the Committee produced eventually became the Electronic Transactions Law and Computer Misuse Law which were enacted in August 2000. As a result of this legislation, the E-business

Advisory Committee became a statutory body known as the E-business Advisory Board.

Following a general election at the end of 2000, Mr. Linford Pierson was appointed Minister for Information Technology. For the first time, his portfolio included responsibility for all aspects of information technology, telecommunications and e-business. He immediately instructed the E-Business Advisory Board to produce a draft new ICT law that would replace the existing Broadcasting, Telephone and Radio Laws. It was also to enable, but not mandate, competition throughout the ICT sector.

The Decision to Liberalise

However, during this period, Barbados, Jamaica and the Organisation of East Caribbean States (OECS) had either commenced telecommunications liberalisation or had announced their intention to do so. Liberalisation was also being strongly advocated by international organisations including the Organisation for Economic Cooperation and Development (OECD) and the World Trade Organisation (WTO), previously known as the General Agreement on Tariffs and Trade (GATT). Moreover, the E-business Advisory Board were concerned that it could make little headway with the development of e-business until telecommunications costs became more competitive. Following further consultation with all stakeholders, including Cable & Wireless, Cabinet decided in October 2001 that the telecommunications sector should be liberalised, and Cable & Wireless were notified that Government wished to commence negotiations for the early termination of its exclusive licence and its replacement with a non-exclusive one. At the same time, the E-business Advisory Board was informed that it should revise its draft law to take into account the mandating of competition.

The ICT Authority Law

By April 2002, the revised draft had been completed and Government's Legal Drafting Department had issued the Bill. Shortly thereafter, the Cayman Islands Legislative Assembly (Parliament) enacted the "Information and Communications Technology Authority Law 2002".

Formation of the ICT Authority

A major provision of the ICTA Law was the establishment of the Information and Communications Technology Authority (ICTA) as an independent statutory body, responsible for the licensing and regulation of the ICT sector. On 8th May 2002, five directors were

appointed by Cabinet to form the first Board of the Authority. However, it was not until July 2002 that the Authority received any funding (in the form of an initial grant from Government) and August 2002 before the first three staff members were engaged. These consisted of the previous Director of Government's Information and Technology Strategy Unit (ITSU), David Archbold, who was appointed as the Authority's first Managing Director, and his secretary, Mrs Tammy Rattan. The third member of staff was Ms Janet Monroe who had previously been the person in Government responsible for handling all radio licences. The ITSU was then closed down, and responsibility for radio licensing was transferred to the Authority.

Negotiations with Cable & Wireless

In the meantime, preliminary negotiations between Government and Cable & Wireless had commenced in January 2002. Government engaged the specialist consulting firm, LECG of London, to assist. In addition to these consultants, Government's negotiating team had representatives from the Ministry of IT, Finance, and the Legal Department. It also included the Director ITSU as a technical advisor, and he continued in this role after moving to the Authority. Negotiations were robust. The areas of biggest contention were Cable & Wireless's costs and how they should be measured, and the need to "re-balance" domestic and international rates so that the former were no longer subsidised by the latter. The talks almost broke down on a number of occasions, with particular difficulties being encountered towards the end of 2002 and beginning of 2003.

In February 2003, the Authority recruited two new senior members of staff, both from Canada. Ms Elaine Leung, Head of Economics and Regulation, brought with her a wealth of experience from her many years of working with the Canadian telecommunications regulator (the CRTC) as well as in the private sector. Philip Brazeau was engaged as Head of Licensing and Compliance, and General Counsel to the Authority. He had specialized for many years in telecommunications law in the private sector in Canada.

When negotiations resumed in early 2003, it was without the assistance of the consultants whose contract had expired. Their place was taken by the ICTA staff. In order to avoid further deadlock, it was decided simply to acknowledge that each side had its own, differing views on costs and to consider instead what prices should be charged for a number of key retail services; monthly line rental, domestic calls and international calls, together with the details of the planned regulatory environment. This approach was

successful, and on 10th June 2003, Heads of Agreement were signed by the Minister on behalf of the Cayman Islands Government, and Mr Tim Adam for Cable & Wireless. The detailed Liberalisation Agreement was signed exactly one month later on 10 July 2003, following a hectic month of negotiations that took place in the Authority's new offices in Alissta Towers which it had occupied in April 2003. Cable & Wireless's new ICT Licence was issued by the Authority on the same day as the Agreement was signed.



Following the signing of the Liberalisation Agreement, Cable & Wireless's new ICT Licence is issued by the then Chairman of the ICT Authority, Dr. Christopher Rose (seated left), to Mr. Tim Adam, General Manager of Cable & Wireless (CI) Ltd. (seated right) watched by the then Minister for IT, the Honourable Linford Pierson, MBE, JP. Standing are (l to r) Ms Elaine Leung and Mr David Archbold of the ICT Authority, Mr Rudy Ebanks and Mr Jonathon Daniels of Cable & Wireless, and Mr Philip Brazeau of the Authority

Keeping to a very tight schedule, licence applications from potential new entrants into Cayman's telecommunications market were submitted by 10 August 2003, and the first new licences were issued by the Authority on 1 September 2003.

Transfer of Responsibilities from Government to the Authority

In September 2002 the ICTA assumed responsibility for the licensing and regulation of all forms of radio transmitters, including amateur radio (HAMs) and those in ships and aircraft registered in the Cayman Islands. It was not until the negotiations with Cable & Wireless had been completed in mid-2003 that the Authority commenced licensing telephony network and service providers. The first license was issued to Cable & Wireless on 10th July 2003. Responsibility for sound and television broadcasting was transferred from the Ministry of IT to the Authority on 1st July 2003, with the first new and replacement licences being issued in November 2003.



Licensing

The ICTA Law

The criteria for licensing an ICT company are specified Section 26 of the ICTA Law. Unlike many other jurisdictions whose legislation and regulations have developed over many years to govern different industries such as cable and telecommunications, in the Cayman Islands these criteria recognise the convergence of technologies and so apply equally to all types of ICT operations, i.e. telephony companies, sound and television broadcasters, and cable companies are treated identically. Licences are of two main types; networks and services. As far as is possible, matters that are impacted by technology are included in networks, whilst services are technology neutral. For example, the provision of “sound broadcasting” is a service. Its method of delivery to the listener could be over-the-air, via satellite, cable, or streamed over the Internet. Each of these technology related delivery methods is a “network”, and the provider of each network requires a licence. The “service” licence and the corresponding “network” licence are often obtained by the same company, but this is not essential. For example, a company could obtain a licence to provide a television service, but employ a different company to deliver it over its cable network. In this case, only the cable company would require a network licence, the television company would not.

Section 23(2) Notice

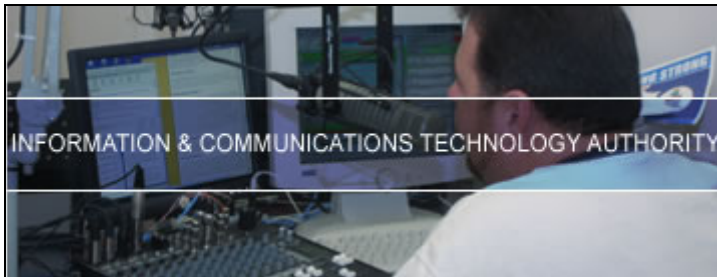
The ICT networks and ICT services that require a licence are specified in a *Notice in Accordance with Section 23(2) of the ICTA Law*. This Notice is updated regularly to meet the requirements of changing technology and the industry. It is published in the Gazette by the Authority.

Ministerial Directive

On 26th August 2003, the then Minister issued the Authority with a policy directive under the provisions of Section 11 (1) of the ICTA Law. It stated that the Authority should not restrict the number of licences issued on any other basis than:

- the failure of an applicant to satisfy the requirements of Section 26 of the Law,
- the Authority's responsibility to properly manage the electromagnetic spectrum, or
- the ability of the proposed system to deliver the claimed standards of quality and reliability.

In addition, the Authority was given the ability to take into account the degree of Caymanian participation in the applicant's organisation. This latter condition was subsequently incorporated into the Law as Section 26(g).



Broadcasting

Introduction

Prior to the establishment of the ICT Authority, television and sound broadcasting licences had been the responsibility of Government. When this responsibility was transferred to the Authority in July 2003, there were two existing “over-the-air” and MMDS (subscription) television licensees (CITN, CTS), two religious TV broadcasters (the Cayman Islands Mission and Cayman Christian TV Ltd), and six sound broadcasters operating eight FM stations. Although all had had Government approval, the formal licensing process had not been concluded in every case.

The ICT Authority Law terminated all existing licences, and required the licensees to apply for new licences issued by the Authority. Such licensees were, however, required to pay any outstanding royalty fees to Government before their new application would be considered.

Television

From the outset, CITN and CTS had both appointed WestStar TV to build and operate their network, studio and support facilities. The Authority was of the view that the network licence and associated frequencies should be granted to the owner and operator of the network, i.e. WestStar. Although separate ICT Service licences could have been issued to CITN and CTS, the parties decided to reorganize. Their separate applications were withdrawn and a single, combined ICT network and service licence was submitted by WestStar and was subsequently approved.

Sound Broadcasting

All existing sound broadcasters were granted new, five year ICT Licences on the same basic terms and conditions as had previously pertained. There were however some new conditions that were included in all ICT licences, whether for telephony or broadcasting. These included:

- The requirement to establish customer feedback and complaint procedures, with responses required within 30 days.
- The requirement to provide annual (in some cases, six monthly) Development and Compliance Plans to the Authority.
- The prohibition of anti-competitive conduct and agreements.

Towards the end of this reporting period, Panorama Productions (Style FM) applied for, and was granted, the first truly new FM broadcasting licence to be issued by the Authority.

Regulation of Broadcasting Content

It does not appear to be generally realized that the Authority has no legal mandate to regulate broadcasting content, although it will ensure that complaints made to individual broadcasters by members of the public are properly processed. Furthermore, a broadcaster who is subject to repeated complaints about content will be closely examined when its licence comes up for renewal. The Authority believes that this is reasonable as its Board members are appointed on the basis of their technical and/or business expertise and not for their ability as censors.

The ICT Authority Law gives the Governor in Cabinet the ability to make regulations with respect to broadcasting content, and all licences issued by the Authority include a condition requiring licensees to comply with any such regulations. The Authority believes, however, that the best approach with respect to content – if any is needed – is to establish self-regulation by the broadcasting sector. This approach, which usually establishes a code of conduct and a complaints procedure, has proven to be very effective in many other jurisdictions.



Telephony and Associated Networks & Services

The Liberalisation Process

Whilst the ICTA Law makes no distinction between telephony and other types of ICT Networks and Services such as sound or television broadcasting, the Authority recognizes that, at the present time, a number of practical differences remain. Most importantly, it was only these networks and services that had been provided under monopoly arrangements prior to July 2003. It is therefore appropriate to report on them separately although, as technologies continue to converge, this may not be the case in future Reports.

In order to liberalise telecommunications, the negotiations between Government and Cable & Wireless involved obtaining the company's agreement to the early termination of its exclusive licence which was not due to end until 2011. The result was inevitably a compromise between the ideal positions of each party and the final agreement places some restrictions on the regulatory environment to be used until 2011. In addition, it was agreed that competition should be phased in over a nine month period. This was a significantly shorter timescale than had been agreed in other Caribbean jurisdictions (Jamaica – 3 years, Barbados – 2 years, and OECS – 12 to 18 months). The timetable was:

10th July 2003

- Application forms for all types of telecommunications licences may be issued, including for the resale of Cable & Wireless international services.
- As soon as they are licensed, new entrants may compete for the provision of domestic telecommunications.

- Once licensed, new entrants wishing to provide other services such as Mobile, may begin to construct their networks.

1st November 2003

- Alternative licensed Internet Service Providers may begin operation.
- Cable and Wireless to standardise its Local (and inter-island) call charges to fixed lines at 9c for the first minute and 2c per minute thereafter.

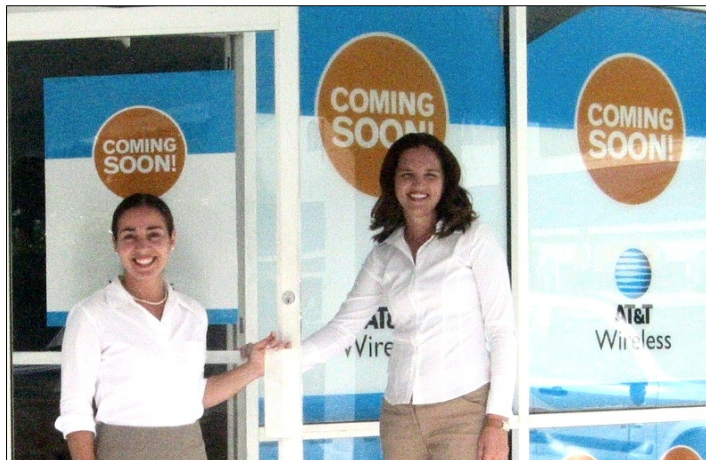
1st December 2003

- Cable & Wireless's Business Line Rental to increase to \$30 per month.
- At the same time, all international call charges to be reduced on average by at least 40% for residential and business subscribers.

1st January 2004

- Cable & Wireless' Residential Line Rental to increase from \$6.25 (or \$4.75 where the subscriber has chosen not to rent a handset) to \$9 per month.
- Cable & Wireless to introduce a Light User Scheme with a line rental charge of \$8 per month and a rebate of up to \$3 per month on the cost of local fixed-to-fixed telephone calls.

AT&T Wireless employees Lucy Tibbetts and Pamela Small prepare their Galleria Plaza Retail Store prior to launch.



1st February 2004

- Licensed domestic mobile service providers may commence commercial operations, and resell Cable & Wireless international services.

1st April 2004

- Competition in International telecommunications may commence. The liberalisation process will be complete, with competition possible in all areas.
- Cable & Wireless' Residential Line Rental to increase from \$9 to \$12.



The Digicel "Licence Bid Team" with the ten copies of its application (in the boxes) that were submitted to the Authority

Application Processing

As previously mentioned, licence applications from potential new entrants into Cayman's telecommunications market were submitted by 10 August 2003. Guided by the criteria outlined above, the Authority then assessed the many applications, met with the applicants, and was able to keep to the proposed timetable of issuing the first new licences on 1 September 2003. By the end of the 2003, twenty-nine applications had been dealt with, and seventeen new licences had been issued, of which ten were to companies involved with telephony, Internet service provision (ISPs) or the supply of network infrastructure to other licensees.



Radio

Scope

The ICT Authority is responsible for the licensing and regulation of all radio transmitters in the Cayman Islands, including:

- Radios in aircraft registered with the **Cayman Islands Civil Aviation Authority**
- Ground-to-air radios located in the Cayman Islands
- Radios in ships registered with the **Cayman Islands Shipping Registry**



Octopus, the world's largest yacht, is owned by Paul Allen of Microsoft. It has a crew of 60, and carries 2 helicopters, 7 boats and a 10 man submarine. The Octopus is registered with the Cayman Islands Shipping Registry and its radios are licensed by the ICT Authority.

- Radios in unregistered ships operating in the coastal waters of the Cayman Islands
- Land-based marine band radios used by coastal boat operators
- Amateur (HAM) Radios

- All land-based radio transmitters, irrespective of frequency, located in the Cayman Island

All radio licenses are currently annual, and therefore must be renewed on each anniversary of their initial issue.

History

This function was originally performed by the Post Office and was later taken over by Government's Office of Telecommunications. When the Authority assumed responsibility in late 2003, it was found that the licensing records consisted of multiple paper and electronic ledgers, and that each transaction involved manual entries into several ledgers. Each licence was individually created. There was no comprehensive database recording the details of licences and their expiration dates by licence category. As a result, there was a four to six months backlog of applications and renewals.

Current Position

The Authority used the partial records to create as best it could a single licensing database, and automated much of the process. By early 2004 the backlog had been removed and applications and renewals were being turned round within seven to ten days. Nevertheless, it became clear that the database contained many duplicate and out-of-date records. Attempts began to reconcile records with the databases maintained by the Shipping Registry and Civil Aviation. As at 30th June 2004, this work is ongoing but it is already clear that some 800 ships (out of approximately 3,000 on the Shipping Register) have never paid radio licensing fees. Moreover the fees, which range between \$10 and \$20 per year, have not been revised since they were first set in the 1970s. It is very clear that the revenue from these fees does not cover the cost of licence administration, and has not done so for many years. The Authority will therefore conduct a review with the aim of making this aspect of its work self-funding. However, new fees cannot be implemented until the database reconciliation process has been completed.



.KY Internet Domain

Internet Organisation

The organisation of the Internet is based upon several organisational groupings called domains. There are two types of domain. Firstly, there are generic domains, each of which has a single world-wide register. This category includes the domain with the well known suffix, *.com*, plus others such as *.org*, *.net*, *.gov* and *.biz*. Secondly, there are country code top level domains (ccTLDs). These are organisational groupings associated with each two letter country code defined in the International Standards Organisation (ISO) Standard 3166. Within each ccTLD, the Administrative Contact (AC) is responsible for setting domain policy and for approving registrations, and the Technical Contact (TC) is responsible for the provision of technical support and for maintaining the on-line master directory of entities registered in the domain. The two letter code associated with the Cayman Islands is “ky” and the corresponding Internet domain is known as the “.ky domain”.

The Internet Corporation for Assigned Names and Numbers (ICANN) is a not-for-profit, international organisation responsible, under a contract from the US Department of Commerce, for the overall administration of Internet domains. In accordance with agreed Internet principles, ICANN delegates responsibility for the administration of a ccTLD to the first qualified individual who applies to be AC. Thereafter, any change in AC or TC requires ICANN's approval.

History

In mid-1995, well before local Internet access was available from the Cayman Islands, a UK national who was then in the employ of the Cayman Islands Government, applied for, and was granted, delegated authority as AC for the ky domain. He in turn appointed

an acquaintance based in California as TC. By mid 1998, local interest in the Internet had grown to a level where the technical services provided by the voluntary TC were insufficient. The AC therefore entered into a contractual arrangement with a company called Domain Name Trust (DNT) based in Florida. Under the terms of this agreement, DNT were given the right to market and administer registrations in the ky domain by non-Cayman entities. DNT charged registrants an annual fee for this service, a small proportion of which was paid into a charitable trust, Cayman Community Trust, set up by the AC and his attorney. The aim of the trust was to promote the use of Information Technology and the Internet amongst the under-privileged in Cayman, and it made several appropriate donations over the following three years. In addition, DNT undertook to provide professional TC services for the ky domain at no charge. The AC retained the right to register Cayman entities in the domain. He made no charge for this service.

In 2000, DNT assigned their rights under their contract with the AC to Internet Management Services Inc (IMS) of California. The commercial terms of this agreement included a number of annual payments by IMS to DNT. If IMS defaulted on any of these payments, the rights would revert to DNT.

Government's Concerns

When Government became aware of these arrangements, it was most concerned. Although IMS had suspended the general marketing and registration of .ky domain names on assuming control, DNT had been marketing registrations in the .ky domain abroad, particularly to residents and businesses in Kentucky, and had thus confused the .ky "brand image". They also had been receiving income from these registrations, the majority of which had not benefited Cayman. It also is Internet policy that a ccTLD should be "held in trust" for the benefit of the people of the associated country. Government believed that it was in the best position to fulfil these responsibilities in the absence of, for example, a well established university computer department.

Legislative Action

In January 2001, Government commenced negotiations to resolve this complex situation. Unfortunately, the complex contractual relationships between the original AC, DNT and IMS frustrated these attempts at a negotiated settlement and so, in 2002, provisions were included in the ICTA Law that appointed the Authority as the "only person responsible for the management and

control of the top level of the global Internet Domain Name System held in trust for the Internet and the Islands.” The Law also made it an offence for anyone to act as the AC or TC of the domain without the prior written consent of the Authority.

Re-delegation by ICANN

As a consequence, the previous AC immediately ceased to operate. The Authority re-appointed the existing company, Message Secure Corporation of Boston MA, as TC and within 24 hours re-instated all on-line domain registration and management services. An application was also made to ICANN for the reassignment of responsibility for the .ky domain from DNT/IMS to the Authority. This was recommended by ICANN and approved by the US Department of Commerce on 2nd July 2003. This official re-delegation effectively put an end to the legal proceedings between DNT and IMS in the United States.

Domain Policy

When the Authority assumed effective responsibility for the domain in 2002, it re-instituted the original domain policies which restricted domain name registrations to those requested by Cayman Islands residents, companies registered in the Cayman Islands and organisations operating in the Cayman Islands. However, as part of the re-delegation agreement with ICANN, domain name registrations made by overseas individuals and organisations under the previous administration, continue to be honoured and supported.



Public Consultations

Public consultation takes place in a variety of forms depending on the nature of the issue, the number of parties potentially affected by a decision, the impact on the marketplace and, most importantly, the consequences on the consumer. Public consultation may range from the very informal to more formalized and structured public proceedings. Some of the forms of consultation available to the Authority in achieving its objectives are:

- written submissions
- individual meetings with one or more interested parties
- meetings, seminars, and workshops with representative groups and other interested parties
- surveys
- consultation with independent advisers
- discussions and consultation with regulatory professionals and regulatory institutions in other jurisdictions
- public hearings
- issuing draft documents and soliciting comments from the public at large

The intent is not only to solicit public input and participation prior to taking decisions but also for the Authority to satisfy itself that it has investigated all aspects of an issue. Public consultation is as necessary for the soundness of the Authority's decisions as it is for the public to know the various views expressed on an issue.

A brief summary of the formal, written Public Consultations undertaken during the period are given below. Full details are available on the Authority's web site at www.icta.ky.

The Public Consultation Process – 12 May 03

The Authority sought the views of interested parties on the form

that Public Consultations should take.

Draft Confidentiality Rules – 12 May 03

The ICT Authority sought submissions on the appropriateness of having some material submitted to the ICT Authority excluded from the public record, what type of information this might be, the need to provide abridged versions of such material for the public record, and the processes required to deal appropriately with confidential information. Copies of the draft Confidentiality Rules were provided for comment.

Responses from AT&T Wireless, Internet Financial Services and Cable & Wireless (Cayman Islands) Ltd. assisted the Authority with the drafting of the Information & Communications Technology Authority (Confidentiality) Regulations 2003 which were approved by Government in Cabinet on 4th November 2003.

Licence Application Forms – 4 Jun 03

Anyone who wishes to offer an ICT Service and/or operate an ICT Network is required to initiate the process by first filing the applicable Application with the ICT Authority.

The ICT Authority invited comments from the public in general and from potential licensees, in particular, on the proposed Applications Forms for ICT Licence(s).

The initial versions of the Application Forms were issued in August 2003.

Draft Dispute Resolution Rules – 1 Jul 03

It was recognized that important issues affecting Licensees and interested parties would require debate which might result in disputes. It was also recognized that some disputes will require some form of intervention for resolution by the ICT Authority. Additionally, it was anticipated that members of the general public would have concerns on matters pertaining to the ICT Services they receive which may require some form of intervention for resolution by the Authority. In order to ensure a fair, efficient and equitable process for addressing and resolving such matters the Authority proposed to introduce Dispute Resolution Rules. Comments were sought on the draft Rules proposed by the Authority.

The ICTA received comments from AT&T Wireless, Cable & Wireless (Cayman Islands) Ltd and CaymanTel. These comments assisted the Authority with revising the draft Information & Communications Technology Authority (Dispute Resolution) Regulations 2003 which were approved by Government in Cabinet on 4th November 2003.

Draft Interconnection and Infrastructure Access Regulation – 25 Jul 03

The Authority was of the view that interconnection services should be provided for in a manner which facilitates market liberalization, maximizes the use of infrastructure and minimizes environmental impacts. Further, consistent with the ICTA Law, interconnection services should be provided on non-discriminatory terms and conditions, be sufficiently unbundled so that only required network elements are being paid for, and be made available on a cost basis pursuant to a methodology adopted by the Authority. Public comment on the Draft Regulations was sought.

Responses were received from AT&T Wireless, Cable & Wireless, CaymanTel, Digicel, GrandTel, TeleCayman and CITelCo. Thereafter, the Authority issued interrogatories to, and received responses from, Cable & Wireless. This consultation assisted with the final draft of the Information & Communications Technology Authority (Interconnection and Infrastructure Sharing) Regulations 2003 which were approved by Governor in Cabinet on 4th November 2003.

.ky Domain Name Dispute Resolution Policy and Rules – 14 Sept 03

The Authority planned to introduce Domain Name Dispute Resolution Policy and Rules for the .ky Internet Domain. These were based upon the Uniform Dispute Resolution Policy and Rules adopted by the Internet Corporation for Assigned Names and Numbers (ICANN). The Authority sought public comment upon these drafts. No comments were received and so the Policy and Rules were brought into effect in October 2003.

Indirect Access – 11 Nov 03

In this Public Consultation, the ICTA sought comments on a number of regulatory issues associated with indirect access; the costs and benefits of indirect access; and a proposed framework for the provision of indirect access in the Cayman Islands. Comments and reply comments were variously filed in response by Blue Bison,

Blue/Cool Call, Cable & Wireless (Cayman Islands) Ltd., Digicel Cayman Ltd., North Rock Communications (Cayman) Ltd., TeleCayman Ltd., WestTel Ltd., Wireless Ventures (Cayman Islands) Ltd. over the period 12 December 2003 to 6 April 2004.

In an Interim Decision, The Authority found that mandated Indirect Access (“IA”) from fixed and mobile telephones was not warranted at that time. The Authority stated its intention to convene a round-table discussion amongst interested parties to resolve a number of technical issues and concerns before issuing a final decision on mandated IA.

Wholesale and Carrier Services – 19 Dec 03

The Authority was of the view that the Liberalisation Agreement and Cable & Wireless Licence make reference to only three classes of services: retail, interconnection and wholesale (for resale). There were clearly a number of services which fell outside the definitions of these three categories. Such services were primarily those provided to other licensees, not for resale but rather as a component of their own services. For want of a better name, the Authority proposed to refer to these services as “Carrier Services”, and to define the term by exception, i.e. “Carrier Services” means services, other than retail services and interconnection and wholesale (for resale) services provided by one licensee to another.

The Authority believed that it has the jurisdiction and good grounds to require the incumbent to provide wholesale and carrier services to other licensees, and for such services to be subject to regulation. In this Public Consultation, the Authority sought comments on wholesale and carrier services for Cable and Wireless guidelines.



Legislation and Regulations

Primary Legislation

The primary legislation covering the operations of the Authority is the *Information and Communications Technology Authority Law (2004 Revision)* ("ICTA Law"). In addition, the Authority has some responsibilities under the *Electronic Transactions Law 2000* and monitors the effectiveness of the *Computer Misuse Law 2000*.

Subordinate Legislation

Associated subordinate legislation enacted during the period consisted of:

- The ICTA (Confidentiality) Regulations, 2003
- The ICTA (Dispute Resolution) Regulations, 2003
- The ICTA (Interconnection and Infrastructure Sharing) Regulations, 2003
- The ICTA (Infrastructure Sharing) Notice, 2003
- The ICTA (Interference and Equipment Standardization) Regulations, 2004
- The ICTA (Determination of Turnover) Order, 2004
- The ICTA (Penalties for Anti-competitive Practices) Rules, 2004

Authority Notices

Details of the ICT Networks and ICT Services that require a licence are published in the Cayman Islands Gazette in accordance with section 23(2) of the ICTA Law. This Notice is updated regularly by the Authority to take into account requirements of the industry and changes in technology.



Authority Decisions

Introduction

When the Authority is called upon to make a decision that will have a significant impact upon the sector, it places on the public record full details of submissions it has received on the subject, its analysis of the issues, and its final determination. The following ICT Decisions were published during the period of this report. Full details are published on the Authority's web site at www.icta.ky.

ICT Decision 2004-1 published 7th April 2004 Imputation Test of Cable & Wireless (Cayman Islands) Limited Mobile Services

The Authority found that C&W's mobile services did not all meet the imputation test. Given the lack of information regarding all relevant service costs and volumes, and in the interests of expediency, the Authority applied the imputation test at the average subscriber plan level. In doing so, the Authority, of necessity, had to make certain assumptions in order to carry out an appropriate imputation test for mobile services.

The Authority's findings were: four of C&W's eight postpaid plans, one of C&W's three prepaid plans, and three of C&W's mobile IDD rates failed the imputation test. The Authority required C&W to increase the rates charged for the mobile plans and services which failed the imputation test by minimum amounts specified in the Decision, should it decide to continue offering these plans and services.

ICT Decision 2004-2 published 7th April 2004
Cable & Wireless (Cayman Islands) Limited Anti Competitive
Conduct in the Mobile Market

The Authority found that C&W's failure to satisfy the appropriate imputation test is anti-competitive conduct contrary to its Licence and the ICTA Law. In addition, the Authority found that C&W had engaged in other practices which, taken in combination, amounted to anti-competitive conduct contrary to its Licence and the ICTA law. C&W was directed to bring such infringements to an end by immediately:

- Withdrawing its mobile rates which have not satisfied the imputation test,
- Ceasing the introduction of rates which do not clearly pass the relevant imputation test,
- Ceasing to charge substantially different mobile rates for on-net and off-net calls,
- Ceasing to waive termination charges only for C&W TDMA customers who migrate to C&W GSM plans and
- ceasing all its advertisements, publicity and marketing which do not clearly describe the services and the rates for such services.

ICT Decision 2004-3 published 22nd April 2004
Confidentiality Arrangements for the Access to Cable & Wireless (CI)
Ltd's Fully Allocated Costing Models By Wireless Ventures (Cayman
Islands) Ltd and Digicel Cayman Ltd

Wireless Ventures and Digicel informed the Authority that they could not make meaningful submissions on the question of Interconnection Rates without seeing and understanding C&W's Fully Allocated Costing model which underpinned C&W's position. The Authority concurred, but recognised the confidential nature of the information. It therefore required C&W to propose confidentiality arrangements covering the disclosure of its FAC model to the other parties whilst protecting its own competitive position.

The Authority found that C&W's proposed confidentiality arrangements are not sufficiently broad to meet the essential requirements of a meaningful in camera proceeding. It was essential that the in camera proceedings be substantive, meaningful and sufficient so as to permit the parties to properly understand the Cable & Wireless FAC models and make submissions which would be of probative value to the Authority in

adjudicating upon the Determination Requests. Accordingly the Authority made a determination as follows:

- C&W should make all of its FAC models and underlying assumptions available at the hearing.
- The in camera hearing would be held by the Authority. Present would be representatives of C&W, Digicel and Wireless Ventures. The hearing should be for a period of seven (7) days which might be extended. Procedures for the hearing would be made available to the parties in advance.
- Parties to the hearing would be provided with electronic and paper copies of the models which could not be taken out of the hearing room or reproduced in any manner.
- At the in camera hearing, a representative from C&W would provide an overview of the FAC models and, thereafter, operate the models in response to relevant questioning by representatives of Digicel and Wireless Ventures and provide responsive answers to all appropriate questions.
- C&W would provide a detailed costing manual, at least 3 days in advance of the in camera hearing, which would comprise a written detailed description of the FAC models and address underlying assumptions.
- The hearing would take place under the terms of a Protective Order. Representatives of Digicel and Wireless Ventures would be required to sign a Confidentiality Agreement thereby agreeing to maintain the confidentiality of the information obtained through the in camera hearing process.
- Permitted persons at the in camera hearing would be legal counsel, which need not be outside counsel, and a regulatory and/or economic prime. These individuals should have the ability to confer with expert costing consultants and technology personnel who sign the Confidentiality Agreement.
- Both Digicel and Wireless Ventures were under an obligation to ensure that the confidential information was not shared, communicated or disclosed in any manner to anyone other than individuals who have executed the Confidentiality Agreement. The Authority noted that, in addition to the Protective Order and the Confidentiality Agreement parties were also bound by the confidentiality Conditions in their respective Licence and section 48A of the Information and Communications Technology Authority Law, 2002, as amended.
- Signed Confidentiality Agreements should be circulated to

C&W in sufficient time to permit it to raise appropriate objections to the presence of any representative of the parties at the hearing.

ICT Decision 2004-4 published 19th May 2004
Digicel's Request to Reconsider ICTA Decision 2004-1 and ICT Decision 2004-2

The Authority found, on the preliminary issue of jurisdiction, that Digicel's request for reconsideration was properly before the Authority for adjudication.

The Authority found merit in Digicel's request for reconsideration and proposed modifications to ICTA Decision 2004-1 and might, if deemed advisable upon receipt of the results of further imputation test analysis, vary ICT Decision 2004-2.

The Authority further found:

- Subsequent information filed both by C&W and Digicel on usage supported Digicel's proposal to vary the utilisation of postpaid plans based on revised demand estimates,
- Given that the Authority would issue a decision in the mobile termination proceedings in the near future, the use of an FAC-based mobile termination rate for this Decision should not unduly prejudice parties and the Authority reserved the right to review the imputation test results once it issued the final mobile termination rate,
- Recently received information indicated there was merit in including the handset subsidy in the imputation analysis, and
- Appropriate GSM costs were an important consideration and this issue would be pursued as part of the mobile termination rate proceeding which might result in a revised imputation test.

Cable & Wireless was directed to provide and meet ongoing information requirements in a complete, accurate and timely manner so that the Authority might conclude the review of the imputation analysis and issue its findings in accord with this Decision.

ICT Decision 2004-5 (Interim) published 20th May 2004
Interim Decision and Further Process for the Indirect Access Public Consultation (CD (2003) 7)30.

The Information and Communications Technology Authority conducted a public consultation (CD (2003) 7) to determine whether indirect access should be mandated. Its purpose was to evaluate whether mandating some or all Licensees to offer indirect access services would contribute to the development of effective and sustainable competition for international telecommunications services in the Cayman Islands. Indirect access was defined and described in the Authority's consultation document as follows:

- Indirect access is an arrangement between the end customer's international service provider and the provider with local exchange facilities to the end customer's premises. Under this arrangement, the local facilities provider originates and transports the international services from the end customer's premise to an agreed point of interconnection between itself and the customer's selected international service provider. The international service provider makes arrangements to transport and terminate the call on international network facilities.
- Indirect access allows licensees other than the end customer's access and local services provider, and who have international network arrangements, to offer international services (including carrier pre-subscription, call-by-call selection, and voice over IP international services) to the end customer.

Following an analysis of the consultation responses, the Authority concluded that indirect access should not be mandated at that time. Nevertheless, the Authority considered that the introduction of an indirect access mandate might be of benefit to the Cayman Islands, depending on, among other things, the scope of the mandate and the timing of its introduction.

In order to determine whether indirect access should be mandated in the future, the Authority needed to obtain quality information regarding the current and near-term state of competition for mobile and fixed-line international services. Generally, this would entail information that quantifies the size and the Licensees' shares of the international services marketplace, the rate of change in the size of the international services marketplace, the cost of providing international services, and international service rates. This information was required, at a minimum, for the Authority to

establish a baseline against which the benefits of introducing mandated indirect access could be assessed.

C&W, Digicel, TeleCayman, and Wireless Ventures stated that an effectively competitive international services marketplace in the Cayman Islands might preclude the need for adopting or expanding an indirect access mandate. If effective competition developed and was sustainable, an indirect access mandate might not benefit and might in fact impede the development and sustainability of other forms of competition in the Cayman Islands. The Authority, however, re-emphasized that sufficient information did not yet exist to determine whether this outcome was likely to occur.

The Authority appreciated the potential investment distortions engendered by mandatory indirect access. Accordingly, in the event that the Authority issued a determination mandating indirect access, it was of the view that a facilities-based requirement might offer a method of limiting any such distortion. In particular, should indirect access be mandated, the Authority was minded, at that time, to limit the availability of indirect access services to those Licensees that:

- hold a Fixed Telephony or Internet Telephony license and provide publicly available international ICT services to retail subscribers;
- have interconnection arrangements with an access network operator that is obligated to provide indirect access;
- can deliver calls to all international destinations; and
- have relevant numbering codes from the Authority.

The Authority noted that all parties supported these criteria as being appropriate in the public consultation proceeding. Among other things, the above-noted criteria should discourage resellers that are only interested in cream-skimming, as they would require a minimum amount of investment and facilities to provide international services.

To further the process, the Authority would be issuing interrogatories to all facilities-based Licensees for information on their international services, and the anticipated costs of implementing various forms of an indirect access mandate. The purpose of the interrogatories was to compile a sufficient record regarding the current and near-term state of competition for international services, and the potential direct and indirect costs of implementing mandated indirect access services.

ICT Decision 2004-4 (Supplemental) published 22nd June 2004
Reconsideration of ICTA Decision 2004-1: Imputation Test of Cable & Wireless (Cayman Islands) Limited Mobile Services

In ICT Decision 2004-4 the Authority stated that it would reconsider its imputation test of C&W's mobile services once it had received the additional information it had requested. This ICT Decision 2004-4 (Supplemental) provided the results of that reconsideration. The Authority found that none of C&W's eight post paid plans satisfied the requirements of the updated imputation test. This was largely due to new cost information provided by C&W.

Having reviewed Digicel's proposed methodologies for estimating plan utilization, the Authority found that it was more reasonable to rely on subscribers' actual plan utilization rather than the more theoretical method proposed by Digicel.

The Authority received, very late in the process, a submission by C&W stating that certain cost estimates were overstated and certain revenue sources were excluded. The Authority was concerned and disappointed with C&W in the lateness of this filing. C&W should not be the beneficiary of its failure to provide information that could have been provided much earlier in the process. However, given the importance of the information on mobile rates, the Authority did not refuse outright C&W's latest submission. Paramount to the Authority is the public interest and impact of its decisions upon the marketplace and consumers.

The Authority noted that C&W's submission, if verified and accepted, would have had the effect of reducing the rate increases determined by the updated imputation test. In balancing the need for corrective action as soon as possible and the possibility that the price floor might be reduced in future mobile imputation tests, the Authority required C&W to immediately effect an increase to its postpaid mobile service rates that was 40% less than the minimum increase calculated in the imputation test.

The Authority found that C&W had not provided clear and timely information to its postpaid mobile subscribers regarding the migration program, subscribers' actual utilization of their plan minutes and their options to move to a smaller plan or possibly, to another service provider. The Authority directed C&W to provide the above information to its postpaid mobile subscribers on a timely basis. The Authority would monitor and evaluate C&W's actions in this regard, and if the company's actions were deemed insufficient, the Authority might issue appropriate directives and/or make changes to the regulatory regime to address these issues in the

future.

Note. At the very end of this reporting period, C&W applied to the Authority for a stay in the implementation of ICT Decision 20004-4 (Supplemental). This was denied. C&W then took the matter to the courts, and filed a notice of appeal. Ongoing negotiations between C&W, Digicel and Wireless Ventures, facilitated by the Authority, ultimately reached a satisfactory conclusion, and the notice of appeal was withdrawn.

ICT Licensees as at 30 June 2004

Lic #	Licensee	Date of Licensing	Primary Networks & Services
1	Cable & Wireless (CI) Ltd PO Box 293 GT, Grand Cayman	10 July 03	Fixed and mobile telephony, ISP
2	Weststar TV Ltd PO Box 30562 SMB, Grand Cayman	10 October 03	TV Broadcasting
3	Wireless Ventures (CI) Ltd PO Box 309 GT, Grand Cayman	10 October 03	Mobile telephony
4	Grand Tel Ltd	Licence revoked 22 April 2004	
5	Digicel Cayman Ltd PO Box 700GT, Grand Cayman	17 October 03	Fixed and mobile telephony, ISP
6	West Indian Electronic Technologies Ltd PO Box 10377 APO, Grand Cayman	17 October 03	Fixed wireless, ISP
7	North Rock Communications (CI) Ltd	[Licence surrendered 2 July 04]	
8	Foster Cayman Ltd	[Licence revoked 9 December 04]	
9	TeleCayman Ltd PO Box 704 GT, Grand Cayman	29 October 03	Fixed telephony, ISP
10	United Telecommunication Services Ltd PO Box 10217 GT, Grand Cayman	29 October 03	Fixed wireless, provision of infrastructure
11	Island Electronics (Paging) Ltd PO Box 881 GT, Grand Cayman	20 November 03	Provision of infrastructure
R4	Christian Communications Association PO Box 31481 SMB, Grand Cayman	4 December 03	Sound broadcasting (Heaven 97)
R1	Radio Cayman PO Box 1110 GT, Grand Cayman	11 December 03	Sound broadcasting
R2	Hurley's Entertainment Corporation PO Box 30110 SMB, Grand Cayman	11 December 03	Sound broadcasting (Z99 and Rooster)
R3	Cerentis Broadcasting Systems Ltd PO Box 425 SAV, Grand Cayman	11 December 03	Sound broadcasting (Ocean 95)
R5	International College of the Cayman Islands PO Box 136 SAV, Grand Cayman	11 December 03	Sound broadcasting
R6	Paramount Media Services Ltd PO Box 10236 APO, Grand Cayman	11 December 03	Sound broadcasting (Vibe)
12	Blue Sky Communications PO Box 32336 SMB, Grand Cayman	18 December 03	Resale of telephony
13	Caycom Ltd PO Box 30800 SMB, Grand Cayman	23 January 04	Provision of infrastructure
14	WestTel Ltd PO Box 30563 SMB, Grand Cayman	12 February 04	Fixed telephony, ISP
15	Cayman Christian TV Ltd PO Box 30213 SMB, Grand Cayman	22 April 04	TV broadcasting
16	Government of the Cayman Islands Government Administration Building Grand Cayman	10 May 04	Telephony, ISP and ASP services to Government agencies, provision of infrastructure
R7	Panorama Productions Ltd PO Box 192 GT, Grand Cayman	3 June 04	Sound broadcasting (Style)

ICT Authority Audited Financial Statements for the 13 Months Ended 30 June 2003

Introduction

Although the Authority's first Board of Directors was established in May 2002, shortly after the passing of the Information & Communications Technology Authority Law, the first members of staff were not appointed until August of that year. Up until then, such minimal operating expenses as were incurred by the Authority were paid for directly by the Ministry of Planning, Communications, Works and Information Technology. These amounts are not recorded in these Financial Statements.

Throughout this period, the Authority was primarily involved with the liberalisation negotiations with Cable & Wireless and Government. The Authority received from Government a start-up grant of \$887,500 to fit out its new offices, and to purchase office equipment and furniture. In addition, as all revenues from the telecommunications sector, with the exception of a small amount of income from ships and aircraft radio licences, continued to be paid directly to Government, Government paid the Authority just over \$490,000 to cover its operating expenses.

Audited Financial Statements

A copy of the Audited Financial Statements for the period ending 30th June 2003, received by the Authority on 15th December 2005, are contained on the following 11 pages.



Financial Statements of

**Information & Communications Technology
Authority**

For the 13 Months Ended 30 June 2003

INFORMATION & COMMUNICATIONS TECHNOLOGY AUTHORITY

FINANCIAL STATEMENTS For the 13 Months Ended 30 June 2004

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Information & Communications Technology Authority

CERTIFICATE OF THE AUDITOR GENERAL

To the Board of Directors of the Information & Communications Technology Authority And the Financial Secretary of the Cayman Islands

In accordance with the provisions of Section 20 of the *Information and Communications Technology Authority Law 2002* and Section 45(1) of the *Public Finance and Audit Law (1997 Revision)*, I have audited the accompanying Balance Sheet of the Information and Communications Technology Authority of the Cayman Islands (the "Authority") as of 30 June 2003, and the related statements of Net Loss and Accumulated Deficit and Cash Flow for the thirteen month period ended 30 June 2003.

Respective Responsibilities of Management and the Auditor General

These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion

My examination was made in accordance with International Standards on Auditing which require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2003, and the results of its operations and its cash flow for the thirteen month period then ended in accordance with International Accounting Standards.

Dan Duguay, MBA, CGA
Auditor General

Cayman Islands
15 December 2005

Information & Communications Technology Authority
Balance Sheet
As At 30 June 2003
(Stated in Cayman Islands Dollars)

CURRENT ASSETS	<u>NOTES</u>	<u>2003</u>
Cash & Cash Equivalents		\$ 434,544
Prepaid Expenses		35,477
Total Current Assets		<u>470,021</u>
CURRENT LIABILITIES		
Accounts Payable and Accrued Liabilities		19,616
Total Current Liabilities		<u>19,616</u>
NET CURRENT ASSETS		<u>450,405</u>
FIXED ASSETS		
Office Equipment Furniture		68,552
IT Equipment		60,367
Leasehold Improvements		213,449
Total Fixed Assets	3	<u>342,368</u>
TOTAL NET ASSETS		<u>\$792,773</u>
EQUITY REPRESENTED BY:		
Contributed Capital	4	887,500
Accumulative Deficit		(94,727)
Total Equity		<u>\$792,773</u>

Approved on behalf of the Board on the 15 of December 2005

Mr. Stuart Diamond
Chairman

Mr. Dave Archbold
Managing Director

The accompanying notes form an integral part of these financial statements

Information & Communications Technology Authority
Statement of Net Loss and Accumulated Deficit
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

INCOME	<u>Notes</u>	<u>2003</u>
Government Subsidy	2e), 4	\$ 490,543
Radio Licences	2 e)	2,808
Other		915
		<u>494,266</u>
 OPERATING EXPENSES		
Staff Costs		341,223
KY Domain Administration		76,312
Travel and Subsistence		38,435
Lease of Property & Equipment	6	36,869
Utilities		24,477
Depreciation	3	23,948
Miscellaneous Expenses		20,799
Professional fees		13,500
Computer Maintenance		8,195
Supplies and Materials		5,235
		<u>588,993</u>
NET LOSS FOR PERIOD		(94,727)
Accumulated Deficit at beginning of period		-
ACCUMULATED DEFICIT AT END OF PERIOD		<u>\$ (94,727)</u>

The accompanying notes form an integral part of these financial statements

Information & Communications Technology Authority
Statement of Cash Flow
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

CASH FLOW FROM OPERATING ACTIVITIES	2003
Net Loss for 13 month period	\$ (94,727)
Adjustment for non cash transactions:	
Depreciation	23,948
	(70,779)
Net change in working capital	
Prepaid Expenses	(35,477)
Accounts Payable and Accrued Liabilities	19,616
Net Cash Used by Operating Activities	(86,640)
 CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of Fixed Assets	(366,316)
Net Cash Used by Investing Activities	(366,316)
 CASH FLOWS FROM FINANCING ACTIVITIES	
Contributed Capital from Government	887,500
Net Cash Provided by Financing Activities	887,500
Net Increase in Cash and Cash Equivalents During the Period	434,544
Cash and Cash Equivalents at the Beginning of the Period	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 434,544

The accompanying notes form an integral part of these financial statements

Information & Communications Technology Authority
Notes to the Financial Statements
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

1. Establishment and Principal Activity

The Information and Communications Technology Authority ("ICTA" or "Authority") is an independent Statutory Authority which was created on 17 May 2002 by the Information and Communication Technology Authority Law, 2002. This is the first reporting period and year of operations of the Authority and therefore there are no amounts for comparative purposes. The Authority reports on its operations to the Ministry of Planning, Communications, Works & Information Technology of the Cayman Islands Government.

The ICTA is responsible for the regulation and licensing of telecommunications, broadcasting, and all forms of radio transmission which includes ship, aircraft, mobile and amateur radio in the Cayman Islands. The ICTA conducts the administration and management of the ".ky" domain, and also has a number of responsibilities under the Electronic Transactions Law 2000.

As at 30 June 2003, the ICTA had 6 employees. The ICTA is located at 85 North Sound Way, 3rd floor of Alissta Tower, P.O. Box 2502 GT George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with International Accounting Standards (IAS) issued by the International Accounting Standards Committee (IASC), and interpretations issued by the Standing Interpretations Committee of the IASC. The significant accounting policies adopted by the ICTA in these financial statements are as follows:

(a) Basis of preparation

The financial statements of the ICTA are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

(b) Fixed Assets/depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the fixed assets and leasehold improvements are accounted for over the life of the lease.

The estimated useful lives of the other fixed assets are as follows:

Office Equipment & Furniture	4 - 12 Years
IT Equipment	3 Years
Leasehold improvements	5 Years

(c) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions denominated in currencies other than Cayman Islands Dollars are translated at exchange rates ruling at the date of those transactions. Gains and losses arising on translation are included in the Statement of Net Loss and Accumulated Deficit.

Information & Communications Technology Authority
Notes to the Financial Statements
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

2. Significant Accounting Policies (continued)

(d) Cash & cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(e) Revenue recognition

The Government subsidy is recognized in the year it is provided to the Authority for operational purposes of that year (see also Related Party Note 4). Radio licenses are recognised as revenue when the license fee is due to the Authority.

(f) Employee benefits

The Authority participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the Public Service Pension Law. Contributions are charged to expenses as they are incurred based on set contribution rates. The Authority makes monthly contributions at a rate of 13%, whereby the employer pays both the employer and employee contributions.

(g) Start-up Costs

During the period May - August 2002 the operating expenses of the ICTA were paid for by the Ministry of Planning, Communication, District Administration and Information Technology. These amounts are not reported in these Financial Statements as either expenses or contributed capital.

(h) Operating Lease

The Authority leases the 3rd floor of Alissta Towers under a three-year operating lease. Lease payments are recognized as an expense on a straight-line basis over the lease term. See also Note 6 - Lease of Property.

(i) Financial Instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents and prepayments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise of accounts payables and accrued expenses.

(ii) Recognition

The Authority recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the Statement of Net Loss & Accumulated Deficit.

Information & Communications Technology Authority
Notes to the Financial Statements
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

2. Significant Accounting Policies (continued)

(iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are recorded at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

(iv) Derecognition

A financial asset is derecognised when the Authority realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

3. Fixed Assets

Cost	Office Equipment & Furniture	IT Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
Opening Balance	-	-	-	-
Additions	70,685	65,231	230,400	366,316
Disposals	-	-	-	-
Balance at 30 June 2003	70,685	65,231	230,400	366,316
Accumulated Depreciation				
Opening Balance	-	-	-	-
Charge for Year	2,133	4,864	16,951	23,948
Disposals	-	-	-	-
Balance at 30 June 2003	2,133	4,864	16,951	23,948
Net Book Value At 30 June 2003	\$ 68,552	\$ 60,367	\$ 213,449	\$ 342,368

4. Related Party Transactions

The Cayman Islands Government appoints the Chairman and Members to the Authority's Board of Directors. The following transactions occurred during the period between the Authority and Cayman Islands Government.

1. Government Subsidy – \$490,543
2. Contributed Capital – \$887,500

Under the *Information and Communications Technology Authority Law, 2002*, the Authority was to collect license fees for licenses granted under this Law. However, for the 13 month period ending 30 June 2003, the Cayman Islands Government collected license fees from Cable & Wireless, Broadcasting license fees, and radio license fees from the various licensees.

Information & Communications Technology Authority
Notes to the Financial Statements
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

4. Related Party Transactions (continued)

Therefore, the Cayman Islands Government provided the Authority with an operating subsidy of \$490,543. The subsidy covered staff salaries, office accommodation, office supplies and services. The Authority provided outputs to the Government relating to regulating the Information, Technology and Communications sector within the Cayman Islands. The Authority also engages the services of other government departments of the Cayman Islands Government. Such services are provided at current prevailing market prices on an arm's length basis.

Subsequent to 30 June 2003, the Authority issued guidelines in November 2003 on how the license fees will be calculated. For each Licensee, license fees will be comprised of a royalty fee and a regulatory fee. The royalty fee, which is set by the Government, will be 6% of each Licensee's revenues and paid to the Government. The regulatory fee is based on the Authority's operating costs for the regulation of the ICT Networks and ICT Services and will be paid to the Authority.

As detailed in Note 5 the Authority on behalf of its eligible employees paid contributions of \$30,880 to the Public Service Pensions Fund during the period.

5. Pensions

The pension contributions of employees of the Authority are paid directly to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

During the current period the Authority paid contributions of \$30,880, which is included in staff costs to the Public Service Pensions Fund.

6. Lease of Property

The Authority leases the 3rd floor of Alissta Towers under a three-year operating lease. The Authority has three two year options to renew the lease, upon the expiry of this first lease agreement. The lease commenced 1st December, 2002 and is set to expire in November 2005. This lease will be renewed for a further two years. The Lease payments are currently \$4,846 per month and are subject to an increase in year three by \$1 to \$16 per sq. ft. per annum. Future lease payments are:

Period	Amount
1 July 2003 to 30 June 2004	\$58,155
1 July 2004 to 30 June 2005	\$60,417
1 July 2005 to 30 June 2006	\$64,294
1 July 2006 to 30 November 2007	\$27,462

At the termination of the lease, unless agreed between the Landlord and the Authority in writing, the Authority is to remove at its cost and expense any partitions, structures, additions or improvements erected by the Authority and shall reinstate the premises to the condition they were at the commencement of the term.

Information & Communications Technology Authority
Notes to the Financial Statements
For the 13-Month Period Ended 30 June 2003
(Stated in Cayman Islands Dollars)

7. Financial Instruments

Fair values. The carrying amount of cash deposits, prepayments, and accounts payables and accrued liabilities approximate their fair value due to their short-term maturities. Fair values are made at specific points in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions, economic conditions and other factors could cause significant changes in fair value estimates.

8. Subsequent Event

Hurricane Ivan. Subsequent to the balance sheet date of 30 June 2003, the Cayman Islands, and the Information and Communications Technology Authority suffered damage as a result of a strong category 4 hurricane that passed over Grand Cayman on the 11th and 12th of September 2004. The Authority sustained damage to its facilities and equipment. Management estimates that damage to be \$94,880. The costs of these damages are anticipated to be covered by insurance less deductible. In total the Authority has received a final settlement amount of \$77,000 from insurance as of 10 November 2004.

ICT Authority Audited Financial Statements for the Year Ended 30 June 2004

Introduction

The period from July 2003 to June 2004 saw the transition from a monopoly to liberalised telecommunications market in the Cayman Islands. At the same time, the Authority became self-sufficient, drawing its income from the Regulatory Fees levied on all licensees.

The Authority also became responsible for the collection and verification of the 6% Royalty Fee payable to Government by all telecommunications network and services providers, and television and sound broadcasters. As the Royalty Fee payments are immediately transferred to Government, they do not pass through the books of the Authority and therefore are not referenced in the attached financial statements.

Audited Financial Statements

A copy of the Audited Financial Statements for the period ending 30th June 2004, received by the Authority on 15th June 2006, are contained on the following 12 pages.



Financial Statements of

**INFORMATION & COMMUNICATIONS
TECHNOLOGY AUTHORITY**

For the Year Ended 30 June 2004

INFORMATION & COMMUNICATIONS TECHNOLOGY AUTHORITY

FINANCIAL STATEMENTS For the Year Ended 30 June 2004 (With Comparison for the 13-Months Ended 30 June 2003)

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Information & Communications Technology Authority

CERTIFICATE OF THE AUDITOR GENERAL

To the Board of Directors of the Information & Communications Technology Authority And the Financial Secretary of the Cayman Islands

In accordance with the provisions of Section 20 of the *Information and Communications Technology Authority Law 2002* and Section 45(1) of the *Public Finance and Audit Law (1997 Revision)*, I have audited the accompanying Balance Sheet of the Information and Communications Technology Authority of the Cayman Islands (the "Authority") as of 30 June 2004, and the related statements of Net Income and Retained Earnings and Cash Flow for the year ended 30 June 2004.

Respective Responsibilities of Management and the Auditor General

These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion

My examination was made in accordance with International Standards on Auditing which require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at 30 June 2004, and the results of its operations and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Dan Duguay, MBA, CGA
Auditor General

Dan Duguay
Cayman Islands
15 June 2006

Information & Communications Technology Authority

Balance Sheet

As At 30 June 2004

(Stated in Cayman Islands Dollars)

CURRENT ASSETS	Notes	2004	2003
Cash & Cash Equivalents		\$481,842	\$ 434,544
Accounts Receivables	4	481,404	-
Prepaid Expenses		53,916	35,477
Total Current Assets		1,017,162	470,021
CURRENT LIABILITIES			
Accounts Payable and Accrued Liabilities		79,033	19,616
Total Current Liabilities		79,033	19,616
NET CURRENT ASSETS		938,129	450,405
FIXED ASSETS			
Office Equipment Furniture		58,671	68,552
IT Equipment		38,623	60,367
Leasehold Improvements		167,369	213,449
Total Fixed Assets	3	264,663	342,368
TOTAL NET ASSETS		1,202,792	\$792,773
EQUITY REPRESENTED BY:			
Contributed Capital	4	887,500	887,500
General Reserve	5	60,000	-
Retained Earnings/(Accumulated Deficit)		255,292	(94,727)
Total Equity		1,202,792	\$792,773

Approved on behalf of the Board on the

15th of June

2006

Mr. Stuart Diamond
Chairman

Mr. Dave Archbold
Managing Director

The accompanying notes form an integral part of these financial statements

Information & Communications Technology Authority
Statement of Net Income and Retained Earnings
For the Year Ended 30 June 2004
(With Comparison for the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

INCOME	Notes	2004	2003
Government Subsidy	2e), 4	-	\$ 490,543
Output Revenue	2e),4,6	\$331,264	-
Regulatory Fees	2e)	673,031	-
Licensing Fees	2e)	457,766	-
Radio Licences	2e)	24,762	2,808
Other		1,132	915
		1,487,955	494,266
OPERATING EXPENSES			
Staff Costs		610,595	321,563
Legal & Professional fees		104,304	33,160
KY Domain Administration		94,836	76,312
Depreciation	3	79,256	23,948
Lease of Property & Equipment	8	58,155	36,869
Miscellaneous Expenses		46,528	20,799
Utilities		43,152	24,477
Travel and Subsistence		20,087	38,435
Computer Maintenance		10,943	8,195
Supplies and Materials		10,080	5,235
		1,077,936	588,993
NET INCOME/(LOSS) FOR PERIOD		410,019	(94,727)
Accumulated Deficit at beginning of year		(94,727)	-
Transfer to General Reserve	5	(60,000)	-
RETAINED EARNINGS/(ACCUMULATED DEFICIT) AT END OF YEAR/PERIOD		\$ 255,292	\$ (94,727)

The accompanying notes form an integral part of these financial statements

Information & Communications Technology Authority
Statement of Cash Flow
For the Year Ended 30 June 2004
(With Comparison for the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

CASH FLOW FROM OPERATING ACTIVITIES	2004	2003
Net Income/(Loss) for year/period	\$ 410,019	\$ (94,727)
Adjustment for non cash transactions:		
Depreciation	79,256	23,948
	<u>489,275</u>	<u>(70,779)</u>
Net change in working capital		
Accounts Receivables	(481,404)	-
Prepaid Expenses	(18,439)	(35,477)
Accounts Payable and Accrued Liabilities	59,417	19,616
Net Cash Provided By (Used in) Operating Activities	<u>48,849</u>	<u>(86,640)</u>
 CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(1,551)	(366,316)
Net Cash Used by Investing Activities	<u>(1,551)</u>	<u>(366,316)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Contributed Capital from Government	-	887,500
Net Cash Provided by Financing Activities	<u>-</u>	<u>887,500</u>
Net Increase in Cash and Cash Equivalents During the Year/Period	47,298	434,544
Cash and Cash Equivalents at the Beginning of the Year	434,544	-
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>\$ 481,842</u>	<u>\$ 434,544</u>

The accompanying notes form an integral part of these financial statements

Information & Communications Technology Authority
Notes to the Financial Statements
For The Year Ended 30 June 2004
(With Comparison For the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

1. Establishment and Principal Activity

The Information and Communications Technology Authority ("ICTA" or "Authority") is an independent Statutory Authority which was created on 17 May 2002 by the Information and Communication Technology Authority Law, 2002. The Authority reports on its operations to the Ministry of Planning, Communications, Works & Information Technology of the Cayman Islands Government.

The ICTA is responsible for the regulation and licensing of telecommunications, broadcasting, and all forms of radio transmission which includes ship, aircraft, mobile and amateur radio in the Cayman Islands. The ICTA conducts the administration and management of the ".ky" domain, and also has a number of responsibilities under the Electronic Transactions Law 2000.

As at 30 June 2004, the ICTA had 9 employees. The ICTA is located at 85 North Sound Way, 3rd floor of Alissta Tower, P.O. Box 2502 GT George Town, Grand Cayman, Cayman Islands.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee (IASC), and interpretations issued by the Standing Interpretations Committee of the IASC. The significant accounting policies adopted by the ICTA in these financial statements are as follows:

(a) Basis of preparation

The financial statements of the ICTA are presented in Cayman Island dollars and are prepared on the accrual basis under the historical cost convention.

(b) Fixed Assets/depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of the fixed assets and leasehold improvements are accounted for over the life of the lease.

The estimated useful lives of the other fixed assets are as follows:

Office Equipment & Furniture	4 - 12 Years
IT Equipment	3 Years
Leasehold improvements	5 Years

(c) Foreign currency translation

Assets and liabilities denominated in currencies other than Cayman Islands Dollars are translated at exchange rates in effect at the balance sheet date. Revenue and expense transactions denominated in currencies other than Cayman Islands Dollars are translated at exchange rates ruling at the date of those transactions. Gains and losses arising on translation are included in the Statement of Net Income & Retained Earnings.

Information & Communications Technology Authority
Notes to the Financial Statements
For The Year Ended 30 June 2004
(With Comparison For the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

2. Significant Accounting Policies (continued)

(d) Cash & cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are considered as cash held on demand and fixed deposits with an original maturity of three months or less.

(e) Revenue recognition

The Government subsidy is recognized in the year provided to the Authority for operational purposes of that year. Output revenue is recognized when the services are rendered as agreed to in the Purchase Agreement with Government. Regulatory and Licensing fees are recognised as revenue when they are due to the Authority. Regulatory fees are charged for regulating the industry. Licensing Fees are charges for all services relating to the licenses such as application, dispute resolution and amendment fees. For the 13 month period ending 30 June 2003, regulatory fees and licensing fees were not collected by the Authority, but by the Cayman Islands Government. Radio Licence fees are due annually and are renewed each anniversary of the issue of the license.

(f) Employee benefits

The Authority participates in the Public Service Pensions Plan, a defined contribution pension fund, in accordance with the Public Service Pension Law. Contributions are charged to expenses as they are incurred based on set contribution rates. The Authority makes monthly contributions at a rate of 13%, whereby the employer pays both the employer and employee contributions.

(g) Start-up Costs

During the period May - August 2002 the operating expenses of the ICTA were paid for by the Ministry of Planning, Communication, District Administration and Information Technology. These amounts are not reported in these Financial Statements as either expenses or contributed capital.

(h) Operating Lease

The Authority leases the 3rd floor of Alissta Towers under a three-year operating lease. Lease payments are recognized as an expense on a straight-line basis over the lease term. See also Note 8 - Lease of Property.

(i) Financial Instruments

(i) Classification

A financial asset is classified as any asset that is cash, a contractual right to receive cash or another financial asset, exchange financial instruments under conditions that are potentially favourable or an equity instrument of another enterprise. Financial assets comprise of cash and cash equivalents and prepayments.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial instrument or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable. Financial liabilities comprise of accounts payables and accrued expenses.

Information & Communications Technology Authority
Notes to the Financial Statements
For The Year Ended 30 June 2004
(With Comparison For the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

2. Significant Accounting Policies (continued)

(ii) Recognition

The Authority recognises financial assets and financial liabilities on the date it becomes party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the assets or liabilities are recognised in the Statement of Net Income & Retained Earnings.

(iii) Measurement

Financial instruments are measured initially at cost which is the fair value of the consideration given or received. Subsequent to initial recognition all financial assets are recorded at historical cost, which is considered to approximate fair value due to the short-term or immediate nature of these instruments.

(iv) Derecognition

A financial asset is derecognised when the Authority realises the rights to the benefits specified in the contract or loses control over any right that comprise that asset. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled, or expires.

3. Fixed Assets

Cost	Office Equipment & Furniture	IT Equipment	Leasehold Improvements	Total
	\$	\$	\$	\$
Opening Balance	70,685	65,231	230,400	366,316
Additions	1,551	-	-	1,551
Disposals	-	-	-	-
Balance at 30 June 2004	72,236	65,231	230,400	367,867
Accumulated Depreciation				
Opening Balance	2,133	4,864	16,951	23,948
Charge for Year	11,432	21,744	46,080	79,256
Disposals	-	-	-	-
Balance at 30 June 2004	13,565	26,608	63,031	103,204
Net Book Value At 30 June 2004	\$58,671	\$38,623	\$167,369	\$264,663
Net Book Value At 30 June 2003	\$ 68,552	\$ 60,367	\$ 213,449	\$ 342,368

Information & Communications Technology Authority
Notes to the Financial Statements
For The Year Ended 30 June 2004
(With Comparison For the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

4. Related Party Transactions

The Cayman Islands Government appoints the Chairman and Members to the Authority's Board of Directors. The following transactions occurred during the period between the Authority and Cayman Islands Government.

	2004	2003
Accounts Receivable - Government	\$331,264	
Government Output Revenue	\$331,264	
Government Subsidy	-	\$490,543
Contributed Capital	-	\$887,500

Although the Authority received a start-up subsidy from Government in 2003 (\$490,543) to cover operating expenses, from 2004 the Authority became fully self-supporting from Regulatory and other fees charged to ICTA Licensees.

During this year the Authority provided Output Services of \$331,264 (2003: \$nil) to the Government under a Purchase Agreement. These services are charged to Government at cost and \$331,264 (2003: \$nil) was receivable at year end.

As detailed in Note 7 the Authority on behalf of its eligible employees paid contributions of \$63,647 to the Public Service Pensions Fund during the period (2003: \$30,880).

The Authority also engages the services of other departments of the Cayman Islands Government. Such services are provided at current prevailing market prices on an arms length basis.

5. General Reserve

Section 18 of the ICTA Law (2002) requires the Authority to maintain a reserve fund; the management of such fund being at the discretion of the Authority. The Law requires the fund to be applied only for the purposes of the Authority.

The Authority's target, at present, is to grow the fund until it equates to at least four months of operating expenses. The rate of growth is kept at a level that does not significantly impact the regulatory fees charged to Licensees.

For the financial year ended June 2004 the Authority transferred \$60,000 to the General Reserve Fund (2003: \$nil).

6. Output Revenue

During the year the Cayman Islands Government engaged the Authority to provide, on its behalf, a number of ICT-related services. The provision of these services (or "Outputs") is formalized in a Purchase Agreement which includes the collection and verification of royalties paid by ICT Licensees, policy advice on ICT matters and drafting instructions for ICT legislation and regulations. Additionally, in lieu of subsidies, the Government pays the Authority for such services as the management of the Electromagnetic Spectrum.

Information & Communications Technology Authority
Notes to the Financial Statements
For The Year Ended 30 June 2004
(With Comparison For the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

6. Output Revenue (continued)

For the year ended 30 June 2004 the Authority, as part of the Purchase Agreement services provided to Government, collected, verified and paid over the 6% Royalty Fee from ICT Licensees to the Government of the Cayman Islands. During the year \$5.381 million were collected and paid over (2003: \$nil).

7. Pensions

The pension contributions of employees of the Authority are paid directly to the Public Service Pensions Fund (the "Fund"). The Fund is administered by the Public Service Pensions Board and is operated as a multi-employer non-contributory Fund, whereby the employer pays both the employer and employee contributions.

During the current period the Authority paid contributions of \$63,647 which is included in staff costs to the Public Service Pensions Fund (2003: \$30,880).

8. Lease of Property

The Authority leases the 3rd floor of Alissta Towers under a three-year operating lease. The Authority has three two year options to renew the lease, upon the expiry of this first lease agreement. The lease commenced 1st December, 2002 and is set to expire in November 2005. This lease will be renewed for a further two years. The Lease payments are currently \$4,846 per month and are subject to an increase in year three by \$1 to \$16 per sq. ft. per annum. For Financial year July 2005-June 2006, the lease is subject to increase by \$1 to \$17 per sq. ft. per annum. Future lease payments are:

Period	Amount
1 July 2004 to 30 June 2005	\$60,417
1 July 2005 to 30 June 2006	\$64,294
1 July 2006 to 30 June 2007	\$65,909
1 July 2007 to 30 November 2007	\$27,462

At the termination of the lease, unless agreed between the Landlord and the Authority in writing, the Authority is to remove at its cost and expense any partitions, structures, additions or improvements erected by the Authority and shall reinstate the premises to the condition they were at the commencement of the term.

9. Financial Instruments

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10. Subsequent Event

Hurricane Ivan. Subsequent to the balance sheet date of 30 June 2004, the Cayman Islands, and the Information and Communications Technology Authority suffered damage as a result of a strong category 4 hurricane that passed over Grand Cayman on the 11th and 12th of September 2004. The Authority sustained

Information & Communications Technology Authority
Notes to the Financial Statements
For The Year Ended 30 June 2004
(With Comparison For the 13-Month Period Ended 30 June 2003)
(Stated in Cayman Islands Dollars)

damage to its facilities and equipment. Management estimates that damage to be \$94,880. The costs of these damages are anticipated to be covered by insurance less deductible. In total the Authority has received a final settlement amount of \$77,000 from insurance as of 10 November 2004.

11. Reclassification

Certain expenses of the previous year balances have been reclassified to conform to this year's presentation.

