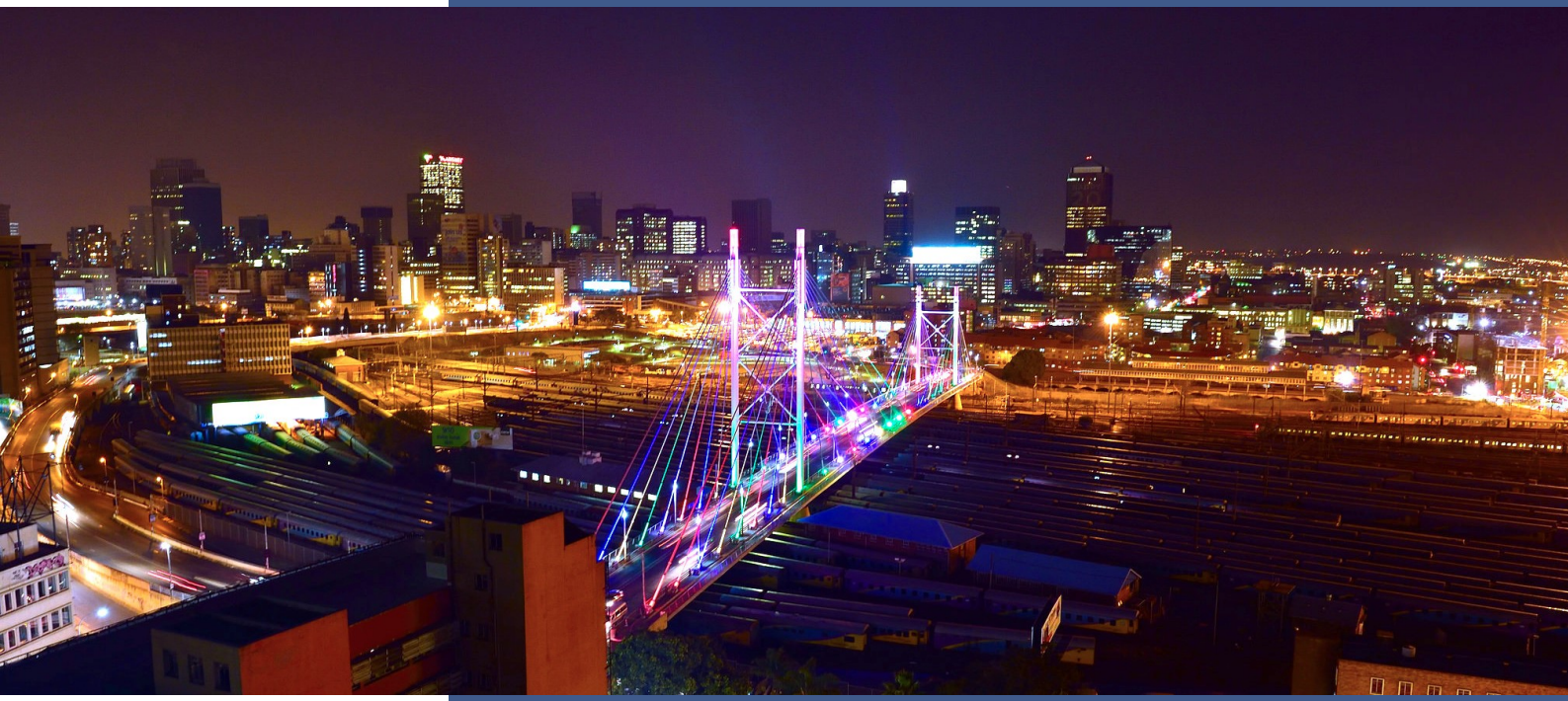
The CFO Case Study Competition

ALLEZ CONSULTING



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Report to MCOM Board

January 2016

Executive summary

Terms of reference

Mobile Communications Plc (MCOM) is a publicly listed multinational mobile telecommunications services provider based in Sadimba. MCOM's CFO has engaged Allez Consulting to evaluate, prioritise and recommend a course of action against a number of urgent issues faced by MCOM.

Prioritisation of issues

Allez Consulting has prioritised the issues faced by MCOM based on the date when a decision needs to be made, the financial ramifications of the issue, and ethical/stakeholder implications. The order of priority is listed below.

		Decision/action date	*Urgency*	*Financial*	*Ethical/stakeholder implications*
1.	Corporate finance	31 Jan 2016			
2.	Ilania	31 Jan 2016			
3.	Nakolia fine	31 Dec 2016			
4.	Shared Services Centre	31 Mar 2016			
5.	Chinisia market entry	1 Jan 2017			
	Corporate reporting[1]	31 Mar 2016			

Key recommendations

Allez Consulting has made a number of recommendations by considering a number of factors, including the macroeconomic environment, shareholder returns, and business ethics. All recommendations proposed are in line with MCOM's revised risk tolerance and appetite.

Key recommendations, listed in order of priority, are below.

1. Seek to raise S$14,062 of primary equity through an accelerated bookbuild, and S$40,000 of line of credit facilities (combination of secured revolving credit and unsecured non-revolving credit)
2. Consider exchanging equity in JV-Cellular for equity in a Turkish Mobile Operator contingent on the outcome of a thorough due diligence process
3. Continue to actively negotiate with the Nakolian government to reduce the size of the fine
4. Halt the shift of jobs to the Shared Services Centre and immediately communicate existing cost savings to investors. Provide a detailed breakdown of cost savings to shareholders at the next AGM
5. Enter the Chinisian market with the intention to acquire a stake in C-Mobile with a provisional offer, contingent on the outcome of a thorough due diligence process

Background

External scan (opportunities and threats)

MCOM also faces a number of external environment conditions, including:

- *Political:* Government pro-competition policy has resulted in sharing of mobile telecommunication infrastructure between competitors
- *Economic:* Voice telephony has been 'commoditised' by the large number of mobile telecommunication companies
- *Technological:* Increase in demand for mobile-telecommunication-dependent services such as mobile transactions, high speed mobile data, and IoT-enabled devices
- *Demand conditions:* Increased demand for higher margin data services
- *Firm strategy, structure and rivalry:* Competitors are actively engaging in asset recycling to invest in products with higher margins

Internal scan (strengths and weaknesses)

Strong profit and growth profile

- 4-year revenue CAGR of 22% driving a profit CAGR of 9%
- Market leader in 15 countries and operating in 21 countries
- Low total debt to equity ratio of 0.22x provides an opportunity to increase leverage and drive growth

High risk portfolio

- Operations in multiple countries with high political and security risk (Nakolia, Ilania)
- Loss of over 25% in market capitalisation during Q42015 as a result of Nakolian security crisis and government fine

[1] Corporate reporting has been excluded from the prioritisation process because it is a mandatory requirement to be undertaken regardless of strategic issues faced by MCOM

1. Corporate finance: capital structure and solvency

Situation

MCOM needs to ensure that it remains solvent during FY2016 amidst the prospect of needing to pay fines to the Nakolian government, and make strategic investments in new markets.

Stress test

Allez Consulting has performed a stress test on MCOM, based on the assumptions in Table 1-1.

FY2016 stress test assumptions	
Nakolia fine	Full payment of S$58,000m fine
Revenue with Nakolian legislation	30% decline in non-Sadimban revenue due to backlash against SSC and failure to comply with Nakolian legislation
Investments	S$27,000m investment in CloudNet
Asset sales	Successful sale of fixed assets of S$20,000m

Table 1-1

MCOM should raise S$54,062m in capital to remain solvent during FY2016 under the scenario that there is a 30% decline in non-Sadimban revenue. A summary of the analysis is presented in Figure 1-1.

Raising capital

Allez Consulting recommends raising S$10,000m in a secured revolving credit facility, S$30,000m non-revolving unsecured line of credit, and the remaining S$14,062m in primary equity. By raising equity, MCOM's risk profile will be significantly reduced compared to its regional peers. This would result in a net debt to shareholder's equity multiple of 0.85x at the end of FY2016. This is in line with other comparable Middle Eastern and African mobile telecommunication companies, which are currently leveraged at 0.80x-1.00x.

Given the volatility in MCOM's share price, Allez Consulting recommends an accelerated bookbuild to raise equity. MCOM's ability to raise secured debt is limited given that S$20,000m of fixed assets are held for sale. Organising the lines of credit will ensure that MCOM remains solvent in the stress test scenario.

Debt

MCOM's current pre-tax weighted average cost of debt is at 4-5%. The S$20,000m 10 year 'sale-and-leaseback' transaction with Sidoms Limited has a yield of 12.0%. Given the uncertainty in MCOM's future, Allez Consulting has assessed that MCOM will be able to organise the secured revolving credit facility at an interest rate of 4-5% and the unsecured line of credit at an interest rate of 12-15%.

Equity

MCOM's share price is very volatile due to investor uncertainty. Allez Consulting advises that MCOM complete an accelerated bookbuild to raise equity at a 5% discount to last close. This would be less risky than completing a rights issue, which may drive further bearish sentiment against MCOM equity. MCOM should consider raising S$14,062m of equity at a price of S$133.00 per share (private placement of 105.7m primary MCOM shares).

Solvency analysis (conservative case)

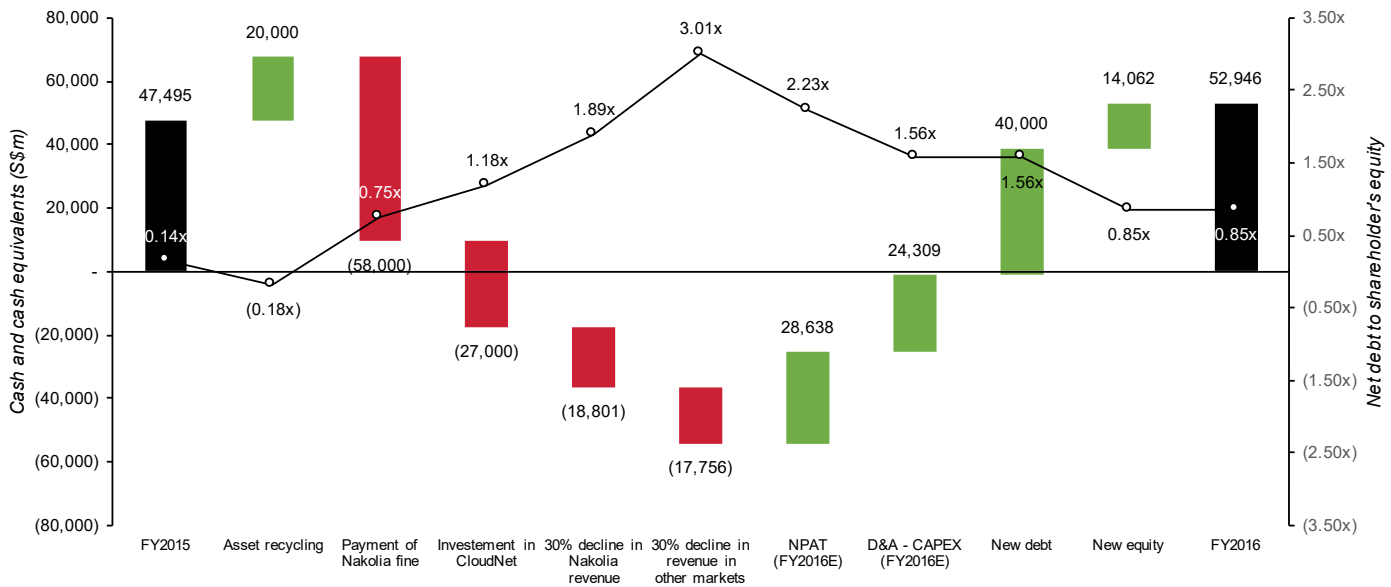


Figure 1-1

2. Ilania: Political risk and strategic uncertainty

Situation

MCOM has a 49% stake in JV-Cellular with a view to expand into other Middle Eastern markets such as Turkey and the UAE. Ilania is currently subject to sanctions for a violation of its obligations under the NNPT. These may be lifted as early as the end of 2017.

Evaluation of strategic options

Option[2]	PV of FCF to MCOM			Impact
	Worst case[3]	Base case	Best case[4]	
Strategy 1: Consolidate and expand Gain control of JV-Cellular by increasing stake to 51%, and use JV-Cellular as a vehicle to expand into the Middle East	(S$2,140m)	S$66,118m	S$118,260m	▪ Maintain presence in the Middle East ▪ Exercise control over JV-Cellular
Strategy 2: Stay the course Continue with MCOM's present stake of 49%.	S$0m	S$19,511m	S$27,873m	▪ No certainty of repatriation of dividends to MCOM
Strategy 3.1: Sell off to Bartini Sell stake in JV-Cellular to Bartini for cash consideration. Loan and dividends owed to MCOM by JV-Cellular will be forfeited.	S$0m	S$47,607m[5]	S$68,010m	▪ Forfeiture of loans to JV-Cellular ▪ No certainty of repatriation of cash consideration for JV-Cellular equity
Strategy 3.2: Sell off to the Turkish operator Exchange stake in JV-Cellular for equity in Turkish telco. operator.	S$85,000m	S$85,000m	S$85,000m	▪ Maintain presence in the Middle East ▪ Appease protestors by withdrawing from Ilania ▪ Potential synergies, wider customer base and more infrastructure

Table 2-1

Recommendations and implementation

Allez Consulting recommends Strategy 3.2. This strategy delivers the greatest reward, has the lowest level of risk and allows MCOM to focus on its strategic objective of expanding into Middle Eastern markets. MCOM will be able to leverage off the Turkish operator's existing customers and geographical knowledge when expanding into these markets to MCOM's advantage.

Step 1: Conduct due diligence

Currently, there is little information about the Turkish operator. Before proceeding with the transaction, due diligence including quantifying the value of the potential synergies, must be conducted and completed by the end of January, when the window of the opportunity expires.

Step 2: Accept scrip-for-scrip offer from the Turkish operator

MCOM should communicate acceptance of the offer, and receive shares in the bidder company.

Step 3: Undertake integration and alignment processes

It may be necessary to carry out various integration processes following the transaction.

3. Nakolia: Security crisis and government fine

Situation

MCOM Nakolia faces the prospect of needing to pay a large government fine after failing to remove unregistered mobile phone users from its network.

Evaluation of strategic option

Financial impact of the fine

The US$3,900m is less than the equity value of MCOM Nakolia, which Allez Consulting has valued at US$4,042m.[6] Even in the worst case scenario, where MCOM will need to pay the full fine, there would still be residual value of US$400m-US$500m left over.

[2] Refer to Appendix 1 for calculations in determining Strategy 1 and Strategy 2
[3] Sanctions against Ilania are not lifted
[4] Sanctions against Ilania are lifted
[5] Base case = 70% of Best case PV of FCF to MCOM, based on compliance probability to retrieve
[6] Refer to Appendix 2 for Model used to determine equity value

This is depicted in Figure 3-1. Hence MCOM should stay in the Nakolian market and pay the fine if necessary. In order to maximise shareholder value, MCOM must still consider strategies to either not pay the fine or reduce the size of the fine.

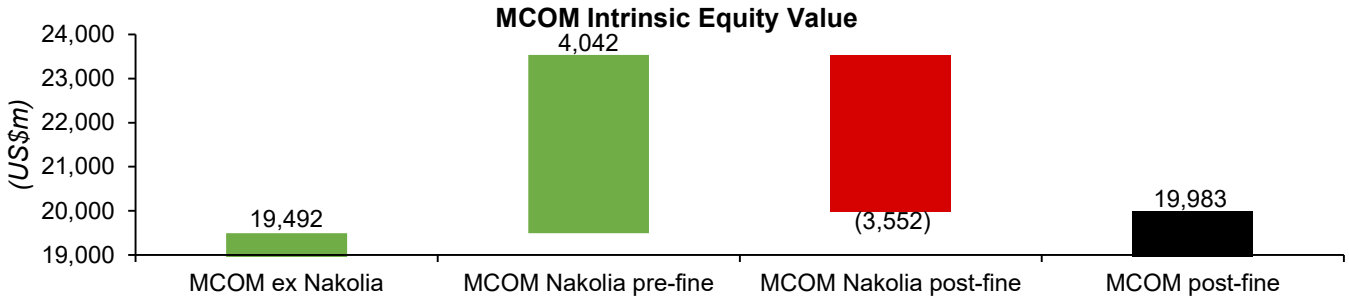


Figure 3-1

Nakolian Government's response to MCOM not paying the fine

If MCOM chooses to not pay the S$58bn fine, there are two possible responses from the Nakolian authorities. The authorities' decision is likely to be influenced by the following factors:

Option at end of 2016	GOVERNMENT'S DECISION-MAKING FACTORS		
	Financial	Public opinion	Infrastructure and economy
Permit MCOM operations Government to renew MCOM's Nakolia license	Nakolian government may not fully recover the US$3.9bn fine revenue due to pressure from MCOM.	Citizen outcry against MCOM is likely to shift the government away from allowing MCOM to continue operating.	A fully functioning mobile telecommunications network is vital infrastructure necessary to support communications, domestic and international trade, and mobile payments. MCOM Nakolia has ~50% marketshare.
Cease MCOM operations Government to cease MCOM's Nakolia license	Nakolian government is risking the total US$3.9bn fine revenue if MCOM exits Nakolia.	Citizen outcry against MCOM is likely to shift the government towards ceasing MCOM's operations.	Disrupting vital mobile telecommunications network would have drastic ramifications for Nakolia's economy.

Table 3-1

There is no certainty in how the Nakolian government will respond. While ensuring that MCOM stays in Nakolia is important for the domestic infrastructure, the government would also consider the downside of the precedence being set by allowing MCOM to avoid paying a fine. In the case of the Nakolian government preventing MCOM from continuing operations, MCOM must consider a strategy to minimise the size of the fine.

Negotiating with the government to minimise the size the fine

MCOM has a number of bargaining levers it should use to persuade the government to decrease the size of the fine. These are listed in Table 3-2 below.

MCOM Nakolia bargaining levers	Government desires	Risks
Implement stricter than required Know Your Customer (KYC) processes that identify all mobile phone subscribers.	Enhanced identification of all mobile phone users to aid in future law enforcement and investigations.	May reduce rate of new customer acquisition by making it less convenient for customers to subscribe to MCOM.
Aid Nakolian law enforcement by handing over information (such as call logs, location information) of unregistered subscribers.	Assist Nakolian law enforcement in tackling the criminal activities of Blokanda.	There will be important considerations of privacy associated with handing over personal data of users. MCOM should seek legal advice before such information is handed over to authorities.

Table 3-2

Recommendations and implementation

Step 1: Remove all unregistered SIM cards off the MCOM network

All unregistered SIM cards should be removed from the MCOM network in Nakolia as soon as possible to remove the prospect of further government fines and any possibility of MCOM being complicit in illegal activity. To minimise the decline in revenue, MCOM Nakolia should allow these users to register their identities and be re-admitted onto the network.

Step 2: Negotiate with the government to lower the size of the fine

MCOM must negotiate with the government to lower the size of the fine, given that the Nakolian government has an interest in making MCOM continue operations in the country.

Step 3: Raise capital to fund the fine

MCOM needs to raise capital to fund the fine. All funding requirements have been considered in detail on page 2.

4. Sadimba: Shared Services Centre (SSC)

Situation

As the global mobile market approaches maturity, MCOM is presently faced pressure on its revenue stream and the long-term viability of the business. The establishment of the SSC in MCOM's Sadimba headquarters has helped rationalise key aspects of MCOM's supply chain activities.

Evaluation of strategic options

Option	Financial impact	Operational impact	Risks	R
Strategy 1 Shift operational and treasury staff to SSC	Increased savings from S$6,633.85m to S$6,753.85m savings per year	▪ Deliver S$120m per year of pre-tax savings ▪ Rationalisation of 600 non-operational staff ▪ Centralisation of additional business functions leads to economics of scale	▪ Negative publicity and boycotts may lead to a loss of customers and revenue ▪ Increased employee job uncertainty may increase employee turnover	
Strategy 2 No further shift of jobs to the SSC	Continued savings of S$6,633.85m per year	▪ Ability to reassure low level transaction procession employees in African operations of job security ▪ Satisfy shareholders who are already delighted by the savings to date ▪ Focus on centralisation and specialisation of operatives and managers	▪ Shareholders may be unhappy that MCOM is not pursuing aggressive workforce rationalisation	
Strategy 3 Close the SSC and reverse all job shifts	Loss of S$6,633.85m savings per year	▪ Potential positive publicity for MCOM showing its social responsibility unlike foreign companies ▪ Reversal of cost savings will reduce MCOM's profit margin	▪ Shareholders will be unhappy that MCOM is increasing costs	

Table 4-1

Allez Consulting has prepared a breakdown of existing cost savings from moving staff to the SSC in Figure 4-1.

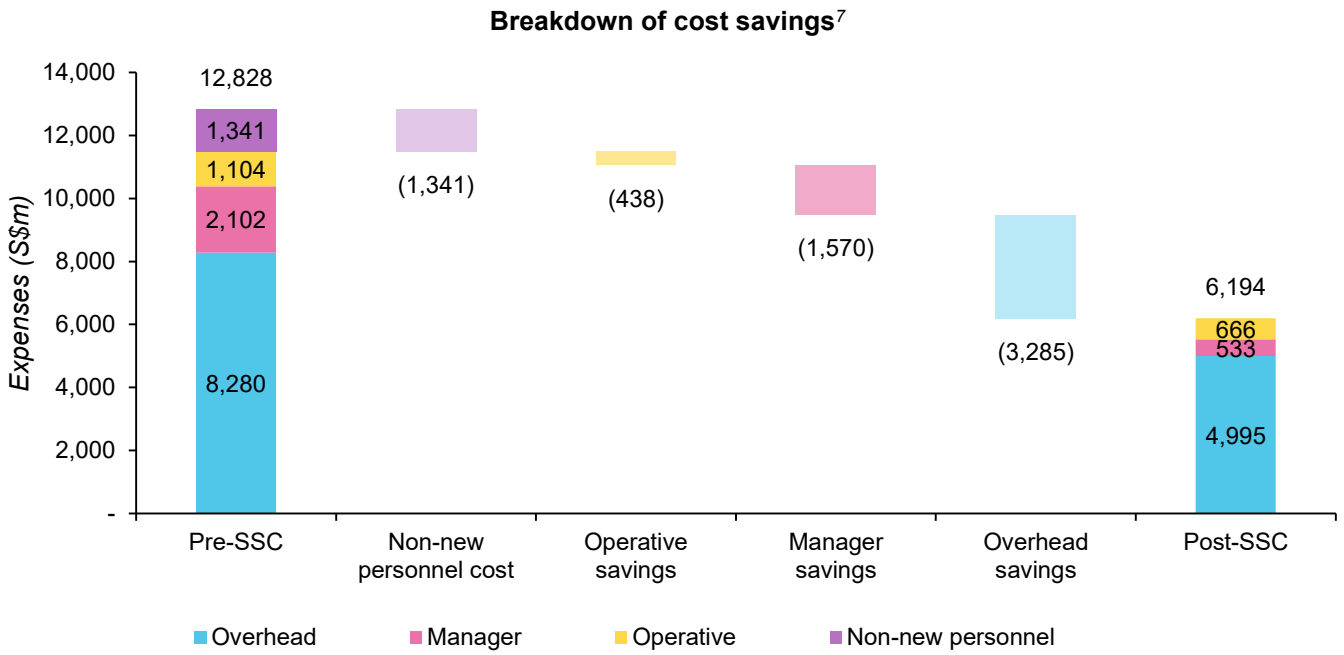


Figure 4-1

[7] Refer to Appendix 3 for detailed calculations

Recommendations and implementation

Allez Consulting recommends Strategy 2 – No further shift of jobs to the SSC. The implementation of the SSC has already shown great promise by delivering savings of S$6.633.85m in 2014 and these savings must be preserved. Strategy 1 only delivers an additional S$120m per year of cost savings and it is clear it will be met with heavy backlash in the media and from CRO. This small, additional saving is not enough to justify the high risk of reputational damage and loss of revenue.

Strategy 2 allows MCOM to hold to its strategic objective of minimising earnings volatility and ensures that their operating model continues to deliver sustainable growth, remains lean but also helps maintains a strong brand and not erode it like Strategy 1 would.

Step 1: Provide breakdown of savings to shareholders

Through MCOM's investor relations team, MCOM should communicate the breakdown of cost savings through an announcement on the stock exchange, and organise a meeting with equities analysts, who cover MCOM. This would accelerate educating investors on the size and nature of cost savings.

Step 2: Assuage citizens' rights organisations and French speaking countries

Communicate discontinuation of current planned move of key operational support activities.

Step 3: Reassure current employees of job security

MCOM needs to ensure that its operational and treasury staff who are uncertain about their job security that their positions will not be moved to the SSC. This would stop such important staff from seeking employment elsewhere.

Step 4: Continue to optimise the Sadimba SSC to try and improve efficiencies in the future

Increased training and specialisation of employees at the SSC will lead to enhanced economies of scale in the future as average minutes per transaction will decrease. This will drive further savings.

5. Chinisia: Market entry

Situation

The Chinisian market has over 305 million subscribers and is growing. An opportunity to enter has arisen, as the CTRA has invited Expressions of Interest for the 2018 renewal of 4 of its mobile licences.

Evaluation of strategic options

	CloudNet	C-Mobile	MCOM wholly-owned subsidiary
Number of customers	63m	14m	NA
Differentiating factors	High-value data services	Aggressive discounts	NA
Brand power	High	Low	High
Potential to increase marketshare	Low	High	High
Purchase price multiple (Implied equity value / number of customers)	84.0x	Unknown	NA
Execution risk	Low	Medium	High

Table 5-1

Strategic choice evaluation – Entering as wholly foreign-owned subsidiary

Allez Consulting recommends that MCOM does not enter Chinisia as a wholly MCOM Group-owned subsidiary (MCOM Chinisia Limited). There is a high degree of execution risk arising from the following factors:

(1) MCOM lacks the domestic knowledge that may be necessary to succeed in the Chinisian market
(2) MCOM has never entered a non-African market without a domestic joint venture partner
(3) There is an absence of any attractive cost synergies. The SSC in Sadimba does not have any Chinili-speaking operators
(4) MCOM is unlikely to win the rights to operate in Chinisia in the event that domestic bidders are favoured over fully foreign-owned bidders

Strategic choice evaluation – Acquire 51% of CloudNet for S$2,700m and bid as a local company

Acquiring 51% of CloudNet for S$2,700m (implied equity value S$5,294) is an attractive opportunity. Allez Consulting values 51% of CloudNet equity higher at S$4,215m-5,467m. Furthermore, entering the Chinisian market by acquiring CloudNet would also avoid all of the listed issued that MCOM would face if it were to enter the market as a wholly foreign-owned subsidiary.

It is advised that MCOM views these valuations with caution and conduct due diligence before any investment is made.

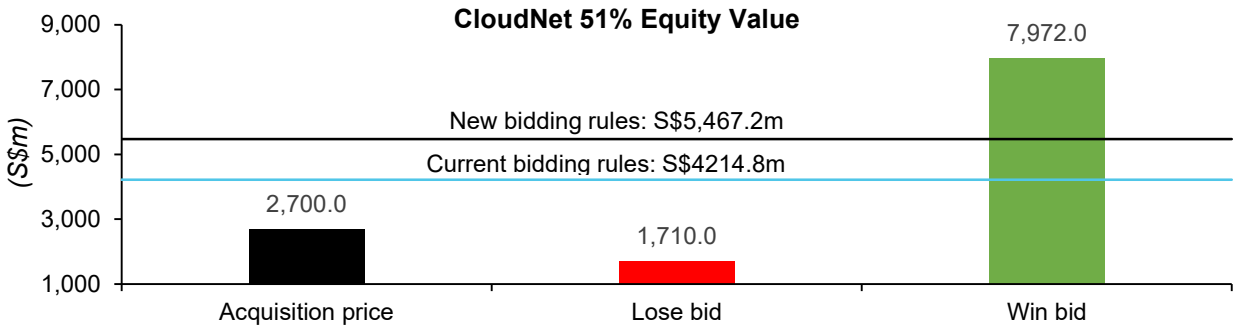


Figure 5-1

Alternative choices – C-Mobile

Allez Consulting suggests that an alternative market entry strategy be considered. MCOM should approach the struggling low-margin operator, C-Mobile, due to the following rationale:

(1) C-Mobile has a much lower marketshare with a higher potential to acquire more marketshare compared to CloudNet
(2) C-Mobile is a good candidate for a turnaround strategy because management has not targeted the growing number of mobile data users

MCOM should consider approaching C-Mobile's existing shareholders. MCOM needs to understand the underlying reasons for the failure of C-Mobile to pursue higher margin data services rather in order to use the right strategy when negotiating with C-Mobile management and shareholders.

Reason for C-Mobile failure	MCOM to negotiate investment strategy
Not enough cash or assets to 'recycle' in order to invest in developing higher value products	▪ Invest in private placement of new primary C-Mobile shares
Misguided management decision making	▪ Purchase the 49% equity of the Chinese shareholders who may be considering an exit ▪ Purchase a portion of the 51% equity owned by domestic shareholders

Table 5-2

The options presented all face a common risk associated with MCOM only having a minority stake in C-Mobile. MCOM must negotiate a 'put option' so that it can reduce its risk by being able to exit its investment at will. Having such an option would increase MCOM's power, even with only a minority stake.

Bidding Critical Success Factors (CSFs)

MCOM needs to ensure that the tender bidding vehicle (C-Mobile or CloudNet) complies with the bidding CSFs. If the bidding vehicle is not currently in compliance with CSFs, Allez Consulting has identified the key steps to ensure that the bidding vehicle can become compliant, described in Table 5-3.

Recommendations and implementation

Step 1: Acquire primary or secondary equity in either C-Mobile or CloudNet

Allez Consulting as ordered the preferred market entry strategies:

- 1st Preference: Approach C-Mobile shareholders with a provisional offer, and aim to perform due diligence on C-Mobile to ensure that C-Mobile is an attractive investment opportunity
- 2nd Preference: If MCOM is unable to negotiate an investment in C-Mobile, MCOM should approach CloudNet and ask to perform due diligence before making a S$2,700m investment for 51% equity in CloudNet

Step 2: Ensure CSFs are satisfied

MCOM needs to ensure that tender binding vehicle (C-Mobile or CloudNet) complies with CSFs, per Table 5-3.

CSF compliance steps
Ability to raise finance measured as book value gearing (debt to equity) of 100% (1) Perform due diligence on bidding vehicle to ensure that balance sheet is not overleveraged and is able to raise debt at book value debt to equity ratio of 1.00x (2) Inject new equity into the bidding vehicle if the capital structure is overleveraged
Environmental track record measured as a 5-year CAGR of CO2 emissions per square foot of 7% (1) Perform due diligence on bidding vehicle to ensure CO_2 emissions have not exceeded a CAGR of 7%. (2) Purchase carbon emission credits if CO_2 emissions exceeds accepted standards.

Table 5-3

Corporate reporting

Situation

Adjusted financial statements need to be prepared; a principal audit consideration needs to be given to PedoubeluiC Inc and Sinsago Auditors (the Auditors) and a suitable funding structure needs to be determined for the Nakolian Fine.

Financial reporting case

In preparing the adjusted financial statements for MCOM, Allez Consulting have applied the following:

- All International Accounting Standards [IAS], International Financial Reporting Standards [IFRS] and International Standards on Auditing [ISA] effective of 1st January 2015
- [IAS21.38], [IAS21.39A] & [IAS29.40] - Presentation currency of $US translated from the functional currency of $S at the closing exchange rate for assets, liabilities and equity and average exchange rate for income and expenses
- [IAS21.39 & IAS29.3] - $S has not met the requirements to be a hyperinflationary economy

The adjustments listed in Table 6-1 have been made to address the Matters to Consider and to produce the adjusted financial statements on page 9.

1. Nakolian fine	
Income statement	
[F[8] 4.25b]	Classified as an expense for FY2015 reporting period under accrual accounting
[IAS12.8]	Not tax deductible due to tax base of 100
Balance sheet	
[IAS37.10]	Provision to be made in current liabilities
[IAS37.14]	Legal obligation with probably outflows and a reliable estimate
[IAS 37.38]	$58bn is considered best estimate as determined by Group CFO
2. Sale and leaseback of network towers	
Balance sheet	
[IFRS5.6]	Network towers to be classified as held for sale
[IFRS5.8]	As sale highly probably from instruction to legal advisers
[IFRS5.15]	Measured at lower of carrying amount and fair value less costs to sell of S$20bn
[IFRS5.38]	Presented as a separate asset in statement of financial position
3. Legal advisor quote for sale of assets to Sidoms Limited	
Balance Sheet	
[IFRS5 Appendix A]	Legal fees are considered a part of the cost to sell in disposals of assets
[F.425b]	However, no liability has been incurred as the quote may be rejected
	No adjustment required
4. Operating lease agreement	
Balance Sheet	
[IAS 17.4]	Commencement of the lease term is 1st March 2016
[IAS 17.33]	Only after this date will lease payments be recognised
[IAS17.35]	Only disclosure of future minimum lease payments in Notes to Financial Statements' is required[9]
5. Impairment of loss of goodwill	
Balance sheet	
[IAS36.104a]	Reduce carrying amount of *Goodwill and intangible assets* by S$4,862m
Income statement	
[IAS36.60]	Impairment of goodwill for S$4,862m
6. Benchmark for materiality	
[ISA315.5] & [ISA 315.A1]	The Auditors will obtain an understanding of MCOM and its environment, including evaluating the sufficiency and appropriateness of assumptions, such as 1.4% of group turnover as benchmark materiality
[ISA320.4]	The Auditor's will exercise professional judgement in the determination of materiality
[ISA320.10] & [ISA320.A7]	MCOM's auditors (not MCOM) shall determine materiality for the financial statements as deemed appropriate in MCOMs circumstances
	No adjustment required

Table 6-1

Principal audit consideration

To establish the overall risk assessment for MCOM, the Auditors need to consider factors that are significant [ISA300.8c]. As MCOM has been fined in Nakolia and been affected by international trade sanctions in Illania, relevant regulatory factors [ISA315.11a] should be considered principally.

Consideration of MCOM's response, the potential effect and their disclosure is required [ISA315.A125] to ensure MCOM's management has not inappropriately responded [IS1315.A126], as these events indicate risks of material misstatement [ISA315 Appendix 2] on the current adjusted financial reports.

[8] F = IFRS The Conceptual Framework for Financial Reporting 2010
[9] Refer to Appendix 4

Mobile Communications Plc[10]

Adjusted Abridged Income Statement for the year ended 31/12/2015 (US$ millions)

	2014	2015
Revenue	**13,529**	**12,123**
Other Income	730	666
Operating expenses	(7,520)	(6,615)
Nakolia Fine	-	(3,900)
EBITDA	**6,740**	**2,274**
Dep and Amort.	(1,981)	(1,808)
Impairment of goodwill	(187)	(327)
Operating Profit	**4,571**	**140**
Net finance costs	(338)	(194)
Net monetary gain	81	40
Share of results of associates and joint ventures after tax	387	379
Profit before tax	**4,702**	**365**
Income tax expense	(1,262)	(1,059)
Profit after tax	**3,440**	**(695)**

Adjusted Abridged Statement of Financial Position as at 31/12/2015 (US$ millions)

	2014	2015
Non Current Assets		
Property, plant and equipment	7,580	4,654
Goodwill and intangible assets	3,170	2,803
Investments and loans	3,285	1,680
Asset Held for Sale	-	1,345
Deferred taxes	96	891
	14,131	**11,373**
Current Assets		
Bank balances, deposits and cash	4,220	3,194
Other current assets	3,613	3,024
Total Assets	**21,964**	**17,590**
Equity		
Equity attributable to equity holders of the company	11,127	5,430
Non-controlling interests	426	396
Total Equity	**11,553**	**5,826**
Non-Current Liabilities		
Interest-bearing liabilities	4,613	3,769
Deferred tax liabilities	953	806
	5,566	**4,575**
Current Liabilities		
Non-interest-bearing liabilities	4,844	7,189
Total Liabilities	**10,411**	**11,764**
Total Equity and Liabilities	**21,964**	**17,590**

[10] Refer to Appendix 5 for adjustments made to the pre-adjusted abridged financial statements

Ethical issues

Removing unregistered SIM cards off the Nakolian network

By failing to comply with NTRA instructions to register all SIM cards by 2013, MCOM may have aided in criminal acts by the Blokanda terrorist group.

Factors	Analysis	Recommended action
Safety in Nakolia	Unregistered SIM cards may aid criminal activities.	Remove all unregistered SIM cards off the network immediately.
Investor returns (profits)	Keeping unregistered SIM cards may increase revenue, however MCOM would risk further fines.	Give unregistered users the opportunity to recover their accounts by registering their identity.

Table 7-1

Shifting jobs to the Shared Services Centre

The establishment of the SSC in Sadimba will result in the rationalisation of 600 non-Operative staff and further Operative staff across other countries that MCOM operates in, including Nakolia.

Factors	Analysis	Recommended action
Non-Sadimban employees	Laid-off employees would need to find other sources of employment.	Offer laid-off employees relocation assistance to Sadimba.
Financial position	MCOM is not in a financial position to restart operations in individual countries.	MCOM should continue operating the SSC.
Investor returns (profits)	MCOM has a fiduciary responsibility to serve the interests of investors. MCOM has experienced YoY growth since creating the SSC.	MCOM should continue operating the SSC.

Table 7-2

Releasing mobile phone records to the Ilanian government

MCOM, amongst other providers in Ilania, made available to the government of Ilania evidence leading to convictions of protestors involved in the 2013 Arab Spring. Civil liberty watchdogs have called on MCOM to withdraw from Ilania.

Factors	Analysis	Recommended action
Pro-democracy demonstrators	MCOM or JV-Cellular can only trust that the local laws and judicial system will protect the rights of Ilanian citizens, and that data is used in an ethical manner. Furthermore, MCOM does not have a controlling stake in JV-Cellular.	MCOM needs to continuously re-evaluate its position in Ilania, as there is insufficient data to support the notion that data given to Ilanian law enforcement is used in an unethical manner.

Table 7-3

Market leadership

Situation

MCOM needs to innovate to stay competitive

Today, MCOM's core telecommunications product offering (voice and data services) is becoming increasingly commoditised.[11] in addition, the maturing mobile market has placed increased pressure on MCOM's revenue and future growth. Efforts to cut costs, such as the creation of the SSC, are necessary to maintain profit. However, MCOM also needs to pursue higher margin 'value-added services' to drive revenue growth. Allez Consulting has identified four possible focus areas and suggests capitalising on the growing ubiquity of internet-connected devices as the most attractive of these areas.

	Mobile payments	Connected devices	Managed IT services	Media and entertainment
Sustainable competitive advantage	High ✓	High ✓	Low ✗	Low ✗
Technology life cycle stage and growth potential	Growth ✓	Embryonic ✓	Mature ✗	Ageing ✗
Market size	Large ✓	Large ✓	Large ✓	Large ✓
Execution and ongoing operational risk	High ✗	Low ✓	Moderate –	Moderate –

Table 8-3

What is IoT?

Each day, there are more and more connected devices in the world. The Internet of Things (IoT) describes the network of objects that can interact with one another over the internet. In particular, devices can share information collected through sensors or meters, allowing for highly integrated and intelligent systems.

[11] http://www.strategyand.pwc.com/media/file/Strategyand_Against-the-tide.pdf

The macro-environment context

Africa is being shaped by three key trends that will collectively contribute to an explosion of interest in IoT technology:

DEMOGRAPHIC TRANSITION

Africa is seeing an historic increase in birth rates and life expectancy, and is enjoying relatively high rates of economic growth. For MCOM, this means more consumers with more wealth, and greater demand for connectivity.

URBANISATION AND INTEGRATION

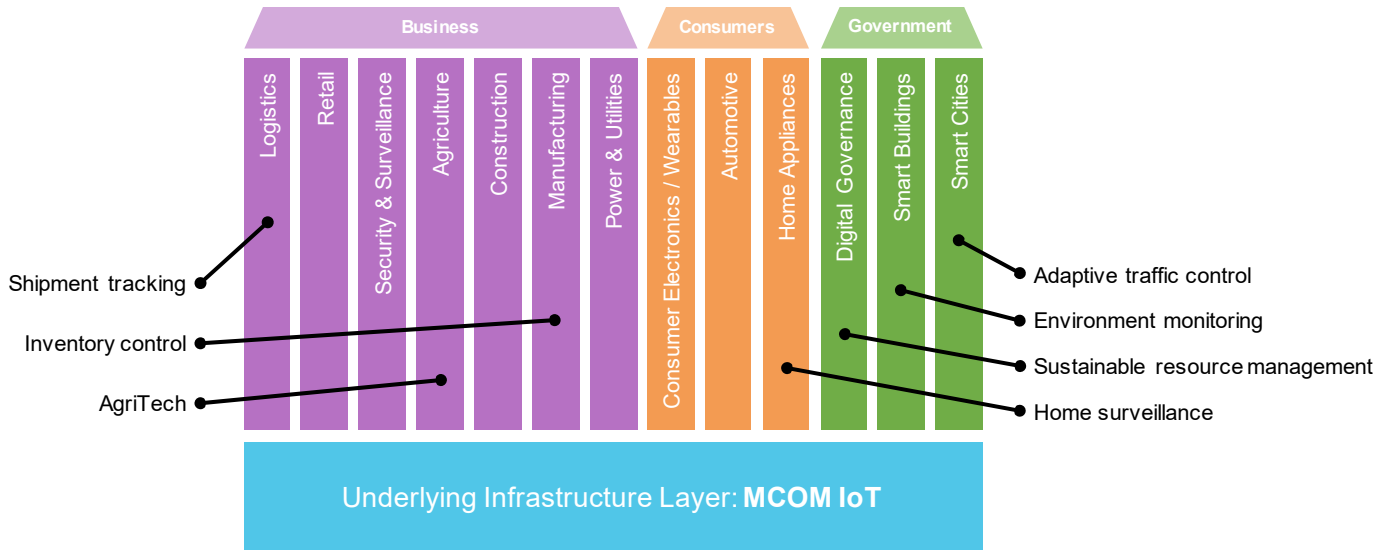
By 2030, more than 50% of Africans will be living in cities. The number of people living in urban settlements will triple to 1 billion by 2050. This means closer integration of markets and new opportunities for MCOM.

STRAIN ON RESOURCES

The pressures of higher population growth, economic growth, and climate change are putting pressure on water, energy, and arable land. African governments will have sustainable management of natural resources high on their agendas.

Potential IoT customers

In the area of IoT innovation, Africa is leading the way.[12] MCOM can expect to see businesses, consumers and governments eager to tap into IoT technologies.



Recommendations and implementation

To capitalise on IoT, MCOM must aim to become the leading provider of internet connectivity for IoT devices in Africa.

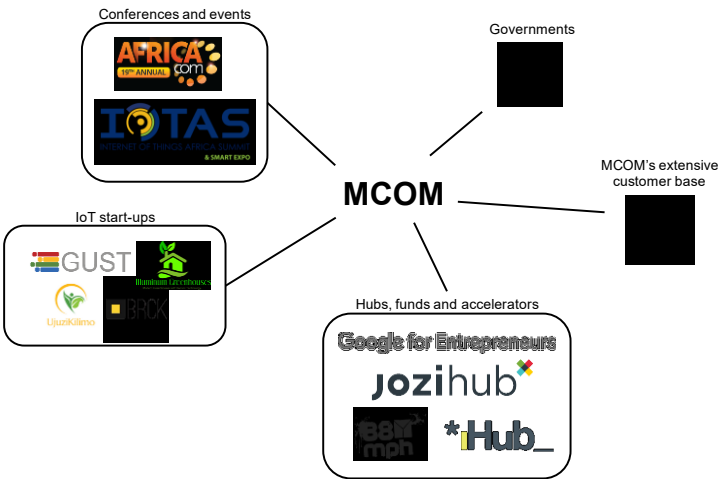
Step 1: Introduce a new service for IoT use

MCOM should establish itself as the primary provider of the underlying infrastructure for IoT devices.

Step 2: Take up a central position

MCOM should position itself at the centre of the IoT ecosystem. MCOM has access to a large customer base in various countries. To vendors of IoT devices, including start-ups, MCOM is an attractive channel for reaching enterprise, consumer and government customers. MCOM should also enter into financial and strategic partnerships with technology hubs, venture capital funds, start-up accelerators, conferences and events. The objective is to raise brand awareness and strongly associate MCOM with IoT as a high-growth sector.

The increased brand awareness will increase MCOM's other revenue streams (e.g. business solutions and other value-added services).



[12] http://www.howwemadeitinafrica.com/needs-based-innovation-can-catapult-africa-to-the-forefront-of-iot-innovation/

Appendix 1: Ilania strategy valuation

Strategy 1 - Event Tree Analysis in PV S$ millions

Consolidate & Expand in Ilania by increasing stake to 51%

Cash Payment		(2,140)	
Probability		70%	30%
Compliance		**Yes**	**No**
Probability	80%	20%	
Outcome	**Better Outcome**	**Worse Outcome**	**No Compliance**
Free Cash Flows (FCF) to JV Celluar	240,000	24,000	0
FCF to MCOMM (51%)	122,400	12,240	0
Expected FCF to MCOM	68,544	1,714	0

	Worst Case	Base (Expected) Case	Best Case
FCF to MCOM	0	68,118	120,260
Securing of Cash Flows	0	(2,000)	(2,000)
Middle East Market Entry	0	(200,000)	(200,000)
Middle East FCF	0	200,000	200,000
Total PV of FCF to MCOM (S$m)	(2,140)	66,118	118,260

Strategy 2 - Gordon Growth and Black Scholes Models

Relevant data for this issue only	
Standard Deviation of investment returns in the Middle East	25%
r = Risk free rate = r	5%
e = MCOM's S$ Cost of Equity	15%
K = Strike Price to Buy S$m = K	28,000.00
t = Time to exercise (years)	2

	2010	2011	2012	2013	2014
Share of results of associates and joint ventures after tax (S$m)	2,098.00	2,821.00	3,008.00	3,431.00	4,208.00
$A to $US exchange rates (closing)	1,566.00	1,378.00	2,905.00	2,356.00	2,342.00
$US to $S exchange rate (closing)	6.61	8.07	8.47	10.52	11.55
$A to $S exchange rate (closing)	10,351.26	11,120.46	24,605.35	24,785.12	27,050.10

Gordon Growth Model	2010	2011	2012	2013	2014
Share of results of associats and joint ventures after tax (A$m)	0.20	0.25	0.12	0.14	0.16
g = 2014 5-year CAGR for Dividends (from above)	-6.40%				
D_1 = 2015 Dividends (S$m)	5,008.00				
S_0 (S$m) = D_1 / (e - g)	23,401.35				

Black Scholes Model for Put Option	
d_1	(0.0478)
$N[-d_1]$	0.5191
d_2	(0.4014)
$N[-d_2]$	0.6559
Value of Put Option (S$m) = $P = Ke^{-rt} * N(-d_2) - S_0 \cdot N(-d_1)$	4,471.27

	Worst Case - Sanctions remain and all cash is indegenisized in Illania	**Base (Expected) Case** - 70% chance of compliance and retrieval of S_0 and P	**Best Case** - Full compliance and retrieval of S_0 and P
Total PV of FCF to MCOM (S$m)	0	19,511	27,873

Appendix 2: MCOM Nakolia equity value

FCFE valuation of MCOM Nakolia

Assumptions

Tax rate - 30.0%; Long-run D/E ratio: 0.30x, Long-run growth rate: 2.0%, Risk free rate: 5.0%, Expected market return: 17.0%, Pre-tax cost of debt: 15.0%.

Model 1: No fine, unlevered beta – 0.80

(US$m)	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2026E	2028E	2029E	TV
Revenue	4,320	4,320	4,557	4,734	5,010	5,233	5,338	5,445	5,554	5,665	5,778	5,894	6,011	6,132	6,254	6,379	6,507	
EBITDA	1,382	1,382	1,458	1,515	1,603	1,675	1,708	1,742	1,777	1,813	1,849	1,886	1,924	1,962	2,001	2,041	2,082	
(D&A)	(562)	(562)	(592)	(615)	(651)	(680)	(694)	(708)	(722)	(736)	(751)	(766)	(781)	(797)	(813)	(829)	(846)	
EBIT	821	821	866	900	952	994	1,014	1,035	1,055	1,076	1,098	1,120	1,142	1,165	1,188	1,212	1,236	
Profit before tax	821	821	866	900	952	994	1,014	1,035	1,055	1,076	1,098	1,120	1,142	1,165	1,188	1,212	1,236	
(Tax expense)	(246)	(246)	(260)	(270)	(286)	(298)	(304)	(310)	(317)	(323)	(329)	(336)	(343)	(350)	(356)	(364)	(371)	
NPAT	575	575	606	630	666	696	710	724	739	753	768	784	800	816	832	848	865	
D&A			592	615	651	680	694	708	722	736	751	766	781	797	813	829	846	
(CAPEX)			(684)	(710)	(752)	(785)	(801)	(817)	(833)	(850)	(867)	(884)	(902)	(920)	(938)	(957)	(976)	
FCFE			515	535	566	591	603	615	628	640	653	666	679	693	707	721	735	5,131
PV FCFE			477	425	385	345	302	264	231	202	177	155	135	118	103	90	79	552

NPV FCFE	**3,490**	
PV TV	**552**	
Equity value	**4,042**	(US$m)
	60,115	(S$m)

Model 2: Fine amount - US$3,900m, unlevered beta – 1.2 (to account for increased political and security risk)

(US$m)	2014A	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2026E	2028E	2029E	TV
Revenue	4,320	4,320	4,557	4,734	5,010	5,233	5,338	5,445	5,554	5,665	5,778	5,894	6,011	6,132	6,254	6,379	6,507	
EBITDA	1,382	1,382	1,458	1,515	1,603	1,675	1,708	1,742	1,777	1,813	1,849	1,886	1,924	1,962	2,001	2,041	2,082	
(D&A)	(562)	(562)	(592)	(615)	(651)	(680)	(694)	(708)	(722)	(736)	(751)	(766)	(781)	(797)	(813)	(829)	(846)	
(Fine)			(3,900)															
EBIT	821	821	(3,034)	900	952	994	1,014	1,035	1,055	1,076	1,098	1,120	1,142	1,165	1,188	1,212	1,236	3,672
(Interest expense)			(272)	(532)	(503)	(468)	(425)	(375)	(319)	(254)	(179)	(95)	(25)	-	-	-	-	195
Profit before tax	821	821	(3,306)	368	449	527	589	659	737	823	919	1,025	1,117	1,165	1,188	1,212	1,236	
(Tax expense)	(246)	(246)	(178)	(110)	(135)	(158)	(177)	(198)	(221)	(247)	(276)	(307)	(335)	(350)	(356)	(364)	(371)	
NPAT	575	575	(3,484)	258	314	369	413	461	516	576	643	717	782	816	832	848	865	
D&A			592	615	651	680	694	708	722	736	751	766	781	797	813	829	846	
(CAPEX)			(684)	(710)	(752)	(785)	(801)	(817)	(833)	(850)	(867)	(884)	(902)	(920)	(938)	(957)	(976)	
Net borrowing/ (paydown)			3,625	(163)	(214)	(264)	(306)	(352)	(405)	(463)	(527)	(600)	(332)	-	-	-	-	
FCFE			50	-	-	-	-	-	-	-	-	-	330	693	707	721	735	3,672
PV FCFE			45	-	-	-	-	-	-	-	-	-	39	68	56	47	39	195

NPV FCFE	**295**	
PV TV	**195**	
Equity value	**490**	(US$m)
	7,288	(S$m)

Appendix 3: Sadimba cost and savings breakdown

Costing Data [provided by The CharterQuest Institute]

Data	MCOM Sadimba	MCOM Nakolia	MCOM (All Others)	Total
Annual number of transactions	1,600,000	1,900,000	1,800,000	5,300,000
Average operative minutes per transaction	45	60	90	
% of transactions escalated to Managers	20	30	60	
Average manager minutes per escalated transaction	90	120	180	
Overhead costs absorbed per Operative hour				1,800
Wages per hour (Operative)				240
Wages per hour (Manager)				480
Additional no. of fulltime non-operative staff no longer required		400	200	600
Average salary of fulltime non-operative staff no longer required				200,000
Average cost recovery per transaction by SSC				1,450
Average cost recovery per transaction by SSC for new personnel costs				1,087.50
Average cost recovery per transaction by SSC for non-new personnel costs				362.50

Current Savings from SSC for processing of transactions on behalf of other MCOM businesses

Savings Achieved	MCOM Sadimba	MCOM Nakolia	MCOM (All Others)	Total (S$)
Non-new personnel related cost recovery				
Annual number of transactions		1,900,000	1,800,000	
Total non-new personnel cost recovery (S$)				**1,341,250,000**
Operative and Overhead Costs				
Number of operative minutes saved per transaction		15	45	
Total operative minutes saved		28,500,000	81,000,000	
Total operative hours saved		475,000	1,350,000	
Total Operative Costs Saved (S$)				**438,000,000**
Total Overhead Costs to be Absorbed Saved (S$)				**3,285,000,000**
Manager Costs				
Fewer % of transactions escalated to Managers		10	40	
Total Manager escalations saved		190,000	720,000	
Total Manager minutes saved		22,800,000	129,600,000	
Total Manager hours saved		380,000	2,160,000	
Total Manager Costs Saved (S$)				**1,219,200,000**
Operative Costs Savings				
Number of Manager minutes saved per transaction		30	90	
Total escalated Manager minutes saved		11,400,000	32,400,000	
Total escalated Manager hours saved		190,000	540,000	
Total Escalated Manager Costs Saved (S$)				**350,400,000**
			Total Savings	**6,633,850,000**

Comparison of Costs in other MCOM businesses and SSC in Sadimba for processing of transactions

Costs	MCOM Sadimba	Total (S$)	MCOM Nakolia and Others	Total (S$)
Non-new personnel related costs				
Annual number of transactions	3,700,000.00		3,700,000.00	
Total non-new personnel cost recovery (S$)		**0**		**1,341,250,000**
Operative and Overhead Costs				
Total operative minutes	166,500,000.00		276,000,000.00	
Toal operative hours	2,775,000.00		4,600,000.00	
Total Operative Costs (S$)		**666,000,000.00**		**1,104,000,000.00**
Total Overhead Costs Abscorbed (S$)		**4,995,000,000.00**		**8,280,000,000.00**
Manager Costs				
Transactions escalted to Managers	740,000.00		1,650,000.00	
Total escalated Manager minutes	66,600,000.00		262,800,000.00	
Total escalated Manager hours	1,110,000.00		4,380,000.00	
Total Escalted Manager Costs (S$)		**532,800,000.00**		**2,102,400,000**
	Total Costs	**6,193,800,000.00**	**Total Costs**	**12,827,650,000.00**

Future Savings from SSC for key operational support activities from other MCOM businesses

Non-Operative Staff Costs			
Non-Operative staff no longer required	400	200	
Average salary of non-operative staff no longer required	200,000	200,000	
Total Non-Operative Staff Costs Saved / Total Savings (S$)			**120,000,000**

Appendix 4: Operating lease disclosure

Operating leases relate sole to leased tower equipment from Towerdom.
The minimum lease payments under non-cacellable opearting leases are payable as follows:

$US million	**2014**	**2015**
Within one year	-	121.03
Later than one year but not later than five years	-	645.52
Later than five years	-	847.24

Appendix 5: Financial statements adjustment worksheet

Exchange Rates [Given]	2014	2015	
$US to $S exchange rate (closing)	11.55	14.87	
$US to $S exchange rate (average)	10.86	13.21	= Average of 2014 and 2015 closing exchange rates

Abridged Income Statements	X 10.86		X 13.21		X 14.87		X 14.87		
	2014 S$m	2014 US$m	Pre 2015 S$m	Pre 2015 US$m	31/12/15 Adjustment DR S$m	DR US$m	CR S$m	CR US$m	Post 2015 US$m
Revenue	**146,930**	**13,529**	**160,154**	**12,123**					**12,123**
Other Income	7,928	730	8,800	666					666
Operating expenses	(81,667)	(7,520)	(87,384)	(6,615)					(6,615)
Nakolia Fine		-	-	-	58,000	3,900			(3,900)
EBITDA	**73,191**	**6,740**	**81,570**	**6,174**					**2,274**
Dep and Amort.	(21,513)	(1,981)	(23,879)	(1,808)					(1,808)
Impairment of goodwill	(2,033)	(187)	-	-	4,862	327			(327)
Operating Profit	**49,645**	**4,571**	**57,691**	**4,367**					**140**
Net finance costs	(3,668)	(338)	(2,568)	(194)					(194)
Net monetary gain	878	81	527	40					40
Share of results of associates and JV after tax	4,208	387	5,008	379					379
Profit before tax	**51,063**	**4,702**	**60,658**	**4,592**					**365**
Income tax expense	(13,702)	(1,262)	(15,871)	(1,201)	15,752	1,059	15,871	1,201	(1,059)
Profit after tax	**37,361**	**3,440**	**44,787**	**3,390**					**(695)**

Abridged Statement of Financial Positions	X 11.55		X 14.87		X 14.87		X 14.87		
	2014 S$m	2014 US$m	Pre 2015 S$m	Pre 2015 US$m	31/12/15 Adjustment DR S$m	DR US$m	CR S$m	CR US$m	Post 2015 US$m
Non Current Assets									
Property, plant and equipment	87,546	7,580	89,209	5,999			20,000	1,345	4,654
Goodwill and intangible assets	36,618	3,170	46,549	3,130			4,862	327	2,803
Investments and loans	37,945	3,285	24,978	1,680					1,680
Asset Held for Sale	-	-	-	-	20,000	1,345			1,345
Deferred taxes	1,109	96	13,256	891					891
	163,218	**14,131**	**173,992**	**11,699**					**11,373**
Current Assets									
Bank balances, deposits and cash	48,736	4,220	47,495	3,194					3,194
Other current assets	41,731	3,613	44,971	3,024					3,024
Total Assets	**253,685**	**21,964**	**266,458**	**17,917**					**17,590**
Equity									
Equity attributable to equity holders	128,517	11,127	141,494	9,514	44,787	3,390	(17,956)	(695)	5,430
Non-controlling interests	4,925	426	5,896	396					396
Total Equity	**133,442**	**11,553**	**147,390**	**9,911**					**5,826**
Non-Current Liabilities									
Interest-bearing liabilities	53,279	4,613	56,059	3,769					3,769
Deferred tax liabilities	11,012	953	11,984	806					806
	64,291	**5,566**	**119,068**	**8,006**					**4,575**
Current Liabilities									
Non-interest-bearing liabilities	55,952	4,844	51,025	3,431	15,871	1,201	73,752	4,959	7,189
Total Liabilities	**120,243**	**10,411**	**119,068**	**8,006**					**11,764**
Total Equity and Liabilities	**253,685**	**21,964**	**266,458**	**17,917**					**17,590**

The following adjustments were not translated based on the heading exchange rate:

- Reversing entries
- Transfer of Profit/Loss from Income Statement to Statement of Financial Position
- Income Tax Expense is calculated in S$ before being translated and accounts for Nakolian Fine's Tax Base of 100