MCOM'S STRATEGIC REPORT

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INTRODUCTION

Since the dawn of humanity and inception of life as we know it, the need to communicate has been prevalent over most other needs. As a being, man cannot exist without communication. It is for this reason that the telecommunication industry is of paramount importance, continues to grow and in so doing, reaping huge amounts of rewards for owners.

Mobile Communication (MCOM) Plc is one such Multinational organisation that seeks to fulfill this inert need of man and in so doing has built itself as one of the leading players in the industry, in its regions of operation. With its headquarters in the African country of Sadimba boasting 250 million subscribers across Africa and the Middle East. It ranks amongst the top 3 African operators. Due to its dispersed presence, it presents its financial statements using the United States dollar ($) while its functional currency is the Sadimban dollar (S$).

In its operations, MCOM strives to be the marquee player with its technological advancements in voice and digital transmission existing as prime examples. Its superiority as an organization is further exemplified by the diversity of its product portfolio ranging from business solutions such as enterprise applications and voice and data services.

It further has a recipe to ensure a fully baked approach with such ingredients as a good ethical organisational stance, recognition of cooperate governance and its functionality, an integrated reporting system and business sustainability.

As far as its growth is concerned, it started out with a strategy towards risks that fitted its stature and desire to grow; this has however waned in recent times as the organization has seen its growth stagnate. This growth was characterized by acquisitions and alliances of various forms and sizes.

But as seems to be the norm in the business world, particularly in the case of Multinationals such as MCOM, Volkswagon (VW), Toshiba and even Mossack Fonseca, corporate scandals and problems are rife. Further analysis of MCOM's very own problems is performed below, in greater detail.

Prioritisation of Issues

As is the case with many organizations in today's world, MCOM has its own goals or priorities. Prioritisation of issues to be analysed have been ranked in respect of how each issue addresses these priorities and the impact on MCOM (See Appendix A).

Summary of Recommendation's

1. Possibility of the fine being reduced is remote, MCOM should raise funds by liquidating assets and debt financing
2. Illanian market has become too risky, MCOM should exit the market
3. Acquire Cloudnet and bid as Joint Venture.
4. Continue plan to further Implement the Shared Services

Security crisis and legal Wrangling in Nakolia

Kurt Lewin's Force Field Analysis Technique has been used to distinctively identify the forces at play and how their impact the current status quo in Nakolia.

FORCE FIELD ANALYSIS

DRIVING		RESTRAINING	
Sandimban Governments willingness to negotiate on behalf of MCOM	3	4	Local Media branding initial reduction as breach of fundamental human rights and security
Decision to pursue Court Action to Challenge the fine,	3	4	Public Campaign rallies by Nakolians at home, in Sadimba and in the diaspora
CSR-Related Projects	1	5	Fine reduction being challenged in the court of law
Motivation to maintain Financial Stability and Stock Market Standing	2	2	Breakdown of amicable communication resulting in court actions to resolve disputes
Protecting Corporate Reputation	1	4	Subsequent results of inaction in de-registering sim cards
	10	19	

EQUILIBRIUM: US$3.9 Million Fine

Nakolia's position as a Strategic Leader in MCOM's international portfolio cannot be over emphasized as it accounts for the highest revenue contribution. In an industry showing significant signs of maturity, a strong market share and effective cost management is critical. The fine could be a hindrance to capital investment necessitated by fierce competition and IP- based services such as WhatsApp affecting revenue negatively.

The results clearly show the Restraining forces outweigh the Driving Forces with regards to the fine. 2 big questions arise. Is it possible to:

- Reduce the forces opposing further reduction of the fine
- Increase the forces pushing for a further the reduction of the fine

The answer is yes, and the following recommendations are tailored to illustrate how these 2 questions can be addressed to reduce the fine and mitigate negative repercussions.

Recommendations

- Taking the Sadimban governments offer to speak on MCOM's behalf. They don't have the power to reduce the fine, however, they can significantly influence those with the ultimate power. Discussions will restore a platform for amicable dialogue restoring a proper line of communication and aid further reductions in the fine.

- Rebuilding a strong reputation that is at risk of being tarnished beyond reproach. A microscope has been placed on MCOM and it needs to put out a strong statement of its commitment to all stakeholders. This entails actions that transcend putting out press releases, it'll involve instituting corporate governance structures that will foresee major risks and act appropriately beforehand.

- MCOM should lobby for gradual payment of the fine rather than a one off payment. This will allow the company to generate funds whilst fulfilling other obligations such as debt, cash needed to run operations, investment in emerging markets and capital expenditure to compete in existing markets.

- Implementing the Forum for Stakeholder Interaction model of corporate social responsibility (CSR). This system incorporates multiple stakeholder interests and expectations rather than just shareholders. Organizational performance should be measured in a pluralistic way than just the financial bottom line to achieve sustainability. In a country that is ravaged by terrorist attacks, its inhabitants will value efforts to improve security and relief rather than other ventures not related to the aforesaid.

Summary of Financial Reporting Standards Applied

IAS 37- NTRA Fine

A provision has been made in relation to the fine as it fits the definition of a Provision and meets the recognition criteria which include:

- ✓ a present obligation as a result of past events
- ✓ probability that an outflow of resources embodying economic benefits will be required to settle the obligation
- ✓ A reliable estimate can be made(See Appendix E)

•NOTE: a concept that was considered is embedded in the IASB conceptual Framework i.e. Prudence Concept. The possibility of reducing the fine is remote, as such MCOM will be required to recognize the obligation using the best estimation so as not to underestimate liabilities. Because of the aforementioned the fine is recorded as a provision and not a contingent liability.

IFRS 5- Network towers

The Network towers satisfy the recognition criteria and must thus be classified as held for sale. The required conditions are explained below:

- ✓ assets must be available for immediate sale in their present condition with the sale highly probable
- ✓ asset must be currently marketed actively at a price that is reasonable in relation to its current fair value
- ✓ sale should be expected within a year from the date of classification
- ✓ actions required to complete the planned sale will have been made, and it is unlikely that the plan will be significantly changed .

This is affirmed by subsequent acceptance of an offer from Sidoms Limited and the instructions to the lawyers to draft a sales contract. The S$5million quote will not affected the Financial Statement as it is

only a quotation that doesn't indicate a full transaction which occurred in the period under review. (See appendix E)

IAS 17- Operating Lease

Risks and rewards of ownership are not transferred; as such the leased item is not shown as an asset in the financial statements. The lease payments are simply recognized as an expense. However, the lease is only effective on 1-Mar-2016 and thus no charge relates to the period under review MCOM should only disclose lease payments categorised into amounts falling due within one year, within two to five years and after more than five years (See Appendix E)

IAS-36 Goodwill Impairment

The standard requires that goodwill be tested for impairment every year and in the event that an impairment loss is recognized. It should be recognized as an expense and the carrying amount of goodwill reduced (See Appendix E).

Audit Consideration

Materiality is set at S$2,057,000, any misstatements above will be the basis for a modified opinion. All items listed below are material and thus will be given special consideration by the auditors.

- Attention will be drawn to the Regulation imposed by the NTRA to register all sim cards and the resulting inaction of MCOM. This is in line with ISA 250 'Consideration of Laws and Regulations' specifically whether noncompliance can have a material effect on the financial statements.
- The auditor will also take into consideration Presentation and disclosure. This is in line with ISA 501 Audit Evidence- specific consideration for selected items covers issues relating to litigation and legal claims.
- With licenses negotiations so close, the major drop in market capitalization, the Nakolia fine and the prominent pressure from the Nakolian public, can the entity continue to operate in Nakolia in the foreseeable future?! This is in line with ISA 570 Going Concern'
- Auditors will also ascertain the validity of the classification of assets as held for sale as this is usually indicative of obsolesce or damage

Analysis of possible sources of Finance

Equity: The Market capitalization fell by 25% which translates into reduced investor confidence. This option will require MCOM showing its impressive track record in its commitment to maximizing shareholder value, exemplified in its growing EBITDA and stable shareholder returns which are indicative of the company's core profitability.

Debt: Over the years MCOM has maintained a low gearing; this is the opportune time to utilise this source of finance. This allows MCOM to have a higher Return on Equity, but only at the risk of bankruptcy. It may further complicate the financial situation when the business undergoes poor financial phase.

Cash: While this seems like "free" financing, it does have opportunity cost. MCOM can use excess cash to run the operations of the business, compensate shareholders, and re-invest for growth.

Alternative sources of Finance

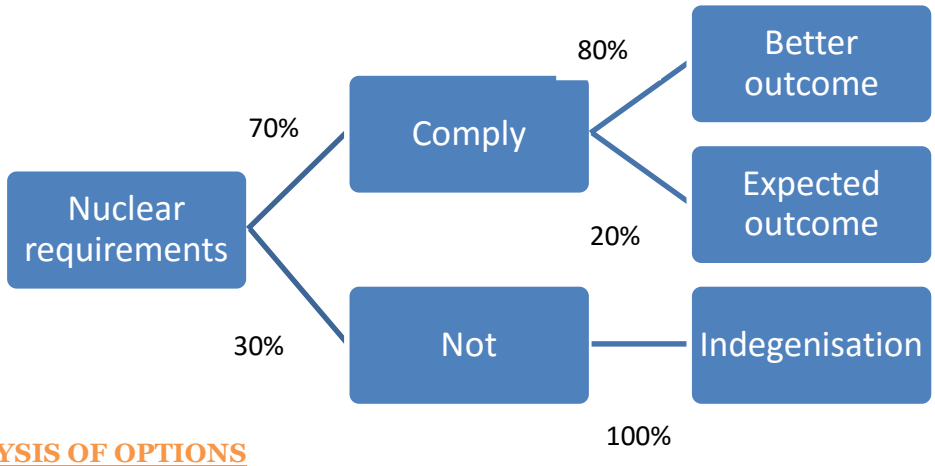
MCOM can makes changes to its operating structures to obtain cash that can be used to pay the fine, some of which it has already started pursuing. These include;

- Monetizing Passive infrastructure and non-core assets
- Liquidating Investments and Loans that are approaching maturity
- Utilising cash savings from the Shared Services Center

Recommendation

MCOM should first adopt the alternative source of finance as they do not have significant present and future costs other than the need to restructure methods of operations which could be more cost effective. After fully utilizing this source, MCOM can subsequently enter the bonds market to raise finance. Cash should only be paid out in the event there is excess over and above what needs to be re-invested into the business.

POLITICAL UNCERTAINTY IN ILLANIA



ANALYSIS OF OPTIONS

1. **OPTION 1**

COMPLY			**Non COMPLIANCE**	
Inflow:Cash		**$S240,000m**	**(90% Discount) :**	**$S24,000m**
Loan receivable		**$S4,210m**		
Dividend		**$S5,008m**		
Outflow:				
Payout	($S2,140m)		($S2,140m)	
Secure inflow	($S2,000m)	($S,4140m)	($S2,000m)	($S4,140m)
		$S245,078m		**$S19,860m**
***Potential Middle-East expansion**		($S200,000m)		($S200,000m)
		$S45,078m		**($S180,140m)**

N.B: There exists a standard deviation Of 25% which may reduce inflows to $S180,000m
Net effect: $S185,078m & ($S14,922m) Respectively

N.B: There exists a standard deviation of 25%, reducing inflow to $S18,000m
Net effect: $S13,860m & ($S186,140m) respectively

Coupled with the potential indeginsation laws expected in the event that nuclear requirements are not met, this is not viable. If Zimbabwe is anything of an example of things to come then the fate of the organization may not be too bright. Zimbabwe has seen organizations such as H. J. Heinz Co. close down operations entirely. The risk associated, albeit 30% of default on inspection, is deemed material and such the risk of the indeginisation is significant enough to deter progress as consolidation means MCOM will bear the full effects of the outcome. Beyond this, there is too much political uncertainty and ethical practice that puts MCOM at risk.

2. OPTION 2: STAY THE COURSE

Where dividend growth is equal to D0(1+g)^n

COMPLY			**Non COMPLIANCE**
2014		**4210m**	-
2015	4210(1+0.19) =	**5009.90m**	-
2016	5009.90(1+0.19) =	**5961.78m**	-
2017	5961.78(1+0.19) =	**7,094.51m**	-
Total		**S$22,276.19m**	**Total: $S0m**
*Sale stake:		**$S22,321.42857m**	**$S22,321.42857m**
Total		**$S44,597.618m**	**$S22,321.42857m**

The offer for us to sell is pegged at S$28000, to be received in 2017
This, in present value terms, at a rate of 12% is **S$22 321.42857**

This is a safer option as it enables us to stay the course, at the same time providing chance to analyse the industry after the nuclear inspection. Then we can opt to either sell, increase stake or stay constant. On the other hand, looking at the reduced tolerance to risk it still provides a conundrum, factored together with the negative perception attached to the political and nuclear situations, it still isn't the safest of options.

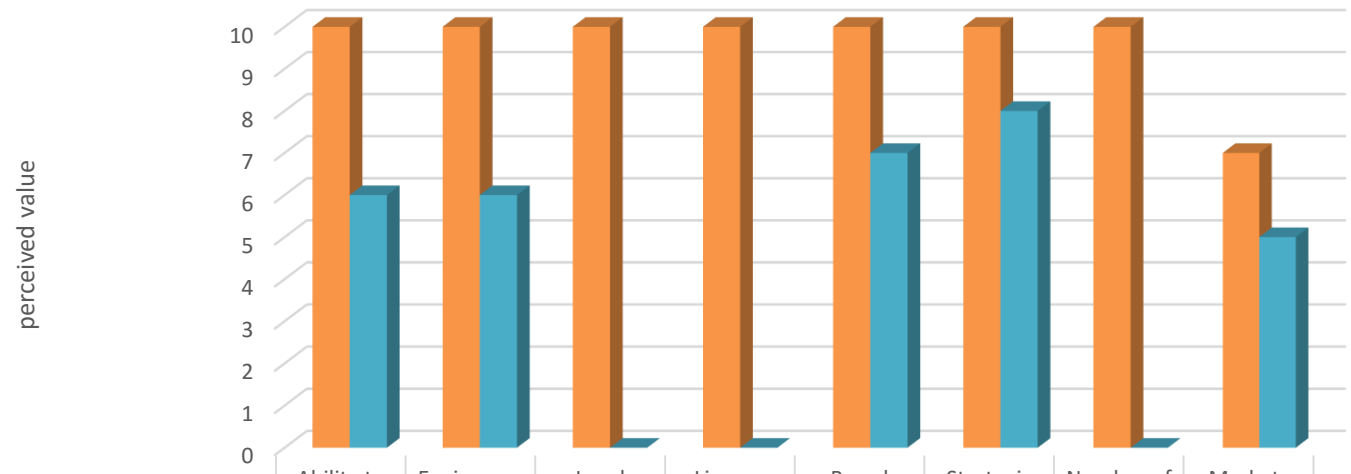
3. OPTION 3: SELL THE STAKE

The Indian offer is still risky. We risk losing the purchase consideration if there is no compliance.
Turkish offer looks promising, it offers us chance to enter Turkey, leaving Illanian risk.
Recommendation: The 3rd option seems the most viable, the Turkish offer to be specific. This gives MCOM the chance to enter markets such as Turkey and transfer all risk. This deal should be further looked into. In as much as the 1st two options potentially provide us great returns, the level of uncertainty is too high.

MOBILE OPERATION LICENSE IN CHININSIA

This market presents a lucrative opportunity for MCOM; they can either enter via a Joint Venture with Cloudnet or solely. Below are the existing market conditions:

- Most advanced Universities and highest rate of telecommunications and technology graduates.
- 182% market penetration rate and 4th largest mobile market in the world.
- New government which brings an atmosphere of uncertainty.
- Experts painting the act of opening the bid to foreign companies as a ploy to position Chininsia as a 'business friendly' destination.



critical successs factors	Ability to raise Finance	Environmental Track Record	Local Presence	License Holder	Brand Name and Reputation	Strategic Moves & Market Position	Number of Subcribers in Chininsia	Markets were Parents are Dominant
MCOM & CLOUDNET	10	10	10	10	10	10	10	7
MCOM	6	6	0	0	7	8	0	5

1. MCOM will have difficulties in meeting the condition of raising Finance in the midst of the pending fine in Nakolia; Partnering with Cloudnet enables sharing of subsequent costs.

2. MCOM does not meet the required environmental track record for emissions, which stood at 8% (2014).

Recommendation

The results above and cost analysis(See Appendix D) point towards MCOM acquiring Cloudnet. A strategy that has yielded success for existing license holders like Axton Tet and Bartini. The time is ripe to enter this market before saturation in 2019.

The benefits of an acquisition of Cloudnet positions MCOM in a better place to win the bid as it will be able to enjoy synergies such as:

1. MCOM is at the forefront of global technological advancements in voice and digital transformation, Cloudnet is the first to 4G and to shift from voice to internet based and cloud services. Clearly harmonization will result in extra benefits regardless of the results of the bid.
2. Cloudnet's subscriber base stands at 63million, boasting a strong brand name.

SHARED SERVICES CENTRE (SSC) IN SADIMBA

The introduction of the SSC has delivered savings of almost S$ 6,600m in 2014(See Appendix C). Apart from savings through cost reduction and increased efficiency, the benefits associated with this model are vast. MCOM currently operates in 21 countries and the introduction of an SSC for its key operational support activities such as Information Technology, Finance and Human Resource will increase efficiency through best practice process standardisation and consolidation across all affected countries, integrated procurement all of which lead up to economies of scale and increased effectiveness. Management of Business Units will be able to focus on strategic issues as well as improved decision support. Others factors include:

Currency Risk and Treasury Management: MCOM's diverse locations expose it to Currency Risk as a result of fluctuating exchange rates due to the nature of the supply chain. The implementation of a full SSC has contributed to the abridgement of currency risk in that its key operational support activities that have been set to be moved will now be dealt with in MCOM's operating currency.

Supply Chain and Information Systems: Supply chain management is critical as an optimal supply chain translates into lower costs. Information is crucial and drives the entire supply chain system; information sharing is the most important characteristic of the chain. The SSC implementation will enhance information sharing due to shared location advantage.

Technology and Big Data: Implementation entails introducing technology to support this new process. Technology such as Electronic Data Interchange and Automated electronic workflow are enabling technologies that can be implemented.

Owing to the fact that Sadimba has become the center for receiving and processing data from the 21 countries that MCOM operates in calls for management of big data. MCOM can reduce its spending on data analytics through the use of cloud computing. The global market for cloud computing is expected to reach US$241 billion by FY2020, according to Infocomm Development Authority of Singapore(IDA),which signifies cloud computing growing future.

Economies of Scale and Scope: The lower costs that the SSC delivers are spread out over the different locations due to the wider scope. And this enables MCOM to increase on its savings; hence an SSC model is sustainable for the future of MCOM.

RECCOMENDATION:

MCOM should go ahead with the implementation of a Full SSC in Sadimba as this will deliver even more savings. Furthermore, the efficient operation of the SSC will enable the benefits of the same (SSC) being channeled to the ongoing Nakolia issue.

ETHICS

The issue of ethics is one which tears most businesses in half with retrospect to whether businesses should comply whole heartedly with these principles or turn a blind eye. At times, even at the expense of the financial side of the business. On the flip side, for businesses, non-compliance dangles before them a reward, greater revenue and even profits. But if word of unethical practices reaches the relevant authority, litigation and normally fines are the outcome. It is therefore important to note that good ethical behavior prevents harm in society.

NAKOLIA

To tackle the issue of terror perpetuated through communication, mobile companies were to de-register all non-registered sim cards. The actions of failing to abide to a second deadline are morally wrong.

Recommendation: In future, in relation to ethics, MCOM should employ a 'Good ethics means good business' approach; where it is understood that ethical malpractice will adversely affect the image and potentially financial standing of the company.

SADIMBA

Full implementation of SSC will mean cutting down of jobs, this has not gone down well with the locals. The locals feel cheated and used by MCOM, especially seeing as certain sites they intend on leaving rake in more in terms of revenues than Sadimba. On one side, costs will be saved through the SSC, on the other, job losses in the name of restructuring, goes against Conventional morality standards. It deprives the area of much needed income earned by citizens as well as taxes.

Recommendation: Here, in the event that it is financially feasible, scaling down on the planned responsibilities of the SSC should be done. Otherwise, MCOM faces a potential backlash from its customers which may affect its earnings.

ILLANIA

The office in Illania seems to be the organizations Pandora's Box as far as ethical issues are concerned. Issues faced are:

- No real power is ever given to elected people
- Suppression of citizens rights by the state
- Violation of provisions of Nuclear Non Proliferation Treaty (NNPT)
- Indegenisation laws imposed on foreign owned companies
- Violation of right of privacy of citizens, albeit in line with laws

Recommendation: By opting to continue with business, it risks tarnishing its global image, and an organizations image is one of its most prized assets. Beyond this, it is against legal provisions of the NNPT to trade with any country that is has violated nuclear laws, hence even its standing in the eyes of world governing bodies is at risk.

APPENDICES

Appendix A: Prioritisation of Issues

	Nakolia	Chinisia	Shared Services	Illania
1.Inovate and deliver sustainable growth and Stakeholder value	•	•	•	•
2.Build and maintain a strong brand and grow market share	•	•		•
3.Deliver Superior service		•	•	
4.Continiously adapt the operating model to remain competitive	•	•	•	•
5.Mininmise earnings volatility	•			•
6.Improve Regulatory Standing	•			•
7.Maintain a good credit rating	•			
Ranking	1	3	4	2

Appendix B: SWOT Analysis

STRENGTHS

- Brand name and reputation in Africa.

WEAKNESSES

- Product offering particularly the Voice and Data services that comprise of only 2G and 3G networks while other Telecommunication companies such as Cloudnet have 4G.

OPPORTUNITIES

- Penetration into the Chininsian Market.
- Cost Saving through Shared Services Implementation.

THREATS

- S$58 billion Fine.
- Negative publicity in relation to events in Nakolia.
- Negative public image from the job losses in the Shared Service Center development.
- Negative global image for operating in Illania.

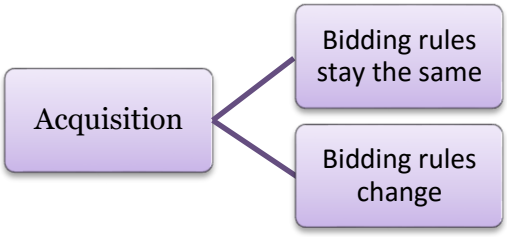
Appendix C: SHARED SERVICES CENTER: SAVINGS BREAKDOWN

	MCOM SADIMBA	MCOM NAKOLIA	MCOM (ALL OTHERS)	TOTAL
Annual number of Transactions (millions)	1.6	1.9	1.8	
Average number of minutes spent per transaction per operative	45	60	90	
Average number of hours spent per transaction per operative	0.75	1	1.5	
Total hours spent Annually on Transaction (millions)	1.2	1.9	2.7	
Overhead costs absorbed per operative hour (millions)	1800	1800	1800	
Total overhead costs absorbed annually (S$millions)	**2160**	**3420**	**4860**	**10 440**
Standard Operative costs per hour	240	240	240	
Total Operative costs spent Annually(S$millions)	**288**	**456**	**648**	**1 392**
% of Transactions escalated to Managers	20%	30%	60%	
Annual Transactions escalated to managers (millions)	0.32	0.57	1.08	
Avg. number of minutes spent per escalated Transaction	90	120	180	
Avg. number of hours spent per escalated Transaction	1.5	2	3	
Total Annual Manager hours spent (millions)	0.48	1.14	3.24	
Standard Manager costs per hour (S$)	480	480	480	
Total Annual Manager costs (S$ millions)	**230.4**	**547.2**	**1555.2**	**2 332.8**
Additional number of Non-Operative stuff no longer required		400	200	
Avg. Salary of Full-time non-operative stuff no longer needed (S$)		200 000	200 000	
Total Salary of Non-operative stuff (S$millions)		**80**	**40**	**120**
TOTAL ANNUAL COSTS BEFORE SSC IMPLEMENTATION				**14 284.8**

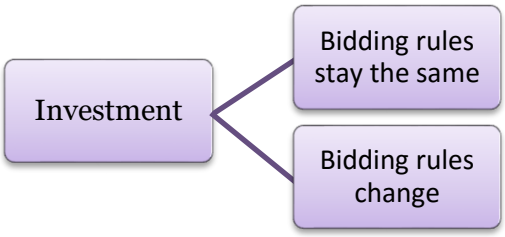
Annual Number of Transactions (millions)	1.6	1.9	1.8	
Avg. Cost Recovery per Transaction by SSC (S$)	1450	1450	1450	
Annual Cost Recovery by SSC (S$millions)	**2320**	**2755**	**2610**	**7 685**

SAVINGS Achieved Thus far by SSC (Difference between Total Annual Costs before SSC implementation and Annual Cost Recovery by SSC) (S$millions)				**6 599.8**

Appendix D: Chininsia Cost Analysis



Likelihood		cost
	tender price	2550
40%	tender preparation	5000
	Acquisition	2700
		10250
60%	tender price	2550
	tender preparation	5000
	Acquisition	2700
		10250



	tender price(2550 + 70%)	4335
40%	tender preparation	15000
	Acquisition	0
		19335
4%	tender price	2550
	tender preparation	15000
	Acquisition	0
		17550

Appendix E: Financial Statements

MCOM PLC

ABRIDGED INCOME STATEMENT (S$ millions)

	2014	2015
Revenue	***146,930***	***160,154***
Other income	7,928	8,800
Operating expenses	-81,667	-87,384
EBITDA	**73,191**	**81,570**
Depreciation and amortisation	-21,513	-23,879
Provisions	0	-58,000
Impairment of goodwill	-2,033	-4,862
Operating profit	**49,645**	**-5,171**
Net finance costs	-3,668	-2,568
Net monetary gain	878	527
Share of results of associates and join ventures after tax	4,208	5,008
Profit before tax	**51,063**	**-2,204**
Income tax expense	-13,702	-15,871
Profit after tax	**37,361**	**-18,075**

ABRIDGED STATEMENT OF FINANCIAL POSITION (S$ millions)

	2014	2015
Non Current Assets		
Property, plant and equipment	87,546	69,209
Goodwill and intangible assets	36,618	41,687
Investment and loans	37,945	24,978
Deferred taxes	1,109	13,256
	163,218	**149,130**
Current Assets		
Bank balances, deposits and cash	48,736	47,495
Other current assets	41,731	44,971
Assets Held For Sale	0	20,000
Total assets	**253,685**	**261,596**
Equity		
Equity attributable to equity holders of the company	128,517	78,632
Non-controlling interests	4,925	5,896
Total equity	**133,442**	**84,528**
Non Current Liabilities		
Interest-bearing liabilities	53,279	56,059
Deferred tax liabilities	11,012	11,984
	64,291	**68,043**
Current Liabilities	55,952	51,025
Provisions	0	58,000
Total liabilities	**120,243**	**177,068**
Total equity and liabilities	**253,685**	**261,596**

NOTES

1. **Operating Leases**

Non Cancellable lease payments are payable as follows

	2015 S$Millions
less than 1 year	1800
Between 1 and 5 years	9600
Over 5 years	12000
Total	23400

MCOM leases tower equipment under the lease agreement. The lease will run for a period of 10 years with effect from 1st March 2016