THE CFO CASE STUDY BOARD REPORT

UKZN 3RD YEARS'

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SECTION A: EXECUTIVE SUMMARY

1. Introduction

The mobile telecommunications industry has expanded rapidly over the past decade and a half, with approximately 50% of the world's population having access to the global network. Of particular interest to telecommunication operators is the Sub-Saharan African region, where mobile penetration has yet to reach worldwide levels. It is in this market that MCOM finds its principle operations.

However, numerous challenges face the industry, chief among them the future stagnation of worldwide mobile penetration rates, and the use of mobile networks by militant and terrorist organisations. In order to remain a strong competitor on the continent, MCOM must respond to these challenges in a strategic and decisive manner.

2. Terms of Reference

This report identifies, prioritises and evaluates the issues currently facing MCOM, and provides recommendations to the board of directors. It also includes an analysis on ethical issues currently faced by the company, as well as the corrected set of Financial Statements for the year ended 31 December 2015.

3. Identification and Prioritisation of Issues

The following issues identified have been listed in their order of priority, after considering their impact on the company, as well as the urgency of the matter. It has been determined from analysing the risk profile of the entity, as well as ancillary information provided, that board places greater emphasis on consolidation of current operations over expansion into new markets. A full SWOT analysis is presented in Appendix A

1. **Finalisation of the Annual Financial Statements**
   As the auditors are expected in 21 days, it is of primary importance that the financial statements are completed. Without this information, the auditors will be unable to commence the audit, which will result in a wastage of the auditors' time, and unnecessarily increase the cost of the audit.

2. **Matters relating to the Nakolian Fine**
   The Nakolian fine is a pervasive issue for MCOM, affecting cash flows, going concern of the company, matters of corporate governance, as well as the reputation of the company. This matter is therefore of high importance. The issue is of high urgency due to litigation.

3. **Shared Services Centre (SSC) in Sadimba**
   The board of directors needs to act decisively and with a fair amount of haste, in order to ease employees' concerns. The issue is also of importance as it is affecting the morale of employees, and the perception that external stakeholders have on the company.

4. **Strategic Uncertainty in Ilania**
   Due to the volatile nature of the political situation in Ilania, there is a high concern that MCOM may be forced to forfeit their investment in the region. Therefore, a strategic decision regarding the future of the company's investment in this country must be made.

5. **Expansion into the Chinisian Market**
   Currently, the board is focused on consolidating its current market share, and has shifted its risk appetite to a more conservative approach. Thus, expansion into new markets is a low priority issue.

6. **Other Issues**
   Other issues are not considered to be significant and are therefore not dealt with further.

A discussion surrounding ethical considerations are dealt with in section 5.

SECTION B: DETAILED REPORT

4. Detailed Findings and Recommendations

4.1. Finalisation of Annual Financial Statements

The fully corrected Statement of Financial Position and Statement of Comprehensive Income are presented in Appendix B.

Issue: Case for Financial Reporting Rules

1. **Nakolian Fine**
   The Nakolian Fine is still under litigation and, as a result has not been recognised. It has been established that the fine will only be enforced once an outcome has been reached, thus, there is no present obligation to repay the fine amount. A contingent liability, in terms of IAS 37, must therefore be disclosed. According to IAS 37.28, a contingent liability is disclosed in the notes to the financial statements, but is not recognised in the Statement of Financial Position for 2015.

2. **Sale of Network Towers**
   The actions of MCOM regarding this sales agreement indicates that it is management's intention, and within their ability, to sell the network towers in their present condition. Thus, management must now comply with IFRS 5.
   IFRS 5 stipulates that a non-current asset held for sale must be disclosed as a current asset, at the lower of its carrying amount or fair value less cost to sell. As the carrying amount and the fair value are both S$20 billion, and the cost to sell is S$5 million, the Network Towers will be held as a current asset at a value of S$19 995 000 000.

3. **Lease from Towerdom**
   Instalments for the operating lease from Towerdom only commence in March 2016, hence no adjustment needs to be made to the 2015 financial statements. However, a note should be included in the financial statements informing users of the change in standards for leases (from IAS 17 to IFRS 16), and that this new standard will be required to be implemented by 1 January 2019.

Issue: Principal Audit Consideration

These audit considerations have been extracted from ISA 315:

1. **Whether the risk is related to recent significant developments**
   The auditor will be focussed on risks related to the fine, the sale of the network towers and the Sadimban shared services as these matters are material.

2. **The complexity of the transactions and transactions out of the ordinary course of business**
   Due to the material nature of the network tower sale and Nakolian fine, the auditors will consider the risks associated with these complicated transactions.

3. **The degree of subjectivity relating to measurement**
   As management impaired goodwill by a material amount, the auditors will assess the risk of misstatement regarding the subjectivity of this impairment.

4. **The compliance with applicable laws**
   As MCOM is a public company, the auditors will also be concerned with the risk that the company has not complied with the applicable laws in the countries of operation. They will certainly review MCOM's lapse in compliance with NTRA's regulations.

Should there be a material misstatement, the auditors will report this to the shareholders, using a qualified auditor's report.

4.2. Matters Relating to the Nakolia Fine

Issue: Legal strategy against NTRA

1. **Nakolian Legislation:**
   The outcome of this case hinges upon the Nakolian court's interpretation of legislation.

   MCOM set a precedent by accepting the previous fine metered against them by NTRA in 2013. It will be argued that MCOM should have raised their concerns regarding NTRA's legal authority to impose a fine when they received the initial fine. Having accepted this 2013 fine shows MCOM's acceptance of NTRA's authority to impose fines on telecommunication companies.

   As a result, MCOM may struggle to prove NTRA's lack of authority.

2. **Calculation of Fine:**
   MCOM's best option is to challenge NTRA's calculation and valuation of the fine.

   NTRA is responsible for transparency and be accountability in the telecommunications sector. It should therefore be necessary for NTRA to publish the methods used to calculate the value of the fine (US$3.9 billion). NTRA has failed in this respect, as there is no evidence of an analysis of the process utilised in calculating the US$3.9 billion.

   It is unlikely that MCOM's fine will be revoked, thus punitive measures will be instituted. However, MCOM should request for a reduction in the value of the fine, due to the effects that the fine will have on the going concern of the company, which will jeopardise Nakolia's telecommunications industry, as a result of MCOM being the largest mobile network in Nakolia with a market share of 49%.

3. **Constraints and Alternate Options**
   MCOM needs to consider a variety of factors that may influence the decision to continue with this court proceeding.

   A legal battle will prove timely and costly. The benefits of any further fine reductions as a result of a favourable court judgement may be overshadowed by the costs that MCOM will have to incur to achieve this result. There is also a significant time investment required by those charged with governance, to ensure success. Litigation processes are lengthy in nature and a protracted legal battle will have a negative implication on the public perception of our company. It is therefore crucial that MCOM finds a solution that is swift.

Thus, management is confronted with two alternatives:
1. Continue with the court proceedings
2. Ask the court for permission to attempt an out of court settlement with NTRA

Recommendations:

1. Request from NTRA (through court processes if necessary) their procedure for arriving at the fine.
2. Request from the court permission to attempt an out of court settlement with NTRA.
3. Argue for a reduction in the fine amount, and not for a complete revocation of the fine.

Issue: Stakeholder Management

Stakeholder management is a key component to the success (or failure) of any company. As the Nakolian issue affects multiple stakeholders, it is vital that the company analyses the impact of their actions in Nakolia, and remedial actions must be implemented. With consideration to Mendelow's Framework for Strategic Management (Appendix C), the following stakeholder's concerns, in order of priority, are:

Customers:

Allaying customer's concerns are of primary importance, as without customers, the business cannot prosper.

Customers' concerns will, amongst others, be:

- Ability of MCOM to continue to provide network coverage in Nakolia.
- MCOM's perceived assistance of terrorist organisations through its lack of compliance with NTRA.
- The extent to which the US$6 billion fine will be transferred to them through increased subscription fees.

Shareholders:

Shareholders have a vested interest in both the financial, and non-financial performance of the entity. It has already been noted that news of the Nakolian fine decreased MCOM's market capitalisation by 25%, and it is crucial that MCOM avoids any further capitalisation losses.

The following are among investors' concerns

- The ability of MCOM to repay the fine, and related going concern.
- The implications on the company's reputation.
- The competency of management of the Nakolian operation of the company, and their implementation of good corporate governance procedures.

Nakolian Authorities

As a result of MCOM's lack of compliance, the Nakolian Authorities will be highly interested in the future actions of the entity. Although they have agreed to renew the company's licence, MCOM may face licence renewal issues in the future, should their concerns not be addressed.

The Nakolian Authorities' concerns are:

- Management's apparent disregard for regulations imposed by NTRA.

Wider Nakolian Community

Although the Nakolian community has not yet had any success in their bid to enforce the NTRA fine, it is important for MCOM to attempt to re-establish a positive relationship with them, as their attitudes towards the company may have long-term effects on our performance in that country.

The Nakolian community's concerns are:

- The company's continued assistance of the Blokanda military group through the lack of compliance with NTRA's regulations.

Recommendations:

1. The company should issue a formal apology to all stakeholders, take responsibility for the matter, and detail its plans to ensure adherence to NTRA's regulations, along with a feasible timeline, including the date at which full compliance is expected to be attained.
2. A review of top management personnel of the Nakolian branch of MCOM should be undertaken, to determine their suitability to hold governance positions.
3. Disclose the repayment strategy to the shareholders, indicating its effect on the company's liquidity and going concern.

Issue: Funding Structure for the Nakolian Fine

1. **Sale of Network Towers**

   Positive

   - A firm offer for the towers has already been received from Sidoms, and MCOM will be receiving the fair value of the towers, valued at S$20 billion. The sale will be concluded early into the new year, thus MCOM will have earned this amount by the time that the fine issue is resolved.

   Negative

   - As a result of selling the towers, MCOM has no other reasonable alternatives but to lease the towers from Sidoms at a rate of S$200 million a month. This is a long term cost that MCOM could have avoided had they not entered into the sale agreement

2. **Raise a further Interest-bearing Liability**

<u>Positive</u>

- The cost of borrowings is lower for an interest bearing liability than for an equity instrument because debt is less risky for the lender, as debt holders have a preferential claim on the assets of an entity over equity holders.
- The use of debt avoids the dilution of Headline Earnings per Share (HEPS).
- MCOM has a strong interest cover ratio (4.8 in 2014). Thus, the payment of interest will not be a large burden for the company.

<u>Negative</u>

- An increase in the amount of Interest Bearing Liabilities will have a negative impact on the Gearing of the entity (40% in 2014). This increases the volatility of earnings, which introduces a higher level of risk for the shareholders.
- An interest bearing liability is riskier for MCOM, as it may cause further liquidity issues in the medium to long term

3. **Issue of further equity**

<u>Positive</u>

- The directors of the company have already approached investors to discuss the possibility of buying more equity to settle the fine. It appears that the shareholders are willing, provided that the company continues to deliver on their commitment to reform the operating model.
- By issuing shares, the company will avoid incurring a fixed commitment to repay the capital portion of the share issue, as would occur if a further loan was raised.

<u>Negative</u>

- The long term cost to the company will be higher with a share issue as the company will end up paying more in terms of dividends for a fresh issue of shares than what they will pay on interest should they acquire a loan.
- By issuing further equity, certain critical ratios will be affected.
    - The dividend cover, which is already low (at 1.2 times for 2014), will decrease as a result of additional dividends that will be issued
    - HEPS which is also low for a multinational organisation (at 1 526 cents per share in 2014) will be diluted due to the additional shares in issue, which may cause some shareholders to sell their investment in the entity, decreasing the market capitalisation
- Depending on the number of shares issued, the market may become flooded with MCOM shares, decreasing the price the shares in the company. This will reduce the value of the current shareholder’s investment.

4. **Utilise Unused Funds from Within the Entity**

<u>Positive</u>

- No effect on external investors/lenders

Negative

- This will affect the going concern of the entity, as there will be a significant decline in the liquidity situation.
- This course is highly risky, as it may affect the working capital cycle, which will have long term implications.

No reliance should be placed on rumours regarding the Sadimban government's offer to negotiate on our behalf, as the actuality of this offer cannot be determined.

Recommendations:

The proposed funding structure is as follows:

	% of Total	S$ million
Sale of Network Towers	34.48	20 000
Issue of Equity Instruments	31.04	18 000
Raising of Further Loan	25.86	15 000
Use of Unutilised Funds	8.62	5 000
TOTAL	**100**	**58 000**

Justification:

MCOM should make use of a combination of the potential sources of funding, to reduce the risks associated with each source

The proceeds from the sale of the network towers should be utilised in full, as this sale was concluded as a precaution for the NTRA fine.

A larger portion of the fine amount should be funded using an issue of equity instruments. Although the cost to the company will be higher, the risk of short and long term liquidity issues is greatly reduced. This follows management's current risk averse stance, which is evidenced by their risk appetite and tolerance.

Only a small portion of the fine amount should be funded using unutilised cash reserves. These reserves are critical to the operations of the company, and interfering with them may cause severe liquidity issues.

4.3. Shared Services Centre (SSC) in Sadimba

Although the SSC appears to be create significant benefit for MCOM, no analysis has been performed to determine the effects that this SSC will have on the operating performance of the company into the future.

Cost per Transaction for each area

The costs per transaction were incurred prior to the implementation of the SSC (Appendix D) are:

Sadimba	S$1 368 per transaction
Nakolia	S$1 716 per transaction
Other	S$2 088 per transaction

Cost Recovery

It is anticipated that the average cost of each transaction, if performed by the SSC, will amount to S$1 450. When comparing this to the costs per transaction calculated above: the following becomes clear:

- It is cheaper for the Sadimban region to continue without the SSC
- The SSC will only the company S$266 per transaction for the 1.9 million Nakolian transactions
- The company will make a S$638 saving per transaction for the 1.8 million transactions occurring in the 19 other countries.

Currency Risk

It is apparent from the prior years' information that the Sadimban currency is weakening against the Nakolian currency, which, should this trend continue, will cause foreign exchange losses in the future.

Economies of Scale and Scope

The total fixed costs incurred by MCOM will decrease as a result of the amalgamation of operations from the 20 countries. This will increase the company's profit per transaction, and overall efficiency.

However, considering that Nakolia accounts for the most transactions of any of MCOM's operations, the region would not experience the same profit maximisation felt by the other regions due to economies of scale. Thus, shareholders will not see the gains they are expecting in the long term.

Qualitative Factors

The following factors will need to be considered by the board:

- The ability of the SSC to handle the large volumes of transactions currently being serviced by each region.
- The ability to service subscribers needs from a distant location.
- The ethical and social consequences (contemplated in Section 5)

Recommendation:

1. Continue to amalgamate all operations of Sadimba and the 19 other countries under the SSC as planned.
2. Allow the Nakolian operation to remain autonomous.

4.4. Strategic Uncertainty in Ilania

When determining the choice MCOM should make with regard to their investment in Ilania, the board of directors should consider the options as outlined in the decision tree (Appendix D).

Strategy 1: Consolidate and Expand

Quantitative Factors

- According to the analysis performed using the Black-Scholes Model (Appendix E), it appears that expanding into Ilania is the most appropriate decision, as the value of the investment will be the highest with this option.
- However, to attain the cash flows that may result if this strategy is selected, MCOM will have to outlay an extra S$2 billion. MCOM may struggle to raise these funds in addition to the Nakolian situation.

Qualitative Factors

- There is a 30% chance that Ilania will not comply with the stringent regime imposed by the US. Should this occur:
    - MCOM will not have access to their investment for the foreseeable future.
    - There is also a risk that, MCOM may lose their entire investment as a result of draconian nationalisation laws.
- By consolidating in Ilania, MCOM has the option to expand into lucrative markets, such as Eastern Europe and Asia. However, this option comes at a further cost of S$200 billion, and may only occur in 5 years.

Strategy 2: Stay the Course

Quantitative Factors

- When considering the information presented by the Black-Scholes Model analysis (Appendix E), it is apparent that this option is the least feasible.

Qualitative Factors

- MCOM has stated that one of the reasons for investing in Ilania is the potential to expand into other countries in the region. This option does not make any provision for this objective.
- Staying the course exposes MCOM to all of the risks and moral dilemmas considered under strategy 1.
- There is a contingency in place should MCOM reconsider its position at the end of 2017. However, the collection of the consideration of S$28 000m is dependent on sanctions imposed on Ilania at that time.

Strategy 3: Sell-off and Walk Away

Option 1: Sell for Cash to Bartini

Quantitative Factors

- According to the Black Scholes analysis (Appendix E), this option is feasible, though not as lucrative as strategy 1.

Qualitative Factors

- This strategy eliminates all of the risks and ethical dilemmas associated with remaining invested in JV Cellular.
- MCOM will lose its claim to the loan and dividends owed to it. However, these financial assets cannot be retrieved, and there is a risk that no option for retrevial is available should sanctions not be lifted
- There is a risk that, should sanctions not be lifted, MCOM may struggle to access their bank account to retrieve the purchase price

Option 2: Share-for-Share Option from a leading Turkish Operator

Quantitative Factors

- The only information available is the value of the shares that will be exchanged (S$85 000m). The value of the shares is higher than the cash value that would be received under the cash sale to Bartini

Qualitative Factors

- The lack of information is suspicious, as it indicates that the Turkish Operator has incriminating data that it wishes to conceal from MCOM
- As MCOM has no information, it is unable to determine whether this investment will be in line with the company's investing strategies and risk appetite

Recommendations:

1. MCOM should accepts Bartini's offer to purchase the 49% in JV Cellular
2. The board should consider renegotiating the location of payment to a country that will allow MCOM immediate access to the funds.

Justification

In 2015, the board of directors approved a change in risk appetite to a more conservative approach. As strategy 1 and strategy 2 have high associated risks, an acceptance of either strategy would be contrary to the company's revised risk appetite. Although strategy 1 offers MCOM the greatest potential for financial gain, these gains do not outweigh the risks associated with strategy.

Without additional information, it would be unwise for the directors to invest in the Turkish Operator, as there is no financial information with which the directors can properly analyse the security of the investment.

4.5. Expansion into the Chinisian Market

In order to determine what strategy, if any, MCOM will take in entering the Chinisian market, the directors will have to consider the following:

1. Financial Viability

MCOM's functional currency is weakening even though other markets are strengthening. This is a cause for concern as it makes any transaction in other countries more expensive. The price for MCOM shares has also dropped substantially, making it difficult to raise funds through share issue.

Another concern is the high prices that will have to be paid in order to gain a license in Chinisia. In order to have a 40% chance of gaining the license, the bidding price will have to be S$4590m. There is also a possibility that bidding rules will be changed to favour existing holders and would only leave us a 4% chance of obtaining the license. MCOM also faces a significant cost (S$ 15 million) than existing operators (S$ 5 million)

The debt equity requirements of the Chinisian Telecommunication Regulatory Authority are not met. In addition, with MCOM shares falling, if the board issues the authorised share capital for the expansion, it would flood the market with shares, forcing the price lower. The issuing of shares is also detrimental for the company in the long run as there is a low dividend cover at present and with the issue of shares this will further deteriorate which will be costly for MCOM.

2. The Acumen of MCOM

African styles, organizational culture and business models are completely different to those that dominate the Asian markets. African businesses are more labour intensive whereas generally, Asian economies are more technologically driven and Asian organizational culture is very different to the culture found in African businesses. Another difference is the language spoken. The language in Chinisia is dissimilar to that spoken in Sadimba, which MCOM will be affected by.

On the technical side, the Chinisian market is dominated by entities that can already offer 4G networks. This is in stark contrast to the African situation where 4G is very limited at the present.

MCOM has also not had success with attempts to enter different markets, which shows a concern in expansion plans. This is further aggravated by the financial issues discussed above. MCOM does not have the cash reserves or capital to risk in an expansion that will fail.

3. The Environment

A PETI analysis has been conducted (Appendix E), which has been determined that, while the government appears to be encouraging foreign investors, there are concerns that overseas companies will be rejected in favour of local companies.

It is also impractical for MCOM to enter this market alone, as it will be at a large disadvantage when compared to local competitors, especially as the start-up costs will be high, and the risks associated with entry into this market are also high.

Recommendations:

1. MCOM must not enter this market with a subsidiary.
2. MCOM should consider entering the Chinisian market as a joint venture with CloudNet.

Justification:

CloudNet already has a stable position with the second largest number of subscribers in the country and a strong local brand. It also has existing infrastructure in place, which will be cheaper to run in the long term and a higher possibility of attaining the license as it is a previous license holder, which leads to the overall investment being less risky.

Furthermore, CloudNet has shown that it is a technological leader in Chinisia, being the first company to introduce 4G into the Chinisian market. MCOM can use this experience in introducing 4G to a country in its other business ventures to boost technological capabilities in the other countries. This will allow MCOM to get a business edge over its competitors in Africa and boost market share on the continent (thus meeting one of MCOM's opportunities).

5. Ethical Considerations

1. **Laws and regulations were not followed in Nakolia**

   Obeying laws and regulations of any country operated in is a cornerstone of any business. The fact that MCOM failing to follow laws shows a disregard for corporate governance principles, and a lack of ethical integrity.

   In failing to follow the law, MCOM has assisted the Blokandan group, which has resulted in violent acts of terrorism throughout Nakolia. This has severe social and ethical ramifications for MCOM as the entire Nakolian community has been traumatized by the deeds of Blokanda.

Recommendations:

1) The company should issue a full apology and claim responsibility for MCOM's actions.
2) Additional CSR endeavours aimed at uplifting communities affected by Blokanda's attacks must be implemented

2. **Cessation of Corporate Social Responsibility (CSR) in Africa**

   CSR initiatives are an integral component of MCOM's ethical conduct, as they show that the company is committed to uplifting communities that support their operation, and that they are willing to consider more than just economic profit.

   By only focussing on CSR initiatives in Sadimba, MCOM is ignoring its responsibility to the other African countries in which it does business. This shows a disregard to the issues faced by citizens of these countries, which is a serious lapse on the ethical duties of MCOM.

Recommendations:

1) MCOM must identify key CSR projects in the other countries and focus on those issues rather than focussing on many projects.

3. **Employee Considerations in Africa**

   As MCOM is pulling their service operations out of many of the African countries, a number of employees will lose their job and source of income. Many families in Africa only have one breadwinner in the family and as such, MCOM's action could potentially cripple many families on the African continent.

Recommendations:

1) Ensure fair redundancy and retrenchment processes and payouts are applied.
2) Set up workshops for employees who are being retrenched to gain skills such as CV writing and interview protocols.
3) As far as possible, contact local competitors to try and find replacement jobs for staff.

4. **Considerations for Continued Operations in Ilania**
The Illanian government does not respect basic human rights and suppresses its people. Furthermore, the government does not respect their citizens' privacy and has used confidential information to accuse people of disagreeing with government policy.

This severe disregard for basic human rights cannot be tolerated by MCOM, should they subscribe to sound ethical principles. They should not be involved in the disclosure of confidential information, as it is not moral.

Recommendations:
1) Immediately stop handing over confidential information to the government.
2) Start taking steps to disinvest in Ilania.

6. Conclusion

It is apparent, on consideration of all of the issues presented before the board, that MCOM has many options to expand its horizons and streamline its operations. However, poor management decisions, as well as opposition from various stakeholders, have caused complications that have hindered the company's potential growth. It is vital that management acts decisively and swiftly in order to avoid further unrest and destabilisation of the company.

SECTION C: APPENDICES

Appendix A: SWOT ANALYSIS

Strengths:

- Significant Product Range.
- Rapid Growth.
- Reported profits since inception (Shows good, reliable performance).
- Has had a good reputation on the African continent.
- One of the Top 3 Mobile Operators in the country and on the continent.
- Strategic suppliers, partners and investors.

Weaknesses:

- Public perception of company declining as evidenced with the decline in the share price.
- Only strong in Sub-Saharan Africa.
- The company has not had successful expansions recently.
- We do not have a competitive advantage in market infrastructure for global expansion (lack of 4G).
- Poor Corporate Governance in Nakolian subsidiary.

Opportunities

- Growth in Sub-Saharan Africa (especially in 4G market).
- Decrease in smart phone prices making it easier for data services to reach more people.
- Increase in coverage, making cellular technology cheaper, easier to access and more attractive to customers.

Threats

- Large number of competitors and possible international buy in.
- Decrease in revenue streams, namely mobile calls and messaging.
- Lack of infrastructure.
- Overly fragmented markets in current and potential markets.
- Not many diversifying options in Africa

Appendix B: Revised Annual Financial Statements

MCOM PLC
REVISED INCOME STATEMENT-ABRIDGED (S$ MILLIONS)

	2014	NOTES	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)
Impairment of Goodwill			(4 862)
Impairment of Towers			(5)
Operating Profit			**52 824**
Net finance costs			(2 568)
Net monetary gain			527
Share of results of associates and joint ventures after tax			5 008
Profit Before Tax			**55 791**
Income Tax Expense		1	(14 617)
Profit After Tax			**41 174**

NOTES

1. **Income Tax Expense**

Income Tax Expense is calculated using the effective tax rate for 2015, calculated using the Abridged Income Statement prior to revisions stated under 'Matters to Consider'

Effective Tax Rate = $\frac{Income\ Tax\ Expense}{Profit\ Before\ Tax} \times 100$

Effective Tax Rate = $\frac{15\ 871}{60\ 657} \times 100$

Effective Tax Rate = 26.2%

Thus, Income Tax Expense on the face of the Statement of Comprehensive Income will be reflected as follows:

Income Tax Expense = S$ 55 791 × 26.2%
Income Tax Expense = S$ 14 617

REVISED STATEMENT OF FINANCIAL POSITION

	2014	**2015**
Non-Current Assets		
Property, Plant and Equipment	87 546	69 209
Goodwill and Intangible Assets	36 618	41 687
Investments and Loans	37 945	24 978
Deferred Taxes	1 109	14 511
	163 218	**150 385**
Current Assets		
Bank Balances, Deposits and Cash	48 736	47 495
Non-Current Assets Held for Sale	41 731	19 995
Other Current Assets	-	44 971
	90 467	**112 461**
TOTAL ASSETS	**253 685**	**262 846**
Equity		
Equity Attributable to Equity Holders of the Company	128 517	137 882
Non-Controlling Interests	4 925	5 896
	133 442	**143 778**
Non-Current Liabilities		
Interest-bearing liabilities	53 279	56 059
Deferred Tax Liabilities	55 952	11 984
	64 291	**68 043**
Current Liabilities	**55 952**	**51 025**
TOTAL EQUITY AND LIABILITIES	**120 243**	**262 846**

Appendix C: Mendelow’s Framework for Stakeholder Management

		INTEREST	
		Low	High
POWER	Low	*Minimal Effort* Minority Shareholders	*Keep Informed* Wider Nakolian Community Civil Rights Groups
	High	*Keep Satisfied*	*Key Players* Employees Across all countries Major Investors and Shareholders Nakolian Authorities Customers

Appendix D: Costs per Transaction by Region

Sadimba:

Transactions			1 600 000
	Operatives	1 600 000 × 80%	1 280 000 transactions
	Managers	1 600 000 × 20%	320 000 transactions
Operatives			
	Time Taken	1 280 000 × 45/60	960 000 hours
	Cost	960 000 × 240	S$230 400 000
Managers			
	Time Taken	320 000 × 1.5	480 000 hours
	Cost	480 000 × 480	S$230 400 000
Overheads		1 800 × 960 000	S$1 728 000 000
TOTAL		S$230 400 000 + S$230 400 000 + S$1 728 000 000	S$2 188 800 000
Cost per Transaction		2 188 800 000/1 600 000	S$1 368 per transaction

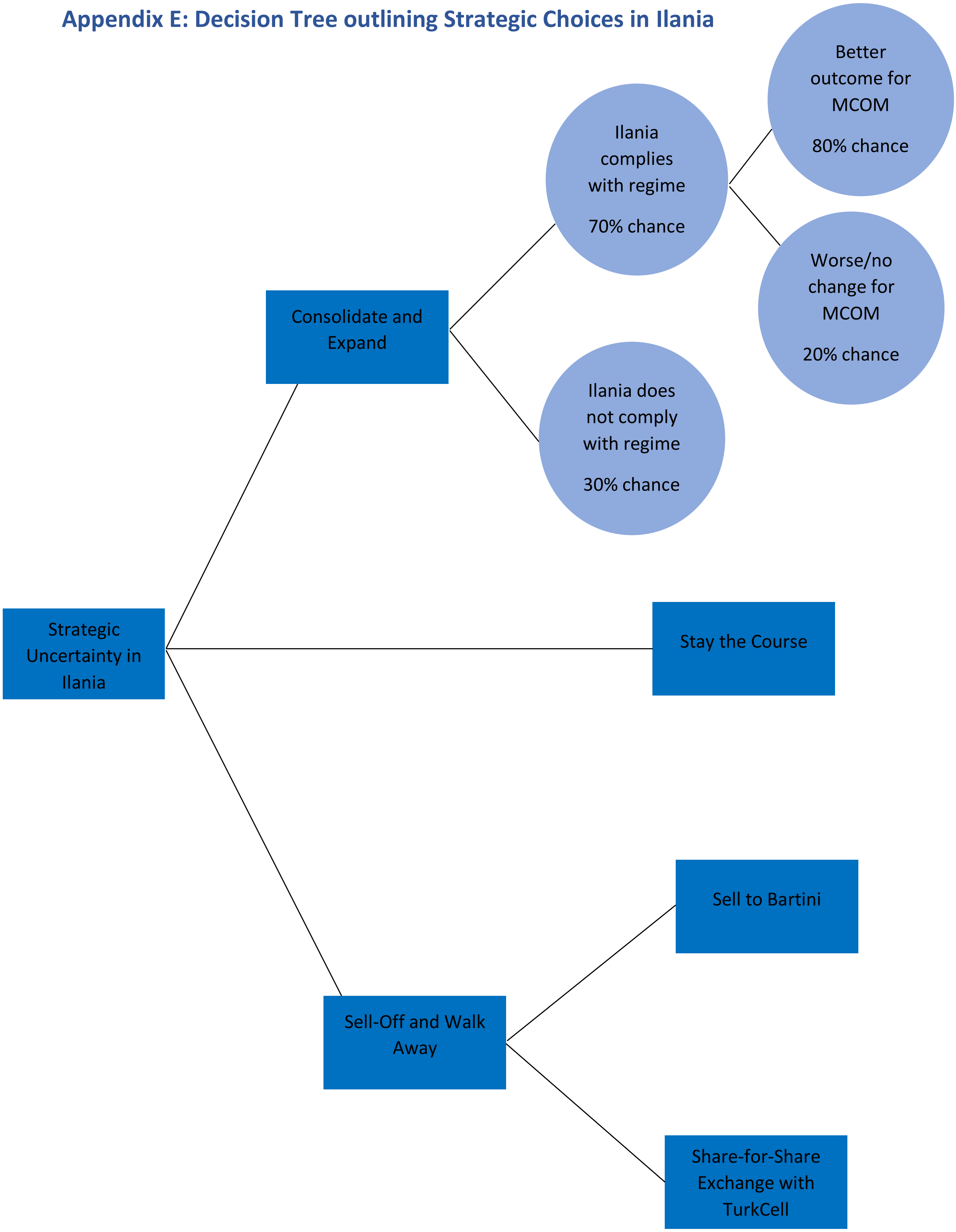
Nakolia

Transactions			1 900 000
	Operatives	1 900 000 × 70%	1 330 000 transactions
	Managers	1 900 000 × 30%	570 000 transactions
Operatives			
	Time Taken	1 330 000 × 1	1 330 000 hours
	Cost	1 330 000 × 240	S$319 200 000
Managers			
	Time Taken	570 000 × 2	1 140 000 hours
	Cost	1 140 000 × 480	S$547 200 000
Overheads		1 800 × 1 330 000	S$2 394 000 000
TOTAL		S$319 200 000 + S$547 200 000 + S$2 394 000 000	S$3 260 400 000
Cost per Transaction		3 260 400 000/1 900 000	S$1 716 per transaction

Other

Transactions		1 800 000
Operatives	1 800 000 × 40%	720 000 transactions
Managers	1 800 000 × 60%	1 080 000 transactions
Operatives		
Time Taken	720 000 × 1.5	1 080 000 hours
Cost	1 080 000 × 240	S$259 200 000
Managers		
Time Taken	1 080 000 × 3	3 240 000 hours
Cost	3 240 000 × 480	S$1 555 200 000
Overheads	1 800 × 720 000	S$1 944 000 000
TOTAL	S$259 200 000 + S$1 555 200 000 + S$1 944 000 000	S$3 758 400 000
Cost per Transaction	3 758 400 000/1 800 000	S$2 088 per transaction

Appendix E: Decision Tree outlining Strategic Choices in Ilania



Appendix F: Mathematical Analysis of Strategic Uncertainty in Ilania

Value of Perfect Information

Situation	Chance	Outcome	
Ilania regime complies	70%	S$240 000	
Ilania regime doesn't comply	30%	S$24 000	(10% of 240 000)

$$VOPI = p_1x_1 + p_2x_2$$
$$VOPI = (0.7)(240\,000) + (0.3)(24\,000)$$
$$VOPI = S\$175\,200$$

Black Scholes Model

$$C = SN(d_1) - Xe^{-rt}.Nd_2$$

$$d_1 = \frac{\ln\frac{S}{X} + \left(r + \frac{\partial^2}{2}\right)t}{\partial\sqrt{t}}$$

$$d_2 = d_1 - \partial\sqrt{t}$$

Strategy 1: Consolidate and Expand

$$d_1 = \frac{\ln\left(\frac{175\,200 \times 51\%}{5\,800}\right) + \left(5\% + \frac{(25\%)^2}{2}\right)5}{25\%\sqrt{5}}$$

$$d_1 = 5.6187$$

$$Nd_1 = 0.9999$$

$$d_2 = 5.6187 - 25\%\sqrt{5}$$

$$d_2 = 5.0597$$

$$Nd_2 = 0.9999$$

$$C = (175\,200 \times 51\%)(0.9999) - (5\,800)e^{-(5\%)(5)}(0.9999)$$

$$C = S\$84\,826\,471\,960$$

Strategy 2: Stay the Course

$$d_1 = \frac{\ln\left(\frac{28\,000}{5\,800}\right) + \left(5\% + \frac{(25\%)^2}{2}\right)5}{25\%\sqrt{5}}$$

$$d_1 = 3.5429$$

$$Nd_1 = 0.9998$$

$$d_2 = 3.5429 - 25\%\sqrt{5}$$

$$d_2 = 2.9838$$

$$Nd_2 = 0.9986$$

$$C = (28000)(0.9998) - (5\ 800)e^{-(5\%)(5)}(0.9986)$$

$$C = S\$23\ 483\ 679\ 320$$

Strategy 3: Sell-Off and Walk Away

$$d_1 = \frac{\ln\left(\frac{68010}{5\ 800}\right) + \left(5\% + \frac{(25\%)^2}{2}\right)5}{25\%\sqrt{5}}$$

$$d_1 = 5.1305$$

$$Nd_1 = 0.9999$$

$$d_2 = 5.1305 - 25\%\sqrt{5}$$

$$Nd_2 = 0.9999$$

$$C = (68\ 010)(0.9999) - (5\ 800)e^{-(5\%)(5)}(0.9999)$$

$$C = S\$63\ 486\ 606\ 160$$

Option 4: Share-for-Share Exchange

The share-for-share exchange cannot be analysed using the Black-Scholes Model, as there is uncertainty regarding those shares, and there is no information available on this company.

Normal Distribution Table:

Z	0.00	0.01	0.02	0.03	0.04	0.05	0.06	0.07	0.08	0.09
0.0	0.5000	0.5040	0.5080	0.5120	0.5160	0.5199	0.5239	0.5279	0.5319	0.5359
0.1	0.5398	0.5438	0.5478	0.5517	0.5557	0.5596	0.5636	0.5675	0.5714	0.5753
0.2	0.5793	0.5832	0.5871	0.5910	0.5948	0.5987	0.6026	0.6064	0.6103	0.6141
0.3	0.6179	0.6217	0.6255	0.6293	0.6331	0.6368	0.6406	0.6443	0.6480	0.6517
0.4	0.6554	0.6591	0.6628	0.6664	0.6700	0.6736	0.6772	0.6808	0.6844	0.6879
0.5	0.6915	0.6950	0.6985	0.7019	0.7054	0.7088	0.7123	0.7157	0.7190	0.7224
0.6	0.7257	0.7291	0.7324	0.7357	0.7389	0.7422	0.7454	0.7486	0.7517	0.7549
0.7	0.7580	0.7611	0.7642	0.7673	0.7704	0.7734	0.7764	0.7794	0.7823	0.7852
0.8	0.7881	0.7910	0.7939	0.7967	0.7995	0.8023	0.8051	0.8078	0.8106	0.8133
0.9	0.8159	0.8186	0.8212	0.8238	0.8264	0.8289	0.8315	0.8340	0.8365	0.8389
1.0	0.8413	0.8438	0.8461	0.8485	0.8508	0.8531	0.8554	0.8577	0.8599	0.8621
1.1	0.8643	0.8665	0.8686	0.8708	0.8729	0.8749	0.8770	0.8790	0.8810	0.8830
1.2	0.8849	0.8869	0.8888	0.8907	0.8925	0.8944	0.8962	0.8980	0.8997	0.9015
1.3	0.9032	0.9049	0.9066	0.9082	0.9099	0.9115	0.9131	0.9147	0.9162	0.9177
1.4	0.9192	0.9207	0.9222	0.9236	0.9251	0.9265	0.9279	0.9292	0.9306	0.9319
1.5	0.9332	0.9345	0.9357	0.9370	0.9382	0.9394	0.9406	0.9418	0.9429	0.9441
1.6	0.9452	0.9463	0.9474	0.9484	0.9495	0.9505	0.9515	0.9525	0.9535	0.9545
1.7	0.9554	0.9564	0.9573	0.9582	0.9591	0.9599	0.9608	0.9616	0.9625	0.9633
1.8	0.9641	0.9649	0.9656	0.9664	0.9671	0.9678	0.9686	0.9693	0.9699	0.9706
1.9	0.9713	0.9719	0.9726	0.9732	0.9738	0.9744	0.9750	0.9756	0.9761	0.9767
2.0	0.9772	0.9778	0.9783	0.9788	0.9793	0.9798	0.9803	0.9808	0.9812	0.9817
2.1	0.9821	0.9826	0.9830	0.9834	0.9838	0.9842	0.9846	0.9850	0.9854	0.9857
2.2	0.9861	0.9864	0.9868	0.9871	0.9875	0.9878	0.9881	0.9884	0.9887	0.9890
2.3	0.9893	0.9896	0.9898	0.9901	0.9904	0.9906	0.9909	0.9911	0.9913	0.9916
2.4	0.9918	0.9920	0.9922	0.9924	0.9927	0.9929	0.9931	0.9932	0.9934	0.9936
2.5	0.9938	0.9940	0.9941	0.9943	0.9945	0.9946	0.9948	0.9949	0.9951	0.9952
2.6	0.9953	0.9955	0.9956	0.9957	0.9958	0.9960	0.9961	0.9962	0.9963	0.9964
2.7	0.9965	0.9966	0.9967	0.9968	0.9969	0.9970	0.9971	0.9972	0.9973	0.9974
2.8	0.9974	0.9975	0.9976	0.9977	0.9977	0.9978	0.9979	0.9979	0.9980	0.9981
2.9	0.9981	0.9982	0.9982	0.9983	0.9984	0.9984	0.9985	0.9985	0.9986	0.9986

Appendix G: PETI Analysis

Political:

- While the new political party is welcoming foreign investment, it is concerning to note that experts believe (with certainty) that the government does not want foreign bids for the telecommunications licenses.
- No exit compensation also shows that either the government plans on making it easier for existing holders to renew their licenses or, it is concerning as it shows that the government does not particularly care about the companies that are not given another license and are forced to leave the industry.
- The 72% majority also shows that this political party will probably have a long time in office thus, the political environment will probably not change in the foreseeable future which implies that there will be no reprieve from the possible actions against foreign telecommunication companies.

Economic:

- Countries in the Asian Pacific area are generally stronger economically then that of African countries.

Technological:

- The technology in Chinisia is far advanced to the African market, and any company hoping to enter the market will have to be able to compete at the level of the other companies.
- The people are also technologically minded and as such mobile operators have the opportunity to expand into market and diversify. MCOM has never dealt with a market that is this technologically advanced and has no experience in providing 4G to its customers.

Internal:

- MCOM is a company with relatively little knowledge of business outside of Africa.