The CFO 2016 Case Study Competition

CASE STUDY PACK

Designed & Presented by

CharterQuest

Grooming financially qualified business leaders

Contents

1. Introduction

The CFO (Chief Financial Officer) is an international, annual multi-round business management case study competition organised by ***The CharterQuest Institute***. It challenges young people who Aspire to be top CFOs and/or Global Business Leaders to demonstrate their potential by competing to solve a set of complex finance, managerial and strategic problems that beset a real life African company. The competition is designed at the level of complexity for a current tertiary level student or entry level professional pursuing or holding a professional qualification such as CA (SA), CIMA, ACCA, CFA and not older than 25. Subject to this age limit ONLY, it is open to anyone, from anywhere in the world.

CharterQuest is a global Institute at the forefront of grooming financially qualified business leaders of tomorrow. It is accredited with the South African Qualifications Authority (SAQA) and internationally recognised for addressing the shortage of *finance professionals*, through global professional bodies such as: the South African Institute of Chartered Accountants (SAICA), the Association of Chartered Certified Accountants (ACCA), Association of Corporate Treasurers (ACT), the Chartered Institute of Management Accountants (CIMA) and the CFA Institute. CharterQuest *aspires* to be "*Africa's World Class Center of Exceptional ism*," and it is underpinned by 3 core values:

- **Rectitude**: Always act ethically and muster the courage to do what is right.
- **Exceptional ism**: Aim for exceptional standards for our employees and customers.
- **Determination**: Observe teamwork in our relentless pursuit of stakeholder promises.

CharterQuest is also active in the corporate education space, helping CFOs and other C-Suit executives with tailored corporate training solutions using the case study methodology. The Institute has about 450 students spread out over campuses in Sandton, Braamfontein and Pretoria – and are busy setting up shop in Namibia and Cape Town. The students come from many different countries, including South Africa, Kenya, Nigeria, Ghana, Uganda, Cameroon, Zambia, Zimbabwe and the rest of Africa, Europe and the Far East. We also help young people connect with their dream career opportunity via our e-recruitment portal called CharterConnect. Our key brands include:

CharterConnect | Connecting finance careers & industry online
CSC Case Study Center
Charter Advisory
FYLA Fulltime Youth Leadership Academy ACCA CIMA SAICA
CharterBooks CLICK, RECEIVE, PASS EXAMS!
The CFO 2016 Case Study Competition

2. Assessment criteria & submission format

We seek to highlight the centrality of teamwork, creativity, presentation skills, business acumen as well as the value of taking a holistic and strategic approach to management. The CharterQuest Competency Framework for *grooming financially qualified business leaders* will guide the report marking as below:

PROBLEM SOLVING ACUMEN	Finance & Technical	Diversity, Business, Entrepreneurial	Ethics & People	Presentation (incl. Question & Answers)	Innovation & Integration	Decisiveness & Leadership	Total
Strategic analysis *(Prioritisation & focus)*	5%	10%					**15%**
Strategic choice (*Impact & options evaluation)*	10%	10%	10%	10%	5%		**45%**
Strategic implementation (*Recommendation & Actions)*			5%	10%	5%	20%	**40%**
	15%	20%	15%	20%	10%	20%	**100%**

To better interpret the above marking grid and submit a good quality and competitive report, it is absolutely crucial that teams and mentors watch *The CFO* Case Study Competition 'Master Class Videos' published on our YouTube Channel and/or face book pages. These are labeled Master Class Video 1 of 2 Scene 1 of 3, Scene 2 of 3 and Scene 3 of 3 as well as Master Class Video 2 of 2.

Submission format and rules

1. The report should be in English Language, not more than 15 pages or 4000 words inclusive of Appendices.

2. The report must not contain any text, sound or images that we, in our sole opinion, find vulgar, offensive or inappropriate for public viewing.

3. All reports together with attachments must be submitted ONLY by the team leader as a single document/file in pdf/acrobat and no more than 10MB by login into your same CFO account you used to register. Click submit report and upload!

4. Deadline is 30 April, 2016 at midnight without any exceptions. You will receive an automatic message to confirm that upload was successful. No communication is allowed after that till we announce.

5. Your report may be disqualified and other penalties applied in case of any violations.

3. Disclaimer & warning

The Case Study is based on an existing company and attempts to simulate the strategic decisions its Group CFO and the Board faced (or potentially faces). While the facts cited are intended to re-create the general circumstances that exist or once existed, this case study has been adapted for the purpose of **The CFO Case Study Competition** and now provides a hypothetical situation and therefore does not intend to provide a complete or definitive recitation of facts or events. The financial information provided is for illustrative purposes only and does not necessarily represent current or historical projections from any of the companies cited therein. Information not provided in this case study will therefore not be relevant for your analyses. Whilst you can review publicly available information about similar or comparable companies and the industry to understand the business and related technical terms, you are not required to use or cite any data or information from elsewhere other than as provided to you in this pack unless you are doing so purely to score marks under the 'Diversity & Business' for which you have to demonstrate its relevance and applicability in addressing the specific issue(s).

Any discussion with the management, employees, associates or competitors of any real life companies comparable to MCOM is strictly prohibited and is cause for disqualification. You are not allowed to discuss the case with any analyst, investment banker, consulant or finance-related professionals other than your mentor (who must be formally registered on 'The CFO' registration portal) or faculty/school. Any activity of this sort will be obvious to the examiners and judges and is cause for disqualification. The resulting submission should be the original work of the team members alone and should not contain internal information from any other company or organisation. Aspirants who have current or past experiences in banking, consulting, or finance or the mobile industry should cite these experiences in their final deliverable.

4. The Requirement

It is January 1, 2016!

The Board of MCOM is meeting in 2 weeks time and have tasked The Group CFO to prioritise and evaluate the issues facing the company and provide strategic advice. The Group CFO is a strong proponent of mentorship and succession planning and has secured board support for his decision to delegate the assignment to your team under his supervision and accountability. You are accordingly required to produce and present such report directly to the Board.

NB. Your report should focus on the problems/issues provided in section 5.3, pages 15 - 25 of this Case Study. Sections 5.1 & 5.2 ONLY provide useful context to support your evaluation of those problems/issues and to provide recommendations.

5. The Case Study

For this maiden edition of the Competition, we chose Mobile Communications **(MCOM)** Plc, a multinational mobile telecommunications giant domiciled in Sadimba, Africa and listed on the Sadimban Stock Exchange with the S$ as its functional currency and the US$ as its presentation currency. Sadimba is an English-speaking country and one of the most economically advanced in Africa. It is the base from which majority of global multinationals seeking to enter into and expand in the rest of Africa prefer to locate their regional head quarters. MCOM's financial year is January to December. MCOM represents a real-African business in terms of its mastery of the strategic and operational challenges of doing business in africa (and the Middle East). MCOM competes vigorously in a number of markets with different rivals but prefers to benchmark itself against V-Mobile as provided in Appendix 3.

5.1 The Global Environment of MCOM

The mobile industry continues to scale rapidly with half of the world's population now owning a mobile subscription—up from just 1 in 5 ten years ago. An additional one billion subscribers are predicted by 2020, taking the global penetration rate to approximately 60%. Developed markets such as Europe and North America are growing more slowly as penetration rates approach levels close to saturation. Meanwhile Sub-Saharan Africa is still the world's most under-penetrated regions with subscriber growth at +/-12% and penetration rate below 45% and predicted to reach 56% by FY2020.

Technology shifts and smartphones: There is an accelerating technology shift to mobile broadband networks (i.e. 3G and 4G technologies) predicted to reach 70-80% of global connections by 2020 -the level at which growth tends to slow. This migration is being driven by greater availability and affordability of smartphones and more extensive network coverage with most of the growth expected from developing markets. Smartphone average selling prices (ASPs) in 2008 where US$200 and in some developing markets it has reached the 'sweet spot' of the US$25-50 range.

Shifts to mobile data: The growing number of smartphones and other advanced devices (e.g. tablets) are increasing the use of data-intensive applications, such as video streaming, on mobile networks. Cisco estimates that smartphones generate 37 times more data traffic than feature phones, while 4G smartphones generate almost 3 times as much data traffic as 3G smartphones with volumes forecast to grow at a Compound Annual Growth Rate (CAGR) of 57% out to 2019, an almost tenfold increase. On demand video on mobile devices is the key driver of mobile data growth, with a 66% annual increase through to 2019 compared with 57% for data as a whole. In 2014 YouTube reported that mobile devices now generate 50% of its global traffic, up from 41% in 2013. Major operators are monetising this strong growth helping to stablise revenues at a time when traditional services are under pressure and operators have significant investment commitments as they roll out high speed networks.

Competition & regulation: In most countries or markets, Governments have set up a Telecommunications Regulatory Authorities to oversee the orderly conduct of the industry through the r*egulation of telecommunications services and equipment*; *Spectrum Management* as well as *Advisory and Planning* services. Regulatory measures have included the introduction of mobile virtual network operators (MVNOs) and mobile number portability. IP-based services such as WhatsApp have continued to grow at the expense of short message services (sms) negatively impacting on revenue growth. Key operators that fiercely compete with each other for the Sub Saharan market include MTN, Bharti-Airtel, Globacom, Bartini, Etisalat, M-Tel, Orascom Telecom, Cell C and Vodafone Group.

Cloud computing and managed IT solutions: According to Infocomm Development Authority of Singapore (IDA), the global market for cloud computing is expected to reach US$241 billion by FY2020. Dependency on hard-to-deploy physical servers results in slow response to variable needs, which drives organisations and government agencies worldwide to use Cloud computing. Cloud computing provides easy and cost effective solutions to organisations to address their need for data storage. Additionally, it offers reliable and easy storage to the telecom and related companies for developing mobile apps. At the same time, it is expected to reduce IT companies' spending on data analytics/big data. Therefore, a positive outlook for cloud computing may increase the demand for the operators' offerings.

Capital investment: After reducing spending during the height of the financial crisis in 2009/10, capital investment began to rise again at the start of the current decade, reflecting the need to increase capacity and deploy mobile broadband networks. Globally, operators have invested heavily in their networks in the past three years. In 2014, the figure was US$216 billion, an annual increase of more than 9%. Going forward, the rate of growth is likely to moderate as 4G networks near completion in some regions and the cost of equipment tends to decline as technologies become more mature. Investment levels globally are forecast to grow at a CAGR of 2.5% through 2020. Developing new revenue streams from more sustainable business models will be key for operators to be able to fund such significant investments.

Job creation, economic growth and public finance impact: Increasingly prevalent and higher speed mobile networks contribute to many aspects of economic, political and social life. Mobile is the predominant infrastructure in emerging markets and is available to a larger proportion of the population than many other basic services, such as electricity, sanitation and financial. In 2014, the mobile industry contributed US$3 trillion to the world economy in value added terms, equivalent to around 3.8% of global GDP. As mobile operators and the ecosystem purchase inputs and services from their providers in the supply chain, a multiplier effect on the rest of the economy is created, generating sales and value added in other sectors and industries and estimated at US$220 billion in 2014.

Furthermore an estimated 2.2% of global GDP can be attributed to the increased productivity created by the widespread use of mobile technology as it has transformed the way in which economic activity is carried out in virtually all global economic sectors, allowing more efficient ways for workers and businesses to communicate. In 2014, mobile and the broader ecosystem directly employed 12.8 million people globally and approximately 11.8 million jobs were indirectly supported, bringing the total impact of the mobile industry to just under 25 million jobs. The industry also makes a very significant contribution to public funding, including value added, corporation and income tax as well as social security. By 2020, mobile technology is predicted to increase the sector's global GDP contribution to 4.2%.

Digital inclusion: Mobile is bringing internet access to millions yet huge numbers remain unconnected. Experts estimate that global internet users grew from 1.6 billion in 2008 to 2.9 billion by FY2014, accounting for approximately 40% of world population with the current global gap largely to be addressed by mobile networks, which already provide access to billions. At the end of 2014, 1.8 of the 2.4 billion individuals using mobile devices to access the internet were in developing markets largely in rural areas, with low incomes and literacy rates that create barriers to mobile internet adoption. By 2020, developing markets' mobile internet penetration will have reached 45%, although in both Africa and Middle East, this will remain below 40%. McKinsey reports that if internet access achieves an impact on the same scale as mobile telephony has in Africa, it could account for as much as 10% of total GDP by 2025, up from only 1% today, massively transforming sectors such as retail, agriculture, education and healthcare.

Mobile Money, Internet of Things (IOTs), e-Commerce and m-Commerce! In the past 5 years, mobile money services have spread across the developing world and estimates are that this will grow by over 70% by 2020. It is expected that account-to-account interoperability will increase transaction revenues easing money transfer domestically and across networks. These include international remittances, merchant payments and bulk payments e.g. salaries and government to people transfers. There are tangible consumer benefits of new connected services, with a strong focus on both wearable devices and the 'Smart Home'. Connected devices and sensors could deliver a smarter, more efficient home, with smartphones and tablets interacting with various connected objects and devices, from lighting to basic home security systems and kitchen appliances to networked devices like PCs and smartphones. Samsung recently announced that by 2020, all of its products, from smartphones to refrigerators, would be internet connected. Mass-market smartphones, fast connections and feature-rich applications are extending the convenience and interactivity of online commerce into the physical bricks and mortar world. Customers are able to look up product and service information, download and store vouchers, search for merchants, explore transport options, run price comparisons, buy tickets, purchase products and order services, all while on the move. Meanwhile retailers, transporters and other service providers are increasingly using mobile technology to improve customer experience. Digital commerce continues to grow globally with experts predicting 5 year CAGR will be 16% by FY2020.

Interaction, social media and data privacy: Consumer appetite for mobile data and richer services is growing rapidly, and as a result new IP-based communications services such as Skype, WhatsApp and Facebook Messenger are becoming increasingly popular. These services will continue to gain traction with the growth of Long-Term Evolution (LTE) networks and devices, meaning operators will need to consider which type of partnership or over-the-top integration models will allow them to drive revenue and sustain their business models. The widespread take-up and use of mobile enabled digital services depends on a robust and effective framework for the protection of personal data and privacy. As more people access the mobile internet, and as online commerce, social media, gaming and other activities gain popularity; consumers are increasingly voicing privacy concerns and demanding better protection:

Concerns around mobile identity and personal data	
83%	of mobile internet users have concerns about sharing their personal information when accessing the internet or apps from a mobile
81%	of mobile users think it is important to have the option of giving permission before third parties use their personal information
65%	of mobile app users check what information an app wants to access and why before installing it
48%	of mobile app users with privacy concerns would limit their use of apps unless they felt sure their personal information was better safeguarded
60%	of mobile users want a consistent set of rules applied to any company accessing their location, regardless of how they obtain this information
82%	of mobile users want to know when, and what type of personal information is being collected from their mobile devices

Source: GSMA

Industry consolidation in search for economies of scale and scope: Facing both rapid growth in data traffic and increasing competition from online service providers, mobile operators need sufficient scale to invest in network infrastructure and the development of new services. In overly fragmented markets, individual operators have limited economies of scale and scope, impacting their ability to develop sustainable business cases for additional investment. Many emerging markets, in particular, are highly fragmented. A recent study by Frontier Economics for the GSMA highlighted the fact that in some countries there are five or more players with a market share of at least 5%. In markets with sub-scale operators, policymakers should review the antitrust framework and take steps to reduce constraints on market-driven restructuring. In some cases, policymakers may need to streamline the merger review process and impose less onerous remedies on those mergers that gain approval. Clearly, the only way to achieve the necessary scale and scope is via industry consolidation. Rationalisation of cost bases appears to be the new trend in an industry that appears to be approaching maturity.

5.2. MCOM Group strategy & operations

MCOM's mission is to deliver a better quality of life to its customers by leading in the digital space. It is at the forefront of global technological advancements in voice and digital transformation that is increasingly reshaping the business models of major companies, transforming industries and the way people interact and pursue their economic livelihood especially in the emerging markets. Its portfolio of product offering comprise of:

1. *Business Solutions:* This offers a wide range of enterprise solutions and cloud computing services for business requirements covering Machine2Machine, enterprise applications, calling and messaging solutions, Internet and email solutions, bulk communication solutions, network solutions, data center services, security solutions, business applications and business connectivity solutions.
2. *Voice and Data Services:* This includes 2G and 3G networks in both prepaid and postpaid services. The *voice offerings* include international roaming, teleconferencing and other community payphone models including interconnection services to other telecoms' networks. *Data Services* include GPRS, Internet browsing, e-mail, video streaming and location-based services.
3. *Messaging*: These include short messaging service (SMS) and (MMS). The SMS services include content delivery, bulk SMS and person-to-person messaging services. Its MMS services include multimedia content such as images, videos and sound clips' transfer through messages.
4. *Value Added Services:* These include Mobile Money Banking, BlackBerry (BIS), Airtime transfer, International roaming and EVD services.

MCOM was founded in 1994 and has reported profits from inception. It is audited by joint auditors, PedoubeluiC Inc, a major global audit firm as well as Sinsago Auditors, a firm of Chartered Accountants of considerable reputation in the Sadimba market. MCOM has about 250 million mobile subscribers with operations in a vast number of African countries as well as the Middle East. It is one of the top three players in its domestic market and on the African continent with strategic suppliers, partners and investors globally.

The MCOM Group seeks to maximise shareholder value as its overarching objective but it takes its commitment to all its stakeholders very seriously, subscribing to universally accepted principles of good ethics, corporate governance as well as business sustainability and integrated reporting. Its strategic priorities include:

1. Innovate and deliver sustainable growth and stakeholder value
2. Build and maintain a strong brand and grow market share
3. Deliver superior customer service
4. Continuously adapt the operating model to remain lean, agile and competitive
5. Minimise earnings volatility
6. Improve regulatory standing, and
7. Maintain a good external credit rating.

The group has since its inception maintained a relatively high appetite for risk going by its preference for operations in emerging markets with some of its key markets exposed to major civil strife and high political risk and uncertainty. A sound risk management and governance framework is however in place to ensure key risks are managed within the boards risk appetite. Given the strategic developments in its key markets with most degenerating mainly after entry, the group has shifted its risk appetite:

In 2005, the board defined its risk appetite as follows:

Risk appetite	Risk tolerance
MCOM has a higher risk appetite related to strategic objectives and is willing to accept higher losses in the pursuit of higher returns.	We expect a return of 25%+ on shareholder equity and are willing to take more than a 45% chance that an investment leads to a loss of more than 50% of our existing equity capital.

In 2015 it was revised to this:

Risk appetite	Risk tolerance
MCOM will pursue a low risk appetite related to risky ventures and, therefore, is willing to invest in new business but with a low appetite for potential losses.	We will not accept more than a 30% chance that a line of business will reduce our operating earnings by more than 20% over the next ten years.

MCOM has grown rapidly over the last decade through a string of acquisitions and strategic alliances and agreements aimed at increasing its presence and expanding its portfolio of products. In some markets it has entered by directly bidding for licenses from its home country in Sadimba and in others it managed to do so via the acquisition of local players to facilitate its bid for licenses. Yet in others it has entered by negotiating a series of Joint Ventures (JVs). It maintains key supplier accounts with handset manufacturers such as SonnyEricsson, Apple, Samsung & Blackberry and well as a host of global app developers and vendors.

MCOM has 4 key operating segments used to make operating decisions, allocate resources and assess performance as follows:

	2015 Revenue contribution %	2014	2015 EBITDA Contribution %	2014
Sadimba	22	25	16	18
Nakolia	36	34	48	46
JV-Cellular	8	7	9	7
MCOM (All Others) [representing its operations in about 19 other countries)	34	34	27	29
Total	**100%**	**100%**	**100%**	**100%**

MCOM 5 YEAR ABRIDGED FINANCIALS & FINANCIAL RATIOS TO 2014 : APPENDIX 1

(all figures in S$ million)

1. INCOME STATEMENT

	CAGR %	2014	2013	2012	2011	2010
Revenue	***9***	***146,930***	***137,270***	***121,867***	***109,834***	***104,500***
Other income		7,928	1,327	894	1458	-
Operating expenses	7	(81,667)	(78,167)	(70,124)	(61,717)	(61,220)
EBITDA	**14**	**73,191**	**60,430**	**52,637**	**49,575**	**43,280**
Depreciation and amortisation	11	(21, 513)	(19,278)	(15,952)	(14,032)	(14,119)
Impairment of goodwill	+100	(2,033)	-	-	(31)	(31)
Operating profit	**14**	**49,645**	**41,152**	**36,685**	**35,512**	**29,129**
Net finance costs	(1)	(3,668)	(1,234)	(3,790)	(1,512)	(3,873)
Net monetary gain		878	-	-	-	-
Share of results of associates and join ventures after tax	19	4208	3,431	3,008	2,821	2,098
Profit before tax	**17**	**51,063**	**43,349**	**35,903**	**36,821**	**27,354**
Income tax expense	6	(13,361)	(12,487)	(11,835)	(13,034)	(10,527)
Profit after tax	**22**	**37,702**	**30,862**	**24,068**	**23,787**	**16,827**

2. STATEMENT OF FINANCIAL POSITION

	CAGR %	2014	2013	2012	2011	2010
Property, plant and equipment	11	87,546	92,903	73,905	64,914	57,345
Goodwill and intangible assets	6	36,618	37,751	32,594	32,672	28,518
Investment and loans	40	37,945	20,385	12,409	11,440	9,964
Deferred taxes	(2)	**1,109**	**2,044**	**1,291**	**1,029**	**1,225**
Bank balances, deposits and cash	10	48,736	45,673	34,565	43,458	32,933
Other current assets	24	41,731	30,900	21,310	20,560	17,569
Total assets	**15**	**253,685**	**229,656**	**176,074**	**174,073**	**147,554**
Equity attributable to equity holders of the company	16	128,517	116,479	89,006	88,897	71,855
Non-controlling interests	22	4,925	5,333	3,881	3,802	2,219
Total equity	16	**133,442**	**121,812**	**92,887**	**92,699**	**74,074**
Interest-bearing liabilities	12	53,279	46,025	32,084	33,208	34,454
Non interest-bearing liabilities	15	55,952	48,349	42,392	40,200	32,043
Deferred tax liabilities	12	11,012	13,470	8,711	7,966	6,983
Total liabilities	**13**	**120,243**	**107,844**	**83,187**	**81,374**	**73,480**
Total equity and liabilities	*15*	***253,685***	***229,656***	***176,074***	***174,073***	***147,554***

3. STATEMENT OF CASH FLOWS

	CAGR %	2014	2013	2012	2011	2010
Net cash inflows from operating activities	(1)	27,132	27,025	20,062	23,279	28,722
Net cash used in investing activities	17	(25,991)	(19,835)	(24,212)	(17,492)	(13,982)
Net cash from/(used in) financing activities	64	2,639	6,264	(5,280)	(8,867)	368
Net increase/(decrease) in cash and cash equivalents	**(29)**	**3,780**	**13,454**	**(9,430)**	**(3,080)**	**15,108**
Cash and cash equivalents at start of the year	18	39,577	22,539	33,074	32,626	20,763
Exchange (losses)/gains and monetary loss on cash and cash equivalents		(285)	3,584	(1,105)	3,528	(3,245)
Cash and cash equivalents at end of the year	**7**	**43,072**	**39,577**	**22,539**	**33,074**	**32,626**
Statement of cash flows -extracts						
Cash generated from operations	9	64,628	59,708	51,105	46,626	45,962
Dividends paid to equity holders of the company	34	(20,527)	(16,187)	(14,919)	(11,722)	(6,313)
Acquisition of property, plant and equipment	8	(19,562)	(24,568)	(20,741)	(13191)	14,366)

4. 5 YEAR RATIO COMPARATIVES TO 2014

	CAGR %	2014	2013	2012	2011	2010
Performance per ordinary share						
Headline earnings per share in cents	19	1 526	1 411	1 089	1 069	761
Dividends per share in cents	26	1 245	1 035	824,0	749,0	500,0
Net Book value per share in cents	16	69,5	62,2	47,3	47,2	38,1
Returns and profitability ratios						
Return on (average) assets in %		20,5	20,3	21,0	22,1	19,6
Return on (average) shareholder funds in %		23,0	25,2	22,5	24,6	19,8
EBITDA margin in %		49,8	44,0	43,2	45,1	41,4
Effective tax rate in %		26,2	28,8	33,0	35,4	38,5
Solvency and liquidity ratios						
Gearing in % (Interest bearing liabilities/total equity)		40	38	35	36	47
Interest cover (times) (operating profit/finance costs)		4,8	3,3	4,3	5,7	4,8
Dividend cover (times) (headline earnings/total dividends)		1,2	1,4	1,3	1,4	1,5
Share and exchange rate statistics						
Authorised share capital (million)		2 500	2 500	2 500	2 500	2 500
No. of ordinary shares in issue at year end (millions)		1 848	1 873	1 883	1885	1885
Weighted average no. of shares held during the year (millions)		1 841	1 833	1 838	1 854	1 842
Closing share price (S$ per share)		222	217	178	144	135
Market capitalisation		410,256	406,441	335,174	271,440	254,475
US$ to S$ exchange rates (average)	10	10,86	9,65	8,16	7,17	7,34
US$ to S$ exchange rates (closing)	15	11,55	10,52	8,47	8,07	6,61

5 YEAR KEY NON FINANCIAL RATIOS TO 2014 : APPENDIX 2

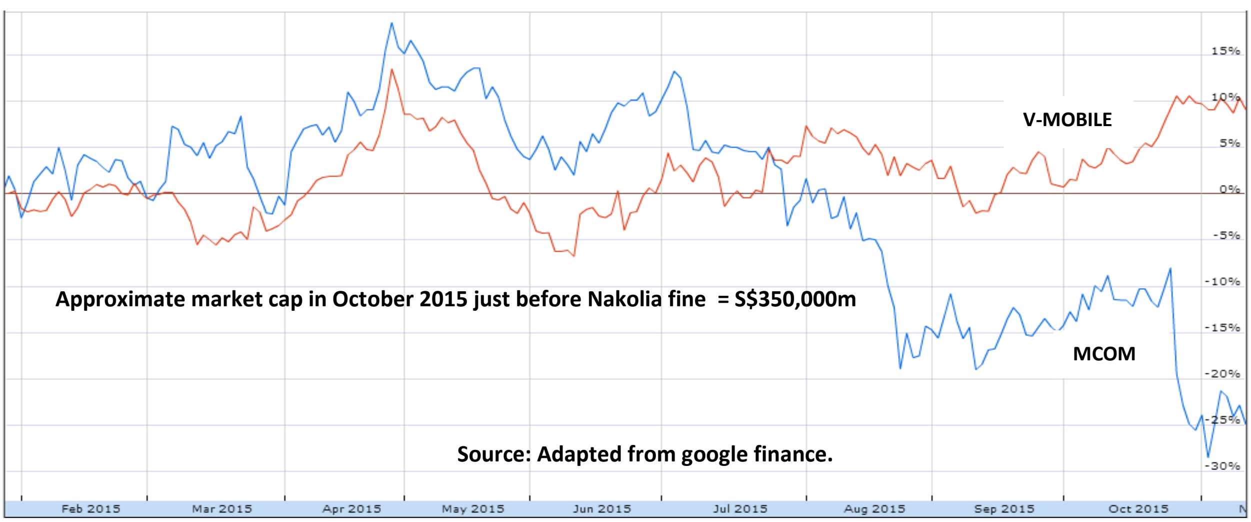
NON-FINANCIAL PERFORMANCE INFORMATION	CAGR %	2014	2013	2012	2011	2010
Non. of countries where MCOM owns GSM licenses		21	21	21	21	21
Subscriber numbers (millions)	12	225	208	189	163	142
• Group entities (excluding Joint Ventures)	13	176,8	163,9	146,4	127,5	109,7
• Joint Ventures	10	46,5	43,9	42,9	37,0	31,9
No of countries where MCOM has largest market share		15	15	15	15	15
Total number of employees	(4)	22,204	25,424	26,716	24,252	26,055
Carbon dioxide and equivalent (C02e) emissions from energy use per square foot	8	1 531 527	1 520 895	1,040, 723	950 564	1 127 254
OPERATIONAL INFORMATION						
Sadimba						
Mobile penetration (%)		154	135	131	120	105
Market share		**34**	**35**	**38**	**34**	**36**
Subscribers (millions)	10	28	26	25	22	19
ARPU (S$) i.e. Average Revenue Per User	(12)	92	108	122	134	154
EBIDTDA Margin		32	35	35	35	34
Capex/Revenue (%)		**15**	**14**	**16**	**11**	**11**
Sadimba currency (S$) to US$ exchange rates (closing)	15	11,55	10,52	8,47	8,07	6,61
Nakolia						
Mobile penetration (%)		73	69	62	54	49
Market share		49	49	48	50	52
Subscribers (millions)	11	60	57	47	42	39
ARPU (US$) i.e. Average Revenue Per User	(14)	6	7	9	10	11
EBIDTDA Margin		59	61	58	62	63
Capex/Revenue (%)		16	30	36	18	14
Nakolian currency (N$) to US$ closing exchange rates	(9)	15,93	15,23	18,47,	20,10	23,00
JV-Cellular						
Mobile penetration (%)		120	114	113	103	92
Market share		46	47	47	45	44
Subscribers (millions)	10	44	41	41	35	30
ARPU (US$) i.e. Average Revenue Per User	**(16)**	**4**	**4**	**7**	**8**	**8**
EBIDTDA Margin		43	43	44	43	41
Capex/Revenue (%)		27	19	9	11	18
Ilania currency (I$) to US$ closing exchange rates	11	2 342	2 356	2 905	1 378	1 566
MCOM (All Others)						
Mobile penetration (%)		76	70	61	52	49
Market share		42	35	46	40	46
Subscribers (millions)		91	83	76	65	54
ARPU (US$) i.e. Average Revenue Per User		**4**	**5**	**6**	**7**	**8**

OTHER USEFUL DATA : APPENDIX 3

3.1 MCOM BENCHMARK COMPETITOR V-MOBILE 5 YEAR RATIOS TO 2014

	CAGR %	2014	2013	2012	2011	2010
Performance per ordinary share						
Headline earnings per share in cents	6	882	845	902	885	691
Dividends per share in cents		696	726	845	707	-
Net Book value per share in cents		102	119	139	135	146
Returns and profitability ratios						
Return on (average) assets in %		19,19	22,77	25,03	22,65	19,84
Return on (average) shareholder funds in %	0	56,17	60,39	66,06	59,48	56,16
EBITDA margin in %		24,9	26,9	27,0	24,8	27,0
Solvency and liquidity ratios						
Gearing in % (Net (cash)/debt as a % of total equity	(0.02)	90	42	38	49	47
Interest cover (times) (operating profit/finance costs)		11,28	19,63	20,89	22,30	15,63
Dividend cover (times) (headline earnings/total dividends)		1,27	1,16	1,07	1,25	-

3.2 MCOM VS V-MOBILE MOST RECENT SHARE PRICE PERFORMANCE



3.3 MCOM DECEMBER 31, 2015 CLOSING SHARE DATA

Authorised share capital (in millions)	2500
No. of ordinary shares in issue at year end (millions)	1,848
Weighted average no. of shares held during the year (millions)	1 841
Closing share price (S$ per share)	140
Market capitalisation (S$ million)	260,000

5.3. The Case Scenarios *(Your Task/For ACTION)*

Problem/issue: Security crisis and legal wrangling in Nakolia

Nakolia, one of MCOM's operations in Africa has over the last decade struggled with 'al qaeda-style' terrorist killings and abductions by 'Blokanda' - an armed terrorist gang. In 2014 Blokanda sneaked into a rural school and abducted over 300 school children and subsequently put them up as child slaves, child soldiers or sex workers. They also killed some of them to huge international condemnation, prompting the US Administration to send a terrorist combat squad to assist the Nakolian government fight the scourge. This security situation was the final straw that unseated the former government in favour of the current which had promised strong security and economic prosperity for all Nakolians. These terrorist attacks have often been coordinated using the mobile networks provided by the mobile operators in that country. The arrest and conviction of suspects had proven difficult because the mobile phone sim cards were not registered by the mobile operators in the name of the owners leading to the promulgation of new regulations by the Nakolian Telecommunications Regulatory Authority (NTRA) in 2012, requiring all mobile operators to register all sim cards by 2013. When the first deadline arrived, nearly all mobile operators had not met the requirement and so the NTRA fined all the operators, MCOM included (which fine was paid) and the deadline extended. By the final deadline, MCOM had not fully complied and whilst in talks with officials of NTRA, it was slapped with a hefty fine of US$6billion in Late October 2015 for all the unregistered sim cards which were still not deactivated as required by law.

A negotiation has led to only a 35% reduction (to US$3.9 or S$58 billion) of the fine by the NTRA, a reduction which local news reports condemn as a breach of the fundamental rights to dignity, life and security as guaranteed by the Nakolian Constitution. The fine reduction is accordingly being challenged in a court of law in Nakolia. Rallies have been scheduled by Nakolians at home, in Sadimba and in the diaspora to publicly campaign for an even steeper fine against MCOM. The MCOM Board seems lost as to why there is such a negative public support for MCOM in that country despite having spent more than 5% of its turnover over the last 5 years on Corporate Social Responsibility (CSR)-related projects such as the soccer and telecommunications development including job opportunities in Nakolia. The NTRA has not made the payment of the fine a condition for MCOM's renewal of its operating license which is due in late 2016. In the meantime, MCOM has decided to pursue court action in Nakolia to challenge the fine. It is not clear on what legal grounds but news reports confirm the NTRA has accordingly agreed to shift the deadline to pay the fine from the initial December 31, 2015 pending finalisation of the legal proceedings. A Senior Executive of MCOM asked about the grounds for the court challenge has stated the matter is 'sub judice' but added that it borders on whether the NTRA has the legal authority to impose a fine in the first place and whether it has the power to determine the magnitude. Some experts however believe MCOM's real motivation is to play for time whilst pursuing some 'unstated' measures.

Problem/issue: Mobile operator license in Chininsia

The Chinisian Telecommunications Regulatory Authority (CTRA) in the Asia Pacific Region has invited 'Expressions of Interest' for the 2018 renewal of 4 of its mobile licenses -currently assigned to the top 4 operators: InterCom, AxtonTel, CloudNet and Bartini. Together these Big 4 control 82% of the market with market shares almost equally split between them. All the licenses were issued 5 years ago for a fixed term of 7 years during which as a policy of the CTRA, no new licenses would be issued for new operators to enter the market. This policy is expected to remain in place and bids are due in January 2017.

Chininsia has over 305 million subscribers who are mostly social media fanatics and demand exceptional internet service from their mobile operators. It has a 182% mobile penetration rate and the 4th largest mobile market in the world. It is also in the world's top ten 4G markets, with broadband users skipping fixed connections and going straight to mobile (just as they did before with voice telephony). The rapid move to smartphones means the mobile operators are also key players in the internet sector. While Blackberry has long been extremely popular (Chininsia was Blackberry's third biggest market in 2012, after the US and UK), smartphone growth really took off in 2010 as the price of Android smartphones fell below US$200. Growth since 2010 has been rapid, and at the end of 2015 there were 45 million smartphones in Chininsia, representing 29% of all handsets from manufacturers such as Blackberry, SonyEricson, Apple and Samsung with lots of content and app developers who have entered into strategic relationships with the global partners of some of the current operators. It is believed this will grow quickly over the next three years, since by early 2014 the price of the cheapest Android smartphone had become very affordable at US$40. The mobile market has grown by a CAGR of 10% over the last 5 years and estimates are that by 2019 unless mobile operators have diversified growth will begin to flatten.

Chininli is the official and the most widely-spoken language which is far similar to Hindu and Chinese than English, French or Arabic languages. A 2013 UNESCO report ranked Chininsia amongst the most educated in the region with the most advanced universities and the highest rate of telecommunications and technology graduates per person in the region. It was also rated by Planet Earth, as having amongst the best natural landscape to erect wireless network infrastructure. Chininsia has over 300 Internet Service Providers (ISPs), 35 of which own network infrastructure, with the rest simply reselling capacity. The mobile operators are the largest ISPs by far, because the majority of Chininsians access the internet via a mobile device. Operators are pushing data services very strongly, backed by huge advertising budgets, and helped along by falling device and subscription prices. All the big 4 operators have stated that stimulating growth in data services is now their top market priority. The internet sector in Chininsia is dominated by the mobile companies – the 4 largest ISPs are also the 4 largest mobile operators, and the majority of users use a mobile handset to access the internet. The broadband price war between the Big 4 that began in 2009 marked the start of Chininsia's internet boom, and their high spending continues to push the market forwards. The fixed-line ISPs simply don't have the scale to compete in the mass market, so their focus is on businesses and wealthier residential customers.

Chininsia does not restrict foreign investment into the tech sector, so foreign investors have a range of options in investment structures. The most common investment strategies to date have been forming a JV with a local company, acquiring an existing company, or opening a local subsidiary then hiring local employees (and sometimes bringing in overseas executives too). The foreign investors have brought both capital and skills, with investors to the mobile industry to date coming from the US, Japan, China, India and Europe. Government policy support for the telecommunications sector and a knowledge economy founded on its 'internet access for all programme' to connect all its citizens is well documented. Due to a governmental ordinance, promulgated by the CTRA, Mobile Number Portability (MNP) was introduced in 2011 enabling customers to retain their mobile telephone numbers when switching their service provider from one mobile operator to another. This has resulted to intense price competition. Furthermore, the networks have to be upgraded to support new technologies such as Wireless Applications Protocol (WAP) and General Packet Radio Services (GPRS). To survive operators must be very innovative in order to generate new revenue streams and to differentiate themselves.

In the 'Expression of Interest' published by the CTRA and declared as open to foreign companies, the rules mandate that a number of Critical Success Factors (CSF) be met. These include:

	Target
1. Ability to raise finance measured as book value gearing (debt-to-equity)	100%
2. Environmental track record measured as 5 year CAGR of Carbon dioxide and equivalent (CO_2e) emissions from energy use per square foot.	7%

Subject only to the above, the highest bidder will be awarded the license. The current bidding rules are the same for the existing license holders and for any foreign companies interested to bid. MCOM has always eyed the Chininsia market as part of its ambition to be the leading mobile operator in the emerging market and considers this invitation to 'express interest' as an ideal opportunity.

There is however one uncertainty: Last year, a populist political party swept into office winning 72% majority having promised sweeping reforms. Experts believe opening the bid to foreign companies is simply a ploy to position Chininsia as a 'business friendly destination' for its other sectors but certainly not the telecommunications sector as it is considered to be of 'national strategic importance.' Interestingly, the bidding rules do not make any provision for specific payments to any current license holders who do not win as exit compensation for their existing infrastructure already installed. The uncertainty therefore is whether bidding rules will not be altered before 2017 to favour these existing license holders.

Stage 1 of the tendering has completed and a shortlist of 7 companies has been published before taking into account gearing as a CSF. The CharterQuest Institute has performed a 'competitor analysis' of these 7 companies in relation to the Chininsia Market and presented the following data:

	IntaCOM	AxtonTet	HelloNet	MCOM	Bartini	CloundNet	C-Mobile
Market Position	Mass market and low price. Previous state monopoly	Youth and life style	Differentiation with broad appeal	Differentiation with broad appeal	Hybrid strategy (Broad differentiation & price)	Technology leader + Broad Market	Traditional Chinese Company
Recent strategic moves by Parent	n/a	International expansions & related diversification	International expansions & related diversification	International expansions related diversification	2nd to 4G Networks & Cloud Services	First to 4G and to shift from voice to internet based & cloud services	Aggressive price cuts
Headquarters/Principal Market	Chininsia	Europe	North America	Sadimba	India	Chininsia	Guandong
Current license holder in Chinisia	YES	YES	NO	NO	YES	YES	YES
No. of subscribers in Chininsia	69 million	60 million	0	0	58 million	63 million	14 million
Other markets Parent is dominant	n/a	Europe, Africa and Middle East, Asia	Europe, Africa and Middle East, Asia	Africa and Middle East	Africa, Middle east and Asia	n/a	Africa, Middle east and Asia
Parents' no of subscribers.	n/a	760 million	960 million	300 million	88 million	110 million	14 million
Ownership structure	90% locally owned	50/50 Joint Venture with local ownership	100% foreign owned	100% foreign owned	60% locally owned	100% locally owned	51% locally owned
Brand name and Reputation	Strong locally	Part of a very strong global brand so strong locally	Strong global brand	Strong in Africa but nonexistent locally	Aspirational and very strong locally	Aspirational and very strong locally	Weak

Furthermore, probabilistic data gleaned from the region suggests the following:

1. If bidding rules stay the same, at a tender price of S$2550m all existing license holders have a 40% chance of winning whereas only a price 70% higher will secure the same chance for others.

2. If bidding rules are changed to favour license holders, at the same tender price of S$2550m all existing license holders have a 60% chance and only a 4% chance for foreign companies.

3. Tender preparation costs are S$5million for existing license holders and 3 times higher for 'new' foreign companies due to their less informed knowledge of the local market.

You advice is sort on which of the following 2 strategic choices if any, should be pursued:

1. **Acquire 51% of CloudNet for S$2700m and bidding as a local company.** MCOM's share of CloudNet if it was to acquire and loose the bid is valued at S$1,710m. This represents value from CloudNet's other related digital businesses it will still be able to operate in Chininsia without the need for a license. Winning the bid however will deliver a value of S$6262m before taking into account any synergies. This was estimated using the past 5 years CAGR of the mobile sector.

2. Bid directly and enter as a 100% MCOM Chininsia Limited, a subsidiary of the MCOM Group.

Problem/issue: Shared Services Center (SSC) in Sadimba

MCOM has seen its rate of increase in revenue begin to wane. As the global mobile market fast approaches maturity, the first signs of maturity in its home market has began to show with a decline in revenue and operating performance in 2014. Experts believed this will be corrected in 2015 but the numbers do not seem to confirm that. MCOM had anticipated this trend and responded in 2012 by setting a bold new direction toward expanding its digital revenue options as well as looking inwards to reforming its operating model including monetising its passive investments. It started rationalising key aspects of its supply chain activities in 2012 using a Shared Services Model located in Sadibma, delivering savings of almost S$6,600m in 2014, to the delight of shareholders. MCOM has approached some of its investors to discuss the possibility of buying more equity to help settle the Nakolia fine. The investors have been keen to understand in the light of a stagnating mobile market, how the reforming of the MCOM operating model was proceeding as they believe in the near term it may be the main source of earnings growth. Although they are pleased to see the S$6600m savings, they are doubtful and have asked to be provided with a breakdown of this sum by the next Annual General Meeting (AGM).

The MCOM board has however now implemented a full SSC at its head quarters in Sadimba to expand on these savings to delight its shareholders even more but also as part of its strategy to reform its operating model. A timetable has been set to move key operational support activities such as Information Technology, Finance & Human Resources from its businesses across Africa to be performed at the newly formed SSC as well as the treasury activities. The process has begun but a number of popular news channels in its key markets have began reporting that MCOM is abandoning its Corporate Social Responsibility towards these African countries, describing it as an 'off-shoring' programme designed to only benefit its home country, Sadimba and its shareholders. One news channel reported a key policy maker in one of the French-speaking countries MCOM operates in as saying:

'We thought it will be only big business from the West and the Chinese who *will come in the name of 'job-creating' foreign investors but end up bringing their own citizens to dominate us or ship jobs overseas*, *so we decided it is time to award mobile operator licenses to our own African company. It is clear from this SSC decision, big business is big business and their self interest and corporate greed will always prevail. The French are even better because you find they make far less revenue from our countries than from theirs. In the case of MCOM, they make more revenue from Nakolia for instance than even their home country but they choose to have their SSC there so they can cut jobs here and create jobs and boost investment that side and pay with money they make from here.'*

Citizen Rights Organisations have started calling for the public to boycott MCOM products and services in their home countries in a bid to press MCOM to reverse the decision. Data collected in the last quarter does not show any evidence that the calls for boycott has had any impact on MCOM revenues and operations. In a separate development, an employee survey across the group has revealed a marked discontent from employees of its African operations mostly the low level transaction processing operatives who fear their jobs will be shipped to Sadimba. Local partners, some co-shareholders as well as Senior Managers of some of MCOM Africa businesses have started voicing concerns that the autonomy they once enjoyed handling their own supply chain activities was taken away from them and now the SSC seeks to take away finance, IT, Human Resources, etc. The board requires a broader assessment of the SSC decision.

The following costing data has been presented by The CharterQuest Institute for use in quantifying the savings achieved thus far that will also help respond to the shareholders at the next AGM:

	MCOM Sadimba	**MCOM Nakolia**	**MCOM (All Others)**	TOTAL
Annual number of transactions (millions)	1.6	1.9	1.8	
Average no. of minutes spent per transaction per Operative	45	60	90	
% of transactions escalated to Managers = % of Management time to operatives	20%	30%	60%	
Average no. of Manager minutes per escalated transaction.	90	120	180	
Overhead costs absorbed per operative hour (S$)				1,800
Standard Operative costs per hour (S$)				240
Standard Manager costs per hour (S$)				480
Additional no. of fulltime non-operative staff no longer required		400	200	600
Average salary of fulltime non-operatives staff no longer required				200,000
Average cost recovery per transaction by SSC for processing on behalf MCOM businesses (S$) (75% is new personnel cost)				1450

Problem/Issue: Political risk & strategic uncertainty in Ilania

MCOM currently holds 49% shares in a Joint Venture (JV) called JV-Cellular in Ilania, a Middle East country which was acquired about a decade ago. The other 51% is owned by very powerful 'individuals' with strong judiciary, military and political connections to that country's supreme leader. Ilania has regular elections every 5 years but it is known that no real power is ever given to the peoples' elected representatives. Citizen rights are often suppressed by the state and the only semblance of harmony with its people is in the face of frequent prospects of foreign aggression from the West over its nuclear programme. Under the terms of the JV agreement, MCOM will appoint Directors in key positions mainly technical including providing technical supplies such as telecommunications equipment and will receive 49% share of the profits. This JV is MCOMs largest investment in the region and it was made with a view to pursue other growth markets within the region such as in Turkey, Dubai, Jordan, Cyprus, Syria, etc.

The Ilanian economy was thriving and politically stable at the time MCOM entered this lucrative market. Subsequently, news surfaced that Ilania was enriching uranium in a number of hidden nuclear power plants in violation of its international obligations under the Nuclear Non Proliferation Treaty (NNPT) leading to its international isolation and sanctions. Under the sanctions, except for humanitarian, pro democracy and personnel purposes, it is a breach of international law to deal financially with any company in or the government of Ilania. For instance, MCOM's 2014 audited financials report Dividends declared by JV-Cellular to MCOM of S$4210m as well as loan receivable of S$5,800m which cannot be retrieved. The loan however yields market related interest whilst in Ilania. In 2014 MCOM reported these amounts as not impaired, stating options are being explored for its full receipt without violating the sanctions. Other issues impacting business confidence in Ilania include a hyper inflationary economy as well as indeginisation laws in which the Ilanian government has announced plans to require companies in key sectors, including MCOM's to surrender a certain proportion of equity to citizens of the country.

The 2013 Arab Spring (pro democracy strike actions) organised using social media and mobile phone networks also threatened Ilania. The regime has convicted many demonstrators using evidence from their personal phone records availed by the mobile operators. Civil liberty watchdogs have called on MCOM to withdraw from Ilania to show its commitment to human rights. The CEO of MCOM has responded that the laws of Ilania provides for such release for crime prevention purposes and that MCOM's commitment to data privacy is limited to the extent of the protections afforded by the law in each country.

In 2015, the US Administration working closely with its allies negotiated a deal with Ilania in which sanctions will be removed in exchange for Ilania agreeing to a stringent regime of inspections of its nuclear facilities. Inspections are expected to only commence in November 2016 and it can only be fully verified at the end of 2017 if full compliance was achieved for sanctions to be eased. The resulting prospects has been received very favourably by the markets, however uncertainties remain as to the Ilania regime's sincerity. MCOM believes there is 70% chance the Ilania regime will comply fully in which case they feel there is an 80% chance of a better outcome, although they are mindful of the residual risks in relation to the mooted indegenisation programme. 3 strategic choices require evaluation:

Strategy 1: Consolidate & expand

This choice will see MCOM up its current stake by 2% and will a require cash payment of S$2,140m if MCOM agreed any further Middle East expansion will be pursued via JV-Cellular rather than MCOM directly or with third parties. Should Ilinia comply fully, the Present Value of the Free Cash Flows (to Debt & Equity) of JV-Cellular is estimated to be S$240,000m against a 90% discount if this outcome was not achieved. MCOM will need to spend an undefined sum of S$2,000m in Present Value terms to secure these cash flows. With an extra cost of S$200,000m, this option allows MCOM to break into further Middle East Markets such as Turkey in 5 years time which it will otherwise not be able to. All such projects at this time have an NPV of zero. MCOM can exit now or face the prospect of the indigenisation laws being so draconian that it may loose its entire investment as there are rumors that firms with majority control are likely to bear the brunt of the Ilania regime in an out-right nationalisation in retaliation against the West if sanctions had to be re-instated in the event of non compliance. This is a strategic uncertainty whose chance cannot be quantified but experts believe it is not likely to occur until end of 2017.

Strategy 2: Stay the course

This choice will see MCOM keep its current holding of 49% and stay the course. Dividends of S$5,008m have just been paid to MCOM. The market expects this to grow by the 2014 5-year CAGR into the foreseeable future. The current 51% shareholders have also offered in this consideration to buy MCOM's entire holding for S$28,000m at the end of 2017 if MCOM so desires to sell at that stage.

Strategy 3: Sell-of & walk away

MCOM has received two proposals to immediately sell their 49% stake in JV-Cellular. Offer 1 is from an Indian cell phone group called Bartini. It is for a cash amount of S$68,010m payable by crediting MCOM's bank account in Ilania. MCOM will have to forego its claim to the loan and dividends it is owed by JV-Cellular. Offer 2 is a share-for-share exchange worth S$85,000m from a leading Mobile Turkish Operator. No further data about the deal and the Turkish Operator is available.

Useful data for this issue only:

Standard deviation of investment returns in the Middle East	25%
Risk free rate	5%
MCOM's S$ Cost of Capital	12%
MCOM's S$ Cost of equity	15%
All offers to MCOM open for a decision till	January 31, 2016

Problem/issue: Nakolia Fine & capital structure implications

3 months ago, news of the hefty fine of US$5,9 billion subsequently reduced to US$3.9 billion (S$58 billion) in Nokolia wiped off 25% of its market capitalisation before some minor recovery. This news surfaced within 60 days of MCOM publishing its interim financials for the period ending June 2015 and also a few days after its 3rd quarter trading update in October 2015. During the review of the interim financial statements, Joint Auditors PedoubeluiC Inc and Sinsago Auditors received a written Management Representation signed by the CEO of MCOM Nakolia attesting that management was not aware of any material matters regulatory or otherwise which was pending and worthy of reporting.

The CharterQuest Institute has linked the subsequent fine negotiations and stalemate that has now taken the parties to court to what Lewin typified in his classical force-field analysis work. MCOM's negotiations appear to border on economic imperatives as the 'enabling forces' whilst Nakolia's is 'restraining' from making further concessions for legal and political reasons. Major ratings agencies have downgraded Nakolia whilst the government of Sandimba has openly voiced the need for MCOM and all Sandimba multinationals to respect the laws of other countries including Nakolia. There are however allegations that the Sandimba government is willing to negotiate for, together with and/or on behalf of MCOM to secure further concessions in the fine.

The Group CFO has come to a conclusion that the prospects for a further reduction in the fine is negligible and therefore has determined the need to develop a suitable Group financial strategy. MCOM has just gone past the December 31, 2015 date which is the end of its financial year. Auditors will be arriving in 21 days time to commence the 2015 year-end audit. He has compiled the following abridged draft MCOM Plc financials prepared on December 31, 2015 and has stated that a number of adjustments are yet to be passed to finalise the accounts, handing you the draft accounts together with *'Matters to Consider'* and has required you to prepare the adjusted financials, specifically the income statement and the statement of financial position for the year-end audit and construct a case for the relevant financial reporting rules applied in doing so. He has also asked you to advise on the principal audit consideration likely to guide the auditors risk assessments and the implications for their report. The Group CFO also wants you to recommend a suitable funding structure for the fine, taking into account MCOM's capital structure, share prices, tax and any other considerations you deem appropriate.

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)
Impairment of goodwill	(2,033)	-
Operating profit	**49,645**	**57,691**
Net finance costs	(3,668)	(2,568)
Net monetary gain	878	527
Share of results of associates and join ventures after tax	4208	5,008
Profit before tax	**51,063**	**60,657**
Income tax expense	(13,702)	(15,871)
Profit after tax	**37,702**	**44,786**

ABRIDGED STATEMENT OF FINANCIAL POSITION (S$ millions)

	2014	2015
Non Current Assets		
Property, plant and equipment	87,546	89,209
Goodwill and intangible assets	36,618	46,549
Investment and loans	37,945	24,978
Deferred taxes	1,109	13,256
	163,218	**173,992**
Current Assets		
Bank balances, deposits and cash	48,736	47,495
Other current assets	41,731	44,971
Total assets	**253,685**	**266,458**
Equity		
Equity attributable to equity holders of the company	128,517	141,494
Non-controlling interests	4,925	5,896
Total equity	**133,442**	**147,390**
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 liabilities	**120,243**	**119,068**
Total equity and liabilities	**253,685**	**266,458**

ABRIDGED STATEMENT OF CASH FLOWS (S$ millions)

	2014	2015
Net cash inflows from operating activities	27,132	37,132
Net cash used in investing activities	(25,991)	(35,991)
Net cash from/(used in) financing activities	2,639	3,640
Net increase/(decrease) in cash and cash equivalents	**3,780**	**4,781**
Cash and cash equivalents at start of the year	39,577	43,072
Exchange (losses)/gains and monetary loss on cash and cash equivalents	(285)	(385)
Cash and cash equivalents at end of the year	**43,072**	**47,495**
Statement of cash flows -extracts		
Cash generated from operations	64,628	76,628
Dividends paid to equity holders of the company	(20,527)	(31,809)
Acquisition of property, plant and equipment	(19,562)	(2100)

MATTERS TO CONSIDER

1. In relation to the S$58 billion fine by the government of Nakolia, MCOM received a fine letter from the NTRA but did not record it yet as it wants to challenge it in a Nakolian court of law. The NTRA has confirmed it will wait for the outcome of the court ruling before it enforces the payment of the fine.

2. In the 2015 4th quarter meeting of the MCOM Board, a decision was taken to fast track the transformation of its operating model and also monetise its passive infrastructure and non-core assets by availing network towers for immediate sale in their present condition, as a precaution in case the NTRA fine stands. Sidoms Limited, a world-wide company that provides managed services, deployment and site ownership services in the telecoms sector has put in an offer. On 31 December 2015, the carrying amount of the towers and the fair value was $20 billion.

3. MCOM having accepted the offer from Sidoms Limited, has instructed its legal advisers to draft the sales contract to conclude the sale, for which a quote of S$5million has been received.

4. Towerdom, a subsidiary of Sidoms entered into an operating lease agreement with MCOM to lease out its tower equipment for a period of 10 years with effect from 1st of March 2016. MCOM will be required to pay $200million a month in arrears.

5. On the 31st of December 2015, Management tested goodwill for impairment and discovered that it had been impaired by $4862m which had yet to be recorded.

6. Management considers 1.4% of group turnover as its benchmark for materiality.

--------------------THE END-------------------

THIS IS THE ATTACHMENT REFERRED TO AS 'VIDEO ATTACHMENT' IN MASTER CLASS VIDEO 2 OF 2.

It does not form part of this pack but only a guide to the knowledge areas required to analyse the Case Study as outlined in the Video.

Pervasive CFO Qualities and Skills

	CFO/Business Leader Oversight Responsibility	***Specific knowledge area considerations***
Problem/issue: Security crisis and legal wrangling in Nakolia	*Corporate Affairs*	• *Ethics & Corporate Social Responsibility* • *Legal defense strategy* • *Stakeholder/reputation Management*
Problem/issue: Mobile operator license in Chininsia	*Strategic Management*	• *Ethics & Corporate Social Responsibility* • *Global expansion* • *International investment* • *International market assessment* • *Global competitor analysis* • *Market entry/growth Strategies* • *Strategic performance management*
Problem/issue: Shared Services Center in Sadimba	*Cost & Management Accounting*	• *Ethics & Corporate Social Responsibility* • *Costing and cost recovery* • *Currency risk & treasury management* • *Economies of scale & scope* • *Supply chain and information systems* • *Technology and big data*
Problem/issue: Political risk and strategic uncertainty in Ilania	*Risk Management Financial Management*	• *Ethics & Corporate Social Responsibility* • *Risk and value analysis tools (ranking, risk mapping, sensitivity analysis, decision trees, VOIP, Expected values, standard deviations, Black Scholes* • *Dividend valuation*
Problem/issue: Nakolia fine and MCOM Capital structure	*Auditing, Corporate governance, Financial Reporting, Financial Management*	• *Ethics & Corporate Social Responsibility* • *International Financial Reporting Standards (IFRS)* • *International Accounting Standards International Auditing Standards* • *Corporate finance* • *Capital structure*