



UPDATED
CASE STUDY PACK
GLOBAL FINALE

Researched, Designed & Presented by



*Grooming financially
qualified business leaders*

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APPENDIX 1: 2015 Audited Financials for the MCOM Group (& 2016 partially pre-populated)

1. Assessment criteria

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 <i>(Prioritisation & focus)</i>	5%	10%					15%
Strategic choice <i>(Impact & options evaluation)</i>	10%	10%	10%	10%	5%		45%
Strategic implementation <i>(Recommendation & Actions)</i>			5%	10%	5%	20%	40%
	15%	20%	15%	20%	10%	20%	100%

2. THE REQUIREMENT

It is October 14, 2016!

An emergency meeting of the MCOM Board will take place in 3 hours time. The Board has requested your team to consider (prioritise and evaluate) a range of strategic developments, including ethical issues affecting the MCOM Group since your initial report and provide advice. You are accordingly required to produce and present such a report directly to the Board.

NB. Your work should be in the form of power point slides conducive to presentation to the Board over 15 minutes with each team member observed to have played a part on stage. Your team will take questions for another 15 minutes at the end of your presentation.

3. MCOM Case Update (For your ACTION)

MCOM Mobile Telecommunications remains the case company in focus. All facts previously provided remain the pertinent background against which the following updates need to be addressed:

Problem/issue: Accounting for the S\$58 billion Nakolia fine

Subsequent to your initial report to the Board, MCOM did publish its 2015 financial year results in February 2016 in which it provided only S\$9,287 million instead of the full S\$58,000 million potentially in violation of IAS37 on the *recognition and disclosure of provisions, contingent liabilities and assets*. The report was signed-off by Joint Auditors, PedoubeluiC Inc and Sinsago Auditors. Transcripts of the internal deliberations between MCOM Management, Auditors and Legal Advisors has surfaced which suggests the estimates for the provision was arrived by balancing a number of considerations for which the most dominant was MCOM's overall Earnings Management Strategy, Dividend Policy as well as its Negotiation and Legal Defense Strategy in Nakolia. The predominant input that swayed the estimates was from the Negotiation and Legal team which argued that providing for the full amount, although potentially what is warranted in terms of IAS37, was tantamount to agreeing with the Nakolian government and that such a provision could be used as evidence in court, potentially hampering MCOM Group's Legal Defense Strategy in Nakolia.

Problem/issue: Due Diligence for M/A Deal in Chininsia

The Board has now decided to proceed into Chininsia by acquiring CloudNet in a share offer and has requested a Due Diligence Report on the Top 5 issues to be probed together with justification. MCOM's share price has risen about 15% since your initial report. Given the lapse in time and the number of competing bidders to acquire CloudNet, a premium of 25% is now regarded as the ideal bid price to secure the deal. The Board also needs guidance on suitable terms of the offer.

Problem/issue: Shared Services Center (SSC) Project Oversight

Satisfied with the 2014 savings of S\$6.6 billion your team was asked to prove, the MCOM Board decided to proceed with the SSC Project in Sadimba. An analysis subsequent to your report identified even more savings that could be achieved in 2016 by transferring more transactions to the SSC (estimates are that the same number of transactions could be transferred at the same average processing cost of S\$1450 per transaction). To minimise the adverse impact, it was decided that the transfers be done gradually in 4 equal tranches over the next 4 years from 2016 to 2019. The CharterQuest Institute has compiled the following data regarding the 2016 status of the Project:

		MCOM Sadimba (millions)	MCOM Nakolia (millions)	MCOM (All Others) (millions)	TOTAL (millions)
	Scheduled no. of transactions to transfer (in millions)	1.6	1.9	1.8	5.3
	Actual no. of transactions transferred to date (in millions)	1.04	0.29	0.34	1.67
1	BAC (US\$1450 * actual no. of transactions to date)	2,320	2,755	2,610	7,685
2	BCWS (S\$1450 * scheduled no. of transactions * 25%)	580	689	653	1,922
3	BCWP (S\$1450 * actual no. of transactions * % transferred)	1,508	413	496	2,517
4	ACWP	1,600	500	452	2,552
5	SV% (BCWP-BCWS / BCWS)	+160%	(40%)	(24%)	+31%
6	CV% (BCWS-ACWP / BCWS)	(176%)	+27%	+31%	(33%)
7	Estimate at Completion (ACWP/BCWP*BAC)	2,462	3,335	2,378	7,792
8	Estimate to Completion (ACWP - BAC)	720	2255	2158	5,133

1	BAC	Budget At Completion
2	BCWS	Budgeted Cost of Work scheduled
3	BCWP	The Budgeted Cost for Work Performed
4	ACWP	Actual Cost of Work Performed
5	SV%	Schedule Variance %
6	CV%	Cost Variance%
7	EAC	The Estimate At Completion
8	ETC	The Estimate To Complete

Problem/issue: Group Legal and Negotiation Strategy for Nakolia

As part of its Legal Defense Strategy, MCOM subsequently hired the former U.S. Attorney General, Ernest Holkan, to help challenge the US\$3.9 billion (S\$58 billion) fine imposed by Nakolia. A judge in Lankot, Nakolia's commercial capital, last month gave MCOM until October 18 to try to reach a settlement. Holkan, who led the U.S. Justice Department for 5 years and left just before the fine was imposed returned to law firm Covinon and Bowling, a highly reputable US and International Law practice, where he was previously a partner before joining the US cabinet. Newspapers report that the appointment of Holkan has more to do with using his access to the US Administration to help improve strained relations between Nakolia and the US government, than the actual Negotiation and Legal expertise of Holkan. An MCOM Executive Director was reported as saying: *'as of the end of 2015, it was very clear to MCOM that the fine will not be reduced any further and only in March 2016 did we get advice that the Nakolian government was desperate to improve relations with the US Administration. We then appointed Holkan and negotiated a fee higher than what would normally be paid as a good way to get the US Administration to prevail over the Nakolian Government on our behalf.'* Against this background, a number of options are being considered:

OPTION 1, TAKE UNILATERAL ACTION

MCOM can on its own accord, can pay the full fine of US\$3.9 billion (S\$58 billion) to the Nakolian government. MCOM has the choice to then withdraw the court action or proceed in the hope of winning the legal battle. A Legal Strategy Review with the appointed US-based law firm, Covinon and Bowling and the Legal Team in Nakolia has concluded that MCOM stands a 98% chance of a successful court challenge. Any verdict in favour of MCOM will not only declare the fine null and void but on 'legal technicalities', find that MCOM did not breach the law in the first instance. Whether or not MCOM succeeds, the court is most likely to grant MCOM a 24 months extension to fully comply with the sim card registration guidelines, the ideal period MCOM would need.

OPTION 2, NEGOTIATE AND INJECT CASH UPFRONT

Pay S\$14,780 million up front and be given 12 months to comply with the sim card registration guidelines and continue trading as in the past. Payment must be financed by cash injection from outside Nakolia. Under this option, no new conditions will be imposed.

OPTION 3, NEGOTIATE AND STAGGER PAYMENTS BUT LIST ON EXCHANGE

Pay US\$19,876 million and be given 12 months to comply with sim card registration guidelines and continue trading as in the past. Payment can be staggered over 3 years. MCOM however must list its Nakolian subsidiary on the Nakolian Stock Exchange with a free float comprising 60% of the total shares of MCOM Nakolia (ignore time value of money).

OPTION 4, PULL OUT OF NAKOLIA

Withdraw from Nakolia altogether. The Board will need your guidance on the different exit arrangements open to MCOM.

Problem/issue: Delivering on 4 Key Investor Ratios

Recent news reports are that MCOM has faced a 'perfect storm' the last 12 months.' Shareholders remain disheartened and have accepted that it was always going to be tough year given the way the last 6 months of the financial year 2015 year ended. They were nonetheless pleased that MCOM still declared a profit and paid some dividends. In a recent press statement, MCOM re-iterated its financial targets for the 2016 financial year which was rather conservative, given the 'perfect storm'. The key goal in the light of this 'perfect storm' was stated as to prevent Key Investor Ratios from worsening beyond 25% from their 2015 levels. These include:

- After tax Return on Equity (ROE)
- Earnings Per Share (EPS)
- Dividend Per Share (DPS)
- Gearing (measured as book value of interest-bearing Debt to Equity, D/E)

The CharterQuest Institute has compiled data relating to the assumptions MCOM made back in March 2016 (which remain valid) before announcing the above 2016 financial targets. The Board requires you to report whether or not MCOM will be able to deliver on these targets.

Matters to consider:

1. MCOM sees its future growth as predominantly coming from mobile banking services starting from 2017. It initially projected 11% growth in Revenue but the BREXIT vote, recession in Nakolia and the prospects of ratings downgrade of Sadimba means only modest growth in Revenue of 9% will be achieved in 2016.
2. The ratio of Cost of Sales to Sales (Revenues) to worsen by 11% due to an increase in direct network and technology operating costs mainly due to aggressive 3G and LTE network expansion in key markets as well as foreign denominated expenses mainly in Nakolia.
3. Operating Expenses are expected to stay the same as any increases will be fully offset by savings envisaged from the Shared Service Center Oversight Project. However, 'Other Operating Expenses' within this category will reduce by S\$324 million to reflect reduction in Professional Services fees relating to the Nakolia fine negotiations.
4. A further S\$10,499 million was projected to be incurred to settle the Nakolia fine following the appointment of the former US Attorney General, Ernest Holkan.
5. The ratio of 'Trade and Other Receivables' to Sales as well as 'Trade and Other Payables' to Cost of Sales are expected to remain the same in 2016.
6. Dividends are payable in the year subsequent to the year they relate to. MCOM plans to maintain the 2015 payout ratio in 2016. These are included as 'Other Current Liabilities' on the Abridged Statement of Financial Position.
7. There will be a decrease in investment in Joint Ventures and Associates mainly due to the Group's share of the attributable loss, amounting to S\$2,500 million and foreign currency translation loss amounting to S\$3,100 million from its investments in Nakolia, offset by an increase in investments of S\$2,217 million in Africa Internet Holdings, one of MCOMs Sadimba investments.
8. All other figures (including the tax rate) were to remain the same as per the 2015 audited results.
9. Appendix 1 -The 2015 Audited Results

Problem/issue: Appointment of new Group CEO

The Security Crisis and Legal Wrangling in Nakolia had subsequently triggered the sudden departure of the Group CEO, Selto Dakwena, the Group CFO, the CEO of MCOM Nakolia as well as the Head of Regulatory & Corporate Affairs in that market. In November 2015, the Board Chairperson, Phulani Swazi was asked to step in and provide leadership as Acting Group CEO pending a permanent replacement. The Acting CEO, himself is a previous CEO of the group before becoming the Board Chair. The Board needs your guidance on a short list of potential CEO appointments which has been compiled by The CharterQuest Institute as below:

EXHIBIT 1 : CEO KEY RESULT AREAS (KRA) AND PERSON SPECIFICATION

KRA	ATTRIBUTE/PERSON SPECIFICATION
Setting strategy and direction	Forward thinking and prepared for the future
	Takes calculated but not careless risks
Modeling and setting the company's culture	Sets example and walks the talk
	Emerging market cross culture orientation
Building and leading the senior executive team	Pragmatically inclusive but an independent decision-maker
	Displays intensity/emotion but maintains control
Allocating capital to the company's priorities	Deeply analytical and ability to balance conflicting priorities and exercise sound judgment
	Good judgment in balancing conflicting priorities
Transformation and performance	Affirmative Action/Historically Disadvantaged Individual (HDI), ideally female citizen of Sadimba.
	Biased towards (Thoughtful) Action

EXHIBIT 2 : SHORT LIST OF CEO CANDIDATES

	OLATUNJI BABELE	JOHAN VAN RENSBURG	NOMFUNDO KUNENE	MTELO MYATI
NATIONALITY	Nakolia	Sadimba	Sadimba	Sadimba
SEX & RACE	Male & Black	Male & White	Female & Black	Male & Black
QUALIFICATIONS	M.Sc. (Telecoms Engineering, MBA)	Chartered Accountant	Chartered Accountant, MBA	B.Sc. (Civil Engineering), Yale World Fellow
CURRENT POST (held since 2011)	CEO of 2nd largest Mobile Operator in Nakolia	CEO of V-Mobile's Parent in Europe (oversees 9 countries)	COO of MCOM Group	CEO of MCOM Sadimba
PRIOR EXPERIENCE (equal length)	COO of Multinational Technology Group and the NTRA in Nakolia	Group CFO of V-Mobile in Sadimba and Executive at major Banks in Sadimba	CEO of leading State TV Broadcaster in Sadimba and Mining Executive at RioTinto	MCOM Group. Microsoft Emerging Markets, Director of IBM Global Technology
AVAILABILITY	6 months notice	12 months notice	Immediate	Immediate
PERSON DESCRIPTION	Decisive leader with sound mastery of regulatory landscape and skilled communicator	Strong leader with creative problem solving and big picture skills, acute talent management skills	Strong leader, very articulate go getter with impeccable performance orientation with acute balance between public-private sector skills.	Strategically and operationally savvy leader with sound intellect, professionally rounded and a master planner

APPENDIX 1

Audited 2015 financials (& 2016 partially pre-populated)

MCOM PLC

ABRIDGED INCOME STATEMENT (S\$ millions)

	2016	2015 (Audited)
Revenue	?	147,063
Other income	8,409	8,409
Operating expenses (Note 1)	?	(87,060)
EBITDA before Nakolia regulatory fine	?	68,412
Nakolia regulatory fine	(10,499)	(9,287)
EBITDA	?	59,125
Depreciation and amortisation	(24,900)	(23,293)
Impairment of goodwill	(605)	(504)
Operating profit	?	35,328
Net finance costs	(6,020)	(3,010)
Net monetary gain	1,348	1,348
Share of results of Associates and Joint Ventures after tax	1,226	1,226
(Loss)/Profit before tax	?	34,892
Income tax expense	?	(11,322)
(Loss)/Profit after tax	?	23,570
Dividends Declared	?	18,856
Retained Profits	?	4,714
Note 1:		
Cost of Sales:		
Direct network and technology operating costs ²		18,809
Costs of handsets and other accessories		10,829
Interconnect and roaming costs		13,102
	?	42,740
Operating costs:		
Staff costs	8,587	8,587
Selling, distribution and marketing expenses	18,412	18,412
Government and regulatory costs	5,888	5,888
Other operating expenses	?	11,433
	?	44,320
Total	?	87,060

ABRIDGED STATEMENT OF FINANCIAL POSITION (S\$ millions)

	2016	2015 (Audited)
<u>Non Current Assets</u>		
Property, plant and equipment	?	106,702
Goodwill and intangible assets	?	55,887
Investment and loans	?	35,552
Deferred taxes	20,294	20,294
	?	218,435
<u>Current Assets</u>		
Bank balances, deposits and cash	63,796	35,912
Other current assets (Note 2)	?	59,520
Total assets	?	313,867
<u>Equity</u>		
Equity attributable to equity holders of the company	?	146,369
Non-controlling interests	5,469	5,469
Total equity	?	151,838
<u>Non Current Liabilities</u>		
Interest-bearing liabilities	64,190	52,661
Deferred tax and other non-current liabilities	19,849	19,849
	84,039	72,510
Current Liabilities (Note 3)	?	89,519
Total liabilities	164,719	162,029
Total equity and liabilities	315,850	313,867

Note 2

Other current assets (includes amounts held up in Illania)		15 940
Trade and other receivables	47,491	43 570
Total	63,431	59,520

Note 3

Interest-bearing liabilities	8,520	30,179
Trade and other payables	?	40 484
Other current liabilities	?	18,856
Total	?	89,519