NERA
ECONOMIC CONSULTING

EXPERT REPORT OF
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Summary

1. I am a Director at NERA Economic Consulting, a leading international microeconomics consulting firm. NERA has been in business for over 40 years specializing in the economic analysis of issues in the areas of infrastructure industries, antitrust, securities and intellectual property.

2. I have extensive experience analyzing the economic issues associated with contracts for infrastructure undertakings and regulated entities. I have been involved with projects dealing with development, regulation, restructuring, and privatization of state-owned utilities in a variety of different settings, including the UK, Germany, Italy, Belize, Honduras, Singapore, Tanzania, Singapore, Turkey.

3. I have been requested by the Belize Government to assess the expert report ("PwC report") submitted by Alastair Macpherson of Pricewaterhouse Coopers("PwC") regarding the valuation of Dunkeld's former shareholding interest in the equity capital of Belize Telemedia Limited ("Telemedia").

4 I have already supplied the Belize government with a report that assesses the Fair Market Valuation of Telemedia as of 31st August 2009 ("Valuation Date") shortly after the Government of Belize acquired the company.[1] I refer to this report as the "NERA FMV Report". In this report, my assessment of Telemedia's FMV (based on 49.552 million shares outstanding) is $1.44 per share.

5 Following receipt of the PwC report, I examined the report to see if it contained any new information that would lead me to change my assessment of the FMV of Telemedia. However, I concluded that my original assessment of the FMV of $1.44 remained valid.

6 My assessment of which factors significantly affect the valuation difference between NERA and PwC suggests that around BZ$230 million of the difference in valuation is due to the impact of the "Accommodation Agreement". PwC argue that certain parts of the Agreement would impact on the valuation:

- Telemedia would be able to pay business tax at 25% of profits, rather than 24.5% of revenues;
- Telemedia would not be liable to pay import taxes;
- The Belize Government would have to block VolP traffic, international calls made over the internet.
- The Belize Government cannot issue new licenses for fixed or mobile services;
- The Belize Government cannot mandate Telemedia to sell services;
- The Belize Government would guarantee Telemedia a rate of return of 15%;

[1] Fair Market Value Assessment of Telemedia: A Report for Belize Telemedia Limited, NERA, December 2010

- Telemedia would be allowed to deploy WiMax, technology that allows cheap provision of fixed line services to remote and rural areas;
- Telemedia would continue to own Arcos cable, the cable is the best international access route for communications.

7. My assessment of which of these factors in the Accommodation Agreement most significantly affects the valuation difference between NERA and PwC suggests that the most prescient factor by far is the payment of business tax on profits rather than revenue which explains BZ$182 million of the difference. Other factors, import duty, an historic loss adjustment and a ban of VolP traffic account for BZ$16.3 million, BZ$10.5 million and BZ$22 million of the difference respectively.

8. The legality of the Agreement is not a question that I can address. I have been advised by the Belize Government that the Agreement is not valid. Accordingly I have considered the Agreement void in making my valuation.

9. PwC were told to consider the Agreement which creates a significant difference between the valuations. However PwC's inclusion of the Agreement in their valuation contradicts the statement of their client:

   "The Governments' actions display a clear intention on behalf of the Government not to be bound by the terms of the Accommodation Agreement and Telemedia now chooses to accept the Government's repudiatory breach and treat the Accommodation Agreement as being at an end. Telemedia will seek appropriate and immediate redress against the Government." [2]

   Indeed PwC note this statement in their report. This provides further evidence why it is reasonable to consider the Agreement void in making my valuation.

10. Aside from the issue of the Accommodation Agreement, I find that PwC's methodology is highly flawed and is based on implausible assumptions. There are at least four key problems with the PwC report. First, PwC base their valuation on forecasts of revenues and costs that are significantly more optimistic than the Telemedia's own Business Plans.

11. My experience is that it would be highly unusual for a company to be valued based on projections of costs and revenues that are significantly more optimistic than a company's own Business Plans. It is especially implausible that a company would be valued at a premium to its own Business Plan if that company had historically significantly *underperformed* against their own business plan targets, and had provided no evidence for expected outperformance in the future.

12 PwC's valuation of Telemedia is flawed because it assumes the generality of well informed and rational investors would expect significant outperformance even when it had underperformed substantially in the past. PwC's forecasts of earnings are on average 6.5% growth over the next 15 years. Taking into account the global financial

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2 Statement released by Allen and Overy on behalf of Telemedia to the Government of Belize, 24th August 2009.

crisis in 2009 and Telemedia's historic underperformance, I find PwC's forecasts of earnings to be grossly inflated.

13 To take a further example: by 2014, PwC's revenue forecast lies more than 10% above Telemedia's Business Plan forecasts. PwC do not explain why a rational investor would value Telemedia by considerably more than Telemedia's Business Plan forecasts imply.

14 A second error with the PwC valuation is that it contains a number of internal inconsistencies. For example, PwC have predicted revenues to increase heavily over the Business Plan forecasts but have predicted costs to largely increase in line with the Business Plan. This further highlights that PwC's valuation methodology is internally inconsistent and is not credible.

15 A third general error with the PwC methodology is that PwC's assumptions about revenue growth appear to be based on selective data from other countries, taking no account of the Belizean environment and the ability of current management to achieve targets.

16 A fourth error with the PwC methodology is that PwC include a cost reduction under the label "synergies" to account for the cost benefit resulting from the purchase of Telemedia by a similar business. Including these synergies increases their valuation by around BZ$19 million.

17 Notwithstanding the fact that it is purely speculative on PwC's part to suppose that BZ$19m synergies can be realised through an acquisition of Telemedia, the inclusion of such synergies would result in a "highest and best use" of Telemedia.

18 However, established procedures on valuation methods for compensation have noted that a "highest and best use" is only appropriate if there is a reasonable probability that use will be employed in the near future. In other words, in the context of Belize Telemedia, it is only reasonable to assume synergies in a valuation if there is a reasonable probability that these synergies would be realised through a sale of Telemedia in the near future to a capable third party.

19 Overall, PwC provide no evidence for why it is reasonable to assume that B$19m of speculative synergies should be included in the FMV of Telemedia.

1. A Comparison of NERA's FMV Valuation Methodology and PWC's FMV Methodology

1.1. Fair Market Value Methodologies

20 My FMV is based on an assessment of the price at which Telemedia's shares would be traded in the stock market. Accordingly my FMV is built upon projections of Telemedia's cash flows at the time of renationalisation, which account for forecasts in the existing management's Business Plans and my analysis of Telemedia's ability to achieve the forecasts in its Business Plans.

21 PwC appear to agree Telemedia's value should be based on the implied stock market price stating that their FMV is: "the price at which the ordinary shares of Telemedia might reasonably be expected to obtain in money or money's worth, in a sale between a willing buyer and a willing seller, each of whom is deemed to be acting for self interest and gain and both of whom are equally well informed about Telemedia and the markets in which it operates".[3]

22 In other words, PwC state that the FMV should be based on an estimate of the Telemedia share price at the time of renationalisation by the generality of well informed and rational investor.

23 Given PwC's methodology that the FMV should be based on the price at which ordinary shares in Telemedia might trade, there are at least two fundamental problems how PwC have applied their methodology:

1.2. PwC's forecasts of revenues and costs are not credible

24 First, PwC assume that the share price of Telemedia will reflect significant outperformance in both revenues and costs by comparison to the Telemedia Business Plans. I discuss this issue in more detail in Section 3 below.

25 It is not so relevant whether such outperformance could be achieved in some possible scenarios. What is relevant is whether the share price of Telemedia would reflect such outperformance. In other words, would the generality of well-informed investors buy shares at prices that reflect significant outperformance?

26 Given that Telemedia has significantly underperformed against previous Business Plans, and PwC do not provide any evidence that investors be likely to would believe expect outperformance, it is not credible to assume that shares in Telemedia would be based on revenue and cost growth rates that are substantially more optimistic than management targets.

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3 See para 4.2, Dunkeld International Investment Ltd. v The Government of Belize: Expert Report of Alastair Macpherson, PricewaterhouseCoopers LLP, 17 December 2010.

1.3. Speculative synergies should not be included in a Fair Market Valuation

27 PwC include a cost reduction under the label “synergies” to account for the cost benefit resulting from the purchase of Telemedia by a similar business. Including these synergies increases their valuation by around BZ$19 million.

28 PwC make the assumption that a future buyer of Telemedia will realize synergies and would be willing to pay a premium for these synergies. This increases PWC's valuation relative to NERA’s valuation. The total value of synergies is equal to BZ$19.3 million in NPV terms or 5% of the difference in valuation between NERA and PWC.

29 PwC’s synergies are based on lower management costs reduced by 20% from consolidation; other staff costs reduced by 10% and a reduction of the plant and capex budget by 10%.

30 Synergies are cost reductions realized if a buyer of Telemedia happened to be or own a related business. Therefore the buyer, for example, would be able to consolidate and reduce staff numbers/costs. However, it is an established principle of valuation that synergies should not normally be included in a Fair Market Valuation since they represent a source of value to only one category of investor, rather than the generalised class of investor.[4]

31 Notwithstanding the fact that it is purely speculative on PwC’s part to suppose that BZ$19m synergies can be realised through an acquisition of Telemedia, the inclusion of such synergies would result in a “highest and best use” of Telemedia.

32 However, established procedures on valuation methods for compensation have noted that a “highest and best use” is only appropriate if there is a reasonable probability that use will be employed in the near future. In other words, in the context of Belize Telemedia, it is only reasonable to assume synergies in a valuation if there is a reasonable probability that these synergies would be realised through a sale of Telemedia in the near future to a capable third party.

33 Overall, PwC provide no evidence for why it is reasonable to assume that B$19m of speculative synergies should be included in the FMV of Telemedia.

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4 “Valuation for Arbitration”, Mark Kantor (2008)

2. The Accommodation Agreement ("the Agreement")

2.1. Impact of the Accommodation Agreement on Valuation

34. PwC argue that certain parts of the Agreement would impact on the valuation:

- Telemedia would be able to pay business tax at 25% of profits, rather than 24.5% of revenues;
- Telemedia would not be liable to pay import taxes;
- The Belize Government would have to block VolP traffic, international calls made over the internet.
- The Belize Government cannot issue new licenses for fixed or mobile services;
- The Belize Government cannot mandate Telemedia to sell services;
- The Belize Government would guarantee Telemedia a rate of return of 15%;
- Telemedia would be allowed to deploy WiMax, technology that allows cheap provision of fixed line services to remote and rural areas;
- Telemedia would continue to own Arcos cable, the cable is the best international access route for communications.

35. My assessment of which factors significantly affect the valuation difference between NERA and PwC suggests that BZ$231 million of the difference in valuation is due to the Agreement. The most prescient factor by far is the payment of business tax on profits rather than revenue which explains BZ$182 million of the difference. Other factors, import duty, an historic loss adjustment and a ban of VolP traffic account for BZ$16.3 million, BZ$10.5 million and BZ$22 million of the difference respectively.

36. The legality of the Agreement is not a question that I can answer. I have been advised by the Belize Government that the Agreement is not valid. Accordingly I have considered the Agreement void in making my valuation.

37. PwC were told to consider the Agreement which creates a significant difference between the valuations. However PwC's inclusion of the Agreement in their valuation contradicts the statement of their client: "The Governments' actions display a clear intention on behalf of the Government not to be bound by the terms of the Accommodation Agreement and <u>Telemedia now chooses to accept the Government's repudiatory breach and treat the Accommodation Agreement as being at an end</u>. Telemedia will seek appropriate and immediate redress against the Government." [5] Indeed PwC note this statement in their report.

38. Given that I have been advised by the Belize Government that the Agreement is not valid, I have not included the Accommodation Agreement in the FMV.

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[5] Statement released by Allen and Overy on behalf of Telemedia to the Government of Belize, 24th August 2009.

2.2. Estimated Impact of Individual Aspects of the Accommodation Agreement

39. The PWC report section 7 goes through all the relevant clauses of the Agreement and describes the effects they have on the valuation. However PwC, in their section 15, include a “historic loss adjustment” which accounts for the value if the Agreement held from February 2009 until August 2009. Their calculation of the adjustment focuses on three factors which indicates that PwC believe these to be the key factors. I therefore focus on these three factors in calculating the part of PwC’s valuation which is due to the Agreement:

40 **Business tax -** NERA calculates tax at 20% of revenues (ignoring the Agreement; it is a weighted average tax rate as some of Telemedia’s revenues are taxed at 24.5% and some at 1.75%[6]), PwC assumes it at 25% of profits (as they account for the Agreement). To calculate the tax effect I apply NERA's tax method to PwC's numbers. This gives a figure of the business tax difference from financial year (FY) ending 2010 to FY ending 2025 of 182 million in NPV terms. This figure includes some of the effect of PwC’s high revenue projections, however as I do not have PwC’s precise revenue projections I cannot adjust for this. This means PwC’s treatment of taxes explains another BZ$182 million of the difference of BZ$400 million (46%).

41 **Import duty -** In PwC's historic loss calculation they use about 6 month’s worth of import duty. If I use this as a point estimate of import duty throughout PwC’s forecast period then this comes to a total value of the import tax reductions of BZ$16.3 million in NPV terms from August 2010 to FY ending 2025.

42 **Loss due to availability of VolP -** The Agreement included a clause stating that the government would undertake to block VolP traffic. However it is my understanding that this clause was not enforced. PwC's calculations assume VolP was blocked thus they project international calls based on that assumption. NERA's forecasts match the historic time trend and so account for the trends in the historic data, therefore they work on revenues that allowed VolP. PwC do some calculations to get the losses due to VolP being allowed for the 6 months to 25th Aug 2009. Using their calculations but instead for the period of PwC's forecasts, i.e. 14.5 years (from August 2010 to FY ending 2025), I get a loss attributable to VolP of BZ$22 million.

43 **Historic breaches** – PwC also include the historic loss adjustment. An Arbitral Tribunal awarded Telemedia damages as a result of breaches of the Agreement up to 27th February 2009. PWC argue that after 27th February 2009 the Belize Government continued to breach the agreement. Therefore they have included this adjustment in the valuation to account for the losses Telemedia are due from these breaches from 27th

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[6] See section 6.4, Fair Market Value Assessment of Telemedia: a Report for Belize Telemedia Limited, NERA Economic Consulting, December 2010.

February 2009 until the date of nationalization. The total amount comes to BZ$10.55 million[7].

44. This creates a total valuation difference of the Agreement from 25th August 2010 to FY ending 2025 of roughly BZ$231 million which is reflected in PwC's valuation, but not in NERA's valuation. In total the estimate makes up 58% of the difference in valuation.

45. Since I lack PwC's precise forecasts the above calculations should be treated only as estimates of the individual effects of each of the Agreement's effect on the difference in valuation between NERA and PwC.

[7] Op cit. PwC (17 December 2010), para 15.35.

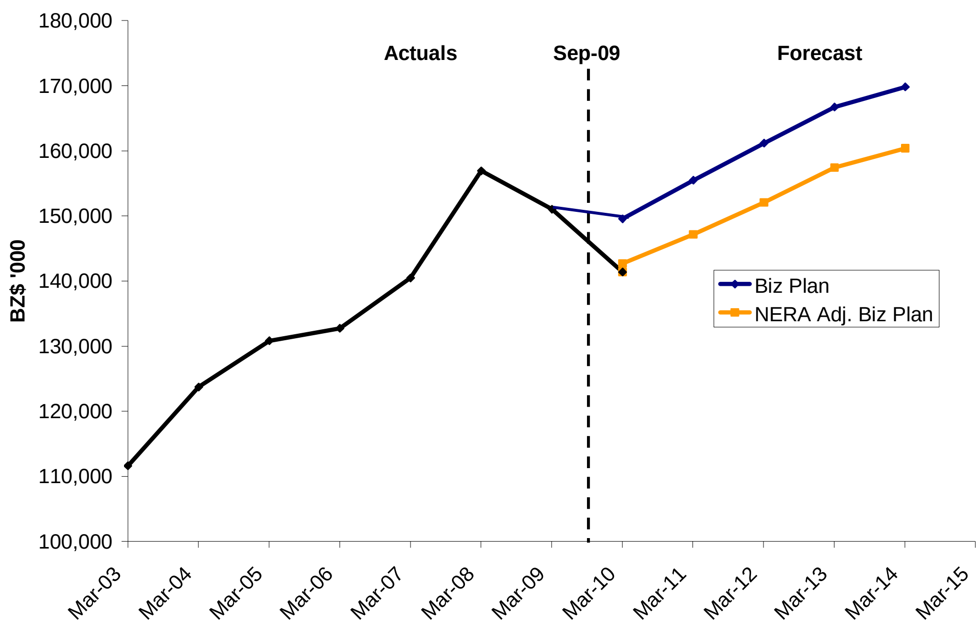
3. Summary of NERA's Revenue Forecasts

46 My first approach, as set out in more detail in Sections 4.1-4.3 of NERA's FMV Report, is to forecast revenues using Telemedia's 2009 Business Plan as a starting point, which has been prepared and approved by Telemedia's previous owners. I make several adjustments to this 2009 Business Plan for valuation purposes:

- I adjust Telemedia's Business Plan to take account of the previous accuracy of Telemedia Business Plans in forecasting revenues;
- I also adjust Telemedia's Business Plan to take account of updated information at the time of the acquisition at August 2009

47 Figure 3.1 shows total revenue forecast (in BZ$ '000) under the original and my "NERA adjusted Business Plan".

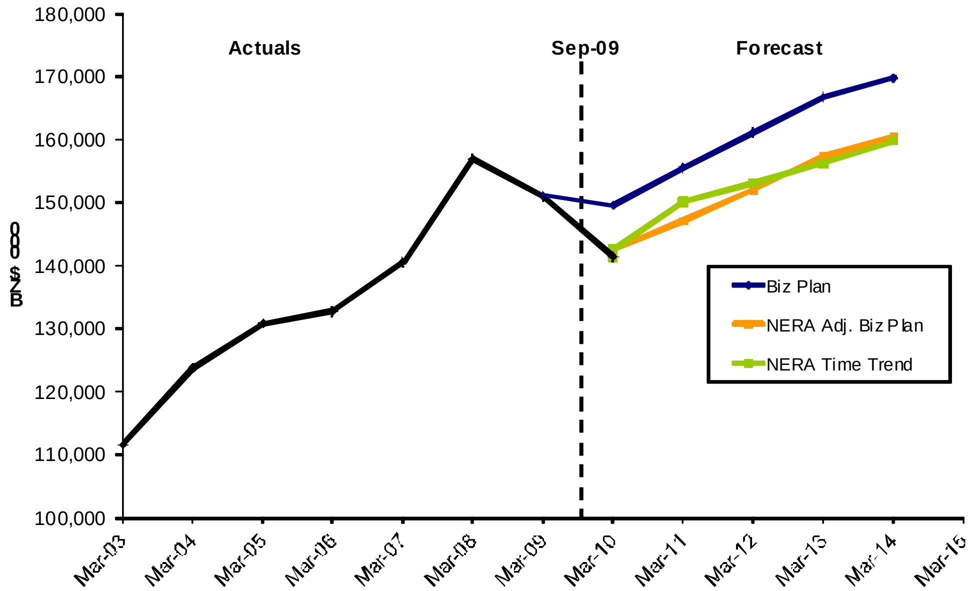
Figure 3.1
Revenue Forecast: Telemedia Biz Plan VS. NERA Adjusted Business Plan



Source: Telemedia Business Plan 2009/10 and NERA analysis; see Appendix A for a detailed derivation of 2009/10 revenues based on Telemedia's original Business Plan.

48 My second approach, as set out in Section 4.4 of NERA's FMV, is to forecast revenues on the basis of a time trend analysis using actual historical data on Telemedia's revenues.

Figure 3.2
Comparison of Revenue Forecasts: Telemedia Forecasts v's NERA Adjusted Forecasts



Source: Telemedia consolidated financial accounts (2002/3-2009/9); see Appendix A for a detailed derivation of 2009/10 revenues based on Telemedia's original Business Plan.

49 In summary, Figure 1.1 and Figure 3.2 show the following:

- Telemedia's original Business Plan does not fully account for the financial crisis and the recession during fiscal year 2009/10. This forecast therefore tends to overestimate Telemedia's FMV as of Valuation Date 31 August 2009.
- The NERA Adjusted Business Plan and the NERA Time Trend analysis takes the ongoing financial crisis and recession into account, and produces remarkably consistent forecasts.

50 In forming my assessment of Telemedia's FMV, I rely primarily on the NERA Adjusted Business Plan revenues forecasts.

4. PwC's Revenue Forecasts

4.1. PwC's revenue forecasts are highly arbitrary

51 PwC forecast revenues by breaking down the revenue into a series of components and assuming growth in many of these components. PwC make the following key assumptions:

- PwC calculates the addressable market for mobile and fixed line services by looking at population growth forecasts, assuming that population will increase in line with Statistical Institute of Belize's projections.[8]
- PwC assumes mobile penetration will increase significantly from 53% to 85%. Assumption based on establishing a relation between mobile participation and GDP from cross-country data, then using Belize's GDP in 2025 and making a downward adjustment.[9]
- PwC assumes a 1% decrease per year in price of mobile telephony. They justify the assumption by arguing that there are only two firms in the market which is not the case in most other countries.[10]
- PwC assumes mobile data revenues will increase substantially. For example mobile phone applications in 2009 generated less than 5% of voice call revenue; they predict that will increase to more than 35% by 2025.[11]
- PwC assumes that cruise tourism will increase from 0.7 million passengers in 2009 to 1.54 million in 2025 with a knock-on effect on mobile roaming revenues.[12]
- PwC assumes fixed line penetration will grow from about 12% in 2010 to 22% in 2025.[13]
- PwC assumes broadband penetration will increase from about 3% in 2010 to 80% in 2050.[14]
- PwC does not make any adjustment for the financial crisis.

52. The basis for these forecasts is largely PwC's own view. The forecast is generally not based on Business Plan projections or, to my knowledge, on any other management documentation.

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8 Op cit. PwC (17 December 2010), para 8.11.

9 Ibid. para 8.23.

10 Ibid. para 8.35.

11 Ibid. para 8.49.

12 Ibid. para 8.58.

13 Ibid. figure 23.

14 Ibid. para 8.91.

53 Instead, PwC's assumptions about revenue growth appear to be based on selective data from other countries, taking no account of the Belizean environment and the ability of current management to achieve targets.

54. Some of the clauses of the Accommodation Agreement, which PwC accounted for in their projections, would also contribute to the revenue growth. I cannot quantify these contributions since I do not have PwC's precise forecasts. However the large number of growth assumptions listed above leaves us confident that with or without the Accommodation Agreement PwC's growth forecasts are very high.

55. PwC forecast revenues for 15 years (up until 2025) which is ten years more than NERA or the business plans. They then use a continuing value based on the Gordon Growth model with an annual rate of growth of 2.5% from 2025 onwards to calculate the CV. PwC's CV is BZ$143.0 million in NPV terms.

56. PwC's forecast of revenues based on the above assumptions leads to significantly higher revenue projections than NERA and the Telemedia Business Plans. Table 4.1 shows NERA's adjusted revenue forecast, Telemedia's latest Business Plan's revenues forecast and PWC's revenue forecast for the first five forecast years.

Table 4.1
Contrasting revenue forecasts ('000)

Year Ending Mar	**2010**	**2011**	**2012**	**2013**	**2014**	**Implied Avg Yearly Growth rate**
NERA	142,665	147,144	152,071	157,407	160,384	2.48%
Business Plans	149,549	155,479	161,168	166,741	169,836	2.71%
PWC	157,332	163,247	170,037	179,830	187,308	3.81%

57. By 2014, PwC's revenue forecast lies more than 10% above Telemedia's Biz Plan forecasts (and more than 16% above NERA's forecast). Telemedia's Biz Plan forecast does not account for the financial crisis, which had a demonstrably negative impact on Telemedia's revenues.

58. The revenue differences between PwC and NERA create a significant difference in cash flows to equity and explain much of the difference in valuation.

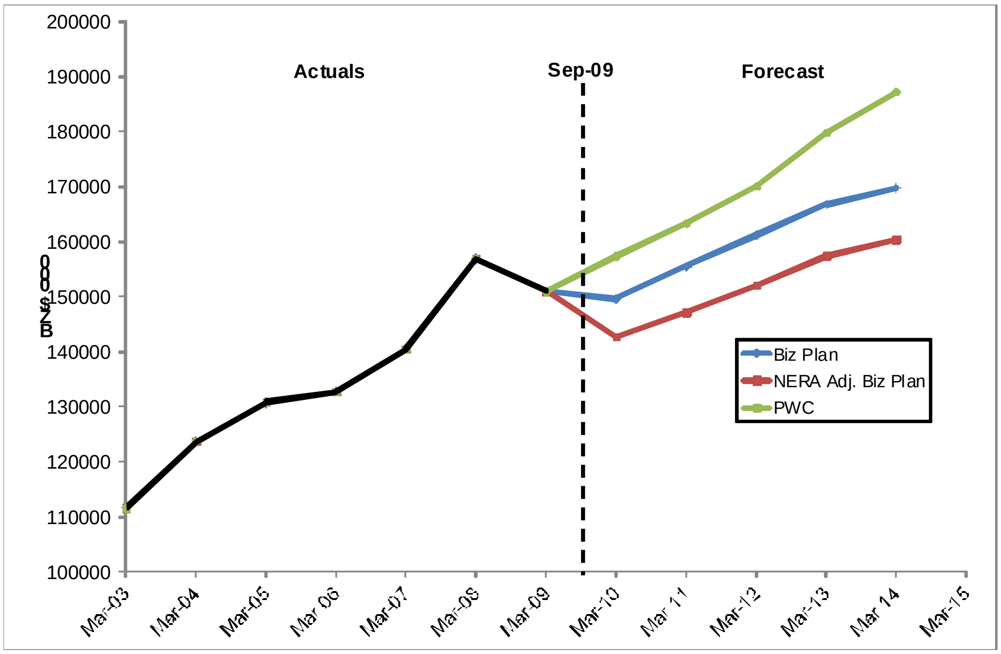
4.2. Comparing Revenue Forecasts

59. For the first 15 years from valuation NERA predict growth at an average rate of 3% per year. By contrast PwC forecast revenue for 15 years with an average growth rate of 6% per year. NERA's growth rate is based on Telemedia's past Business Plans, whereas PwC's growth rate is based on a large number of growth assumptions explained more below.

60 Figure 4.1 below highlights the implausibility of PwC's forecasts. By 2014, PwC's revenue forecast lies more than 10% above Telemedia's Biz Plan forecasts (and more than 16% above NERA's forecast). PwC do not explain why a rational investor would

value Telemedia by considerably more than Telemedia's own management would value the company.

Figure 4.1
Revenue Forecasts: PWC Forecasts v's Business Plan and NERA Forecasts



61 PwC pay no attention to the historical underperformance of Telemedia in matching their Business Plan forecasts/targets. Over its past five Business Plans, Telemedia's one year ahead revenue forecasts have been on average 5% higher than actual revenues achieved.

62. Furthermore, on average over its past five business plan years Telemedia has underperformed against projected costs by 10%.

63 Despite this significant historical underperformance against Business Plan revenue and cost targets, PwC have predicted revenues to increase heavily over the Business Plan forecasts but have predicted costs to largely increase in line with the Business Plan. For example staff costs, which typically make up around 35% of costs, are in line with the past Business Plans rather than increasing with revenue.

64 PwC have provided no evidence to explain how management are going to achieve significant outperformance against their own Business Plans. Hence I find it highly unlikely that a rational investor would value Telemedia's revenue stream 10% higher than the Business Plans forecast by 2015 as PwC have assumed.

65. The above highlights that PwC's valuation methodology is internally inconsistent and is not credible. In my view, the market's value of Telemedia would not be based on a very bullish and optimistic view of the future performance of the company which is at direct contrast to current management projections and Telemedia's past performance.

5. Forecast of Costs

5.1. PwC's cost forecasts look internally inconsistent

66 NERA's cost assumptions are based on Telemedia's Biz Plan projections and account for lower revenues projections, which reflects the fact that revenues and costs are usually positively correlated.

67. PwC does not forecast costs to increase fully in line with forecast revenues. Indeed most of its cost drivers are based on Telemedia's past data which is not linked to their high revenue projections. For example staff costs, which typically make up over 35% of total operating costs, grow in line with past data. One would expect projected staff costs to rise with higher revenue projections, which is not the case in PwC's valuation. Revenues rising faster than costs cause projected earnings, and therefore projected cash flows to equity, to increase substantially more than forecast by NERA or the Business Plan.

68. Table 5.1 shows EBIT (Earnings Before Interest and Tax) forecasts assumed by PwC, NERA and the Biz Plan.

Table 5.1
Contrasting EBIT forecasts ('000)

Year Ending Mar	2010	2011	2012	2013	2014
NERA	41,376	50,420	55,594	60,204	61,913
Business Plans	48,260	58,755	64,691	69,538	71,364
PWC	56,997	61,231	64,890	72,259	78,210

69. By 2014, PwC's EBIT forecast lies more than 10% above Telemedia's Business Plan forecasts (and more than 26% above NERA's forecast).

70. Moreover NERA forecast for five years (the same as Telemedia's Business Plans) and then use a Continuing Valuation based on a 3% growth rate which values the company from 2015 to infinity (explained further in 5.2). PwC, however, forecast for 15 years (10 more than NERA or the Business Plans). Consequently the high earnings growth that PwC predict (on average over 6.5% per year) continue up until 2025 whilst NERA has the company valuation increasing at 3%, a growth rate which is line with past data.

71. The EBIT differences between PwC and NERA create a significant difference in cash flows. In quantitative terms, if I project NERA's EBIT forward to 2025 by growing it at the 3% long term growth rate NERA use then I can compare the numbers with PwC's EBIT projections. Calculating the difference and discounting gives about BZ$173 million. From this number I need to subtract the BZ$22 million loss due to availability of VolP since this will be implicitly included in the EBIT numbers. Therefore BZ$151 million of the difference in valuations is caused by PwC projecting high revenue growth without the corresponding cost growth up until 2025.

5.2. Value in Perpetuity/Continuing Value

72. A Continuing or Terminal Value is applied at the end of the forecast period in order to provide the value of the company in perpetuity. It is assumed that by the end of the forecast period the company will have reached a "steady state" which means the company will continue to grow at a more or less stable rate from that point forward. However, since the Continuing Value is based on the last year's revenue it will still necessarily reflect assumptions made about the forecast period.

73. For example, even though after 2025 NERA has a marginally higher growth rate, at 2025 PwC's revenue forecast is over 37% higher than NERA's forecast. Consequently it would take over 60 years (i.e. until 2085) for NERA's revenue to catch up with PwC's based on the long term growth rates, long before which discounting would ensure this has a marginal impact on the valuation. Therefore PwC's substantially higher revenue projections in the near future cause PwC's value to balloon over NERA's valuation.

74. In order to compare the impact of the CV on the difference of total valuation, I calculate NERA's CV as of 2025, which is the point in time that PwC applies the CV.

75. On a like-for-like basis, NERA's CV from 2025 onwards would be about 60 million in NPV terms, which is 83 million lower than PwC's CV. This means the difference in CV explains more than 22% of the total difference in valuation of 400.04 million.

76. PWC's significantly higher CV relative to NERA's CV is driven by 2 key factors:

– Higher revenue projections than NERA's forecast (and Telemedia's Biz Plan), which produces a higher "base value", the last year's revenue number used in the CV formula. Note relatively small differences in the "base value" translate into relatively large difference in the CV. (As a rough estimate, the "base value" is multiplied by a factor of 10 to derive the CV.)

– PwC uses the cash flow as of the end of the forecast period as the "base value" to calculate the CV. The cash flow at the end of the forecast period in PwC's valuation however reflects PwC's forecast period of strong revenue growth (6% p.a.). It is this value which is used to calculate the CV. By contrast, NERA uses the average cash flow over the forecast horizon as the "base value" to calculate the CV. This value accounts for the business cycle underlying the forecast period. This means NERA's approach assumes that after the explicit forecast period, the business cycle implicit in the forecast period repeats itself perpetually. Whereas PwC assume a continuous bull market as their value reflects their high revenue growth.

77 Overall, PwC have assumed a very high rate of revenue growth over 15 years, which is a very long period of time for such strong sustained growth. Given that this valuation was undertaken in August 2009, a time when the world economy was moving into a deep recession, this rate of expected revenue growth looks wildly optimistic, and implausible as a basis for a FMV.

6. Tax and Debt

6.1. Tax

78. NERA subtract unpaid taxes from Telemedia's enterprise value. As of Valuation Date, NERA's tax adjustment is equal to BZ$45.6 million and consists of the following claims:

- BZ$9.0 million of accrued tax on internet service revenues (until March 2009);[15]
- BZ$15.1 million of past non-payment on international settlement (until March 2009);[16]
- BZ$21.4 million of unpaid withholding tax for 2007 and 2008 dividends.[17]

79. PwC does not make this adjustment as Telemedia assigned all the money they would be owed if the Accommodation Agreement held into a separate company, whose value they argue does not affect that of Telemedia.

6.2. Loan from British Caribbean Bank

80. There is a BZ$45 million loan owed to the British Caribbean Bank Ltd by Telemedia. I have been advised by the Government of Belize and the present management of Telemedia that this loan is void and illegal. In my valuation I subtracted this loan from the debt figure which gives a valuation of BZ$2.35 per share. However PwC do not take out this loan and therefore the comparison should be against my valuation with the loan included which is BZ$1.44 per share.

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15 See File "Internet Revenues Accrual 2006 - 2010 3-12-10.xls."

16 The amount of unpaid taxes is set out in two letters from Commissioner of Income Tax, dated 27 March 2010 and 21 June 2010.

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7. Other Differences

81. There are some other differences in methodology which are likely to have a minor affect on valuation. For completeness they are listed below:

82. **Discount for controlling share -** PWC applies a 5% discount to the valuation to reflect the fact that the new owner would not have a controlling share of Telemedia. NERA does not apply this discount since I have seen no evidence of a control premium for Telemedia.

83. **WACC/discount rate** – PWC use the cost of equity to discount which they calculate as 14% (similar to NERA's prediction of the cost of equity). NERA use the WACC at 13.5%.

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