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Fair Market Value Assessment of Telemedia

A Report for Belize Telemedia Limited

NERA
Economic Consulting

Project Team

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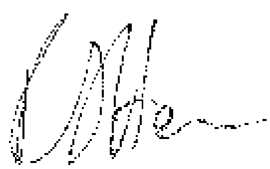
Signed:



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1. Introduction

On August 25th, 2009 the Government of Belize acquired ownership through majority shareholding of Belize Telemedia Limited ("Telemedia"). An interim board was appointed by the Government to take control of Telemedia. The board will manage and regulate the affairs of the Group until a new Board of Directors is appointed pursuant to the Company's Articles of Association.

The Government of Belize and Telemedia have commissioned NERA Economic Consulting ("NERA") to provide a fair market value (FMV) assessment of Telemedia's shares as of 31 August 2009 ("Valuation Date"), shortly after the Government of Belize acquired the company. Our fair market value opinion expressed in this report will be used to assess the financial settlement with the previous shareholders. The authors of this report will testify on this report, and/or to provide a rebuttal report on other opposing witness testimony.

We have relied upon data and information provided to us by Telemedia, such as audited financial statements and past Business Plans of Belize Telemedia Limited and its predecessors. We conducted our FMV assessment in accordance with valuation principles generally accepted in the economic and financial literature.

The remainder of this report is structured as follows:

- Section 2 provides the relevant background to our assessment of Telemedia's FMV;
- Section 3 sets out our valuation methodology;
- Section 4 sets out our revenue forecasts;
- Section 5 sets out our cost forecasts;
- Section 6 sets out our free cash flow forecasts;
- Section 7 set out our forecast of Telemedia's continuing value;
- Section 8 shows our WACC calculation used in our valuation model; and
- Section 9 sets out our assessment of the FMV of Telemdia's shares.

Our report qualifications and assumptions are set out in Appendix C.

2. Background

Belize Telemedia Limited ("Telemedia") was incorporated in Belize on September 14, 2006. Prior to Telemedia's incorporation, telecommunication services were undertaken by Belize Telecommunications Limited ("BTL").

Under the Telecommunications Undertaking Vesting Act, of 2007, on May 29, 2007, the assets, liabilities, rights, obligations and other property were vested in Belize Telemedia Limited. Under the Vesting Act, on May 30, 2007, BTL was dissolved and BTL ceased to exist at that date.

In September 2005, BTL believed that it entered into an Accommodation Agreement with the Government of Belize ("GOB"), under which it was agreed that:

- the rate of business tax applicable to the telecommunications service revenues should not exceed the amount of income tax that would be paid if BTL were charged 25% on its chargeable income;
- the GOB would compensate BTL for any shortfall, where BTL does not achieve a minimum rate of return of 15% on capital in any one financial year.

However, it is our understanding that the legality of the Accommodation Agreement has been disputed by the current Government of Belize. Moreover, we note that in a letter dated 24th August 2009 - one day before the take-over of Telemedia by the Government - the previous owners "choose to accept (…) the Accommodation Agreement as being at an end".[1]

This report does not provide a view on the legality of the Accommodation Agreement. Instead, we assume that the Accommodation Agreement is void, consistent with the statement by Allen and Overy in their letter to the Government of Belize, dated 24th August 2009.

This report sets out our fair market value assessment of Telemedia from the perspective of a rational investor using general accepted valuation principles, and based on the assumption that the rational investor would value the Accommodation Agreement as nil.

1 Letter from Allen and Overy on the 24th August 2009 to the Government of Belize.

3. Valuation Methodology

3.1. Introduction

We derive the valuation for Telemedia using the discounted cash flow (DCF) method. This is the standard valuation methodology used in the financial literature.[2]

Consistent with the DCF method, we value Telemedia's operations by discounting the company's post-tax free cash flow from operations at the post-tax weighted average cost of capital (WACC). This methodology requires the forecasting of free cash flows to debt and equity holders, and the determination of the risk-reflective WACC as the appropriate discount rate. Our calculation of free cash flow is in conformity with standard valuation theory; the WACC used in our FMV is consistent with the calculation of free cash flows on a nominal and post-tax basis.

To derive the enterprise value (value of debt and equity), we add to the value from operations based on DCF, the value of excess marketable securities and the value of financial investments as of Valuation Date 31 August 2009. We derive the value of equity by subtracting the value of future claims on Telemedia's free cash flows (debt and tax liabilities) from the enterprise value as of Valuation Date. This approach is consistent with standard valuation theory. Our approach taken in calculating the equity value is shown in the table below.

Table 3.1
Derivation of Enterprise and Equity Value

Operation	Line Item
	Operating Value
Plus	Excess Mkt Securities
=	**Enterprise Value**
Minus	Debt
Minus	Net Tax Adjustment
=	**Equity Value**

3.2. General Inputs

Table 3.2 sets out the general inputs used in the valuation model.

2 For details of the methodology, see Koller *et al.* "Valuation: Measuring and Managing the Value of Companies." 4th Edition. Chapter 5.

Table 3.2
General Valuation Inputs

Latest year end	31/03/2009
Valuation date	31/08/2009
End of detailed forecast period	31/03/2014
Continuing value forecasts	2015 and onwards
Currency	BZ$
Units	1,000

The currency in our valuation report is in Belize dollar and all cash flows are modelled in nominal terms (i.e. outturn prices). Unless otherwise stated, all currency amounts shown in this report as $, are in Belize Dollars.

3.3. Mid-year Adjustment Factor Calculation

The Valuation Date is 31 August 2009. However, we discount cash flows to 31 March 2009, the latest year end; we therefore make an adjustment to account for the fact that the Valuation Date is about 6 months after this point in time. We calculate the mid-year adjustment factor in accordance to general accepted valuation principles as follows:

$$\text{Mid-year adj. factor} = \left(\frac{1}{(1+WACC)}\right)^{X/365}$$

Where X is equal to 153 and is equal to the number of days between the latest year end (31 March 2009) and the Valuation Date (31 August 2009).

3.4. Historic Data and Opening Values

We have collected historical data for the fiscal years 2003/04 to 2008/09. The historical data is based on the company's consolidated financial statements, which have been prepared in conformity with US GAAP accounting standards.

On August 24th, 2009, one day before the acquisition of Telemedia by the Belize Government, the board of directors of Belize Telemedia Limited approved a dividend in kind of Telemedia's entire shareholding in Katalyst Development Limited which, through subsidiaries, owns 100% of Great Belize Production Limited ("GBPL"), to the shareholders of Telemedia. This transaction has occurred before the Valuation Date. Our valuation therefore excludes any financial positions (costs and revenues) that relate to GBPL. Table 3.3 sets out the adjusted opening values of Telemedia's March 2009 revenues and costs.

Table 3.3
2008/09 Revenue and Costs (‘000 BZ$)

	Unadjusted	Adjustment	Adjusted
Revenues	152,201	(1,161)	151,040
SGA	74,727	(147)	74,580
COGS	1,964	-	1,964
Other Expenses	2,384	-	2,384
Total Costs	79,075	(147)	78,928

Source: Telemedia Consolidated financial statements (31st March 2009 and 2008)

4. NERA Revenue Forecasts for Telemedia

We forecast Telemedia's revenues, which form the basis for our forecast of free cash flows, under two approaches:

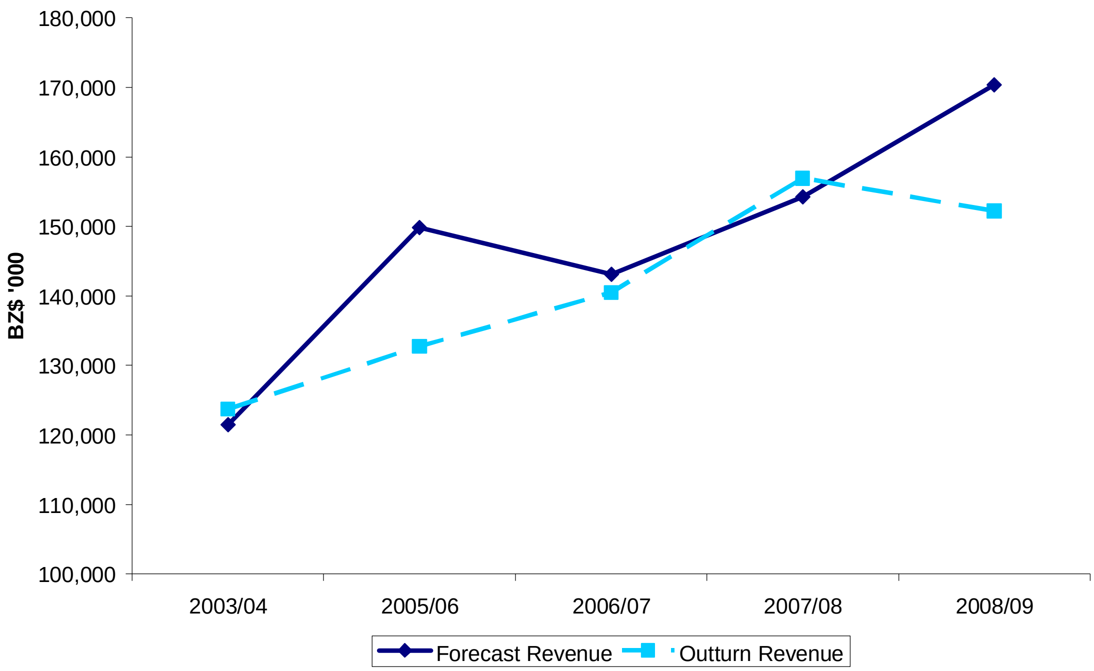
1. Our first approach, as set out in Section 4.1-4.3, is to forecast revenues using Telemedia's 2009 Business Plan as a starting point, which has been prepared and approved by Telemedia's previous owners. We make several adjustments to this 2009 Business Plan for valuation purposes:
   – we adjust Telemedia's Business Plan to take account of the previous accuracy of Telemedia Business Plans in forecasting revenues;
   – we also adjust Telemedia's Business Plan to take account of updated information at the time of the acquisition at August 2009
2. Our second approach, as set out in Section 4.4, is to forecast revenues on the basis of a time trend analysis using actual historical data on Telemedia's revenues.

4.1. Accuracy of Telemedia's Historic Business Plans

In this section we assess the accuracy of Telemedia's past Business Plans. We compare for each of the previous 5 Business Plans the one-year ahead budget forecasts of revenues with actual outturn revenues.

Our analysis shows that the 2003/04, 2006/07 and 2007/08 Business Plans have been relatively accurate and the 2005/06 and 2008/09 Business Plans have *overstated* revenues relative to actuals. Across the five Business Plans one-year ahead revenue forecasts have been on average 5% *higher* than outturn revenues (Figure 4.1).

Figure 4.1
Revenues: Telemedia Business Plans vs. Outturns



Source: Telemedia Business Plans 2003/04-2008/9

Overall, Telemedia's past Business Plans tend to overestimate future revenues. Therefore, a rational investor is likely to consider the valuation based on the recent Business Plan as a possible upper-bound.

4.2. Telemedia's 2009/10 Business Plan

Table 4.1 shows Telemedia's Business Plan revenue forecast (annual percentage growth rates) over the period 2009/10-2013/14. It is our understanding that these forecast growth rates have been prepared and approved by the previous management.

Table 4.1
Telemedia's 2009/10 Business Plan Growth Rates of Revenues

Key Revenue Line Item	2009/10	2010/11	2011/12	2012/13	2013/14
Fixed Lines-Installation, LAM, Equipment	3.5%	5.0%	4.0%	3.0%	1.0%
Fixed Lines-National (To fixed and Cellular)	-3.0%	1.0%	1.0%	1.0%	1.0%
Fixed Lines-Prepaid, All Destinations	-2.0%	-5.0%	-5.0%	-3.0%	-3.0%
International Settlements	2.0%	1.0%	1.0%	1.0%	1.0%
GSM Prepaid, All Destinations	-6.0%	6.0%	5.0%	4.0%	2.0%
Internet and Data	7.0%	10.0%	10.0%	10.0%	5.0%

Source: Telemedia Business Plan 2009/10; File: "Committee Version 2009-10 Business Plan Financial Projections 7-12-09.xls"

We note that the Business Plan has been prepared in March 2009 and approved in April/May 2009, i.e. around 4 months prior to the Valuation Date (31 August 2009). A comparison of the then projected growth rates for fiscal year 2009/10 are significantly higher than based on actual growth rates at the time of the valuation. Table 4.2 shows the Business Plan 2009/10 projections of revenues and the actual annual growth rate based on Sep-09 actuals (relative to Sep-08 actuals).

The original Business Plan has not fully factored in the impact of the financial crisis and global recession on Telemedia's revenues. Table 4.2 shows that 2009/10 revenue forecasts are significantly higher than actual annual revenue growth rates as of Sep-09.[3]

Table 4.2
Telemedia's Business Plan 2009/10 Growth Forecast Vs. Sep-09 Actuals

	Original Biz Plan 2009/10	Sep-09 Actuals 2009/10	Difference
Fixed Lines-Installation, LAM, Equipment	3.5%	1.7%	1.8%
Fixed Lines-National (To fixed and Cellular)	-3.0%	-13.3%	10.3%
Fixed Lines-Prepaid, All Destinations	-2.0%	-15.2%	13.2%
International Settlements	2.0%	-0.7%	2.7%
GSM Prepaid, All Destinations	-6.0%	-6.8%	0.8%
Internet and Data	7.0%	-1.3%	8.3%
Average			**6.2%**

Source: Telemedia's Sep-09 management accounts and 2009/10 Business Plan

Table 4.2 shows that Telemedia's original Business Plan's growth forecasts are 1.8-13.2% (average 6.2%) higher than actual annual growth rates (Sep-08 to Sep-09) realised at around the time of the Valuation Date.

4.3. NERA's Adjusted Business Plan

We adjust Telemedia's 2009/10 Business Plan to take into account the impact of the financial crisis and recession which was apparent at the Valuation Date, but not fully reflected in Telemedia's original Business Plan growth rates. We follow a 3-step process:

1. We estimate the "shock" the financial crisis and recession had on the original revenue growth forecast; we estimate the size of the shock by the difference between the Business Plan's growth forecast and the actual growth rate at the time of the Valuation Date (see Table 4.2 column "Difference").
2. We assume that the impact of the shock diminishes over time; we assume that the growth rates increase from their lows in Sep-09 back to the growth rates assumed in Telemedia's original Business Plan.
3. We link the time and profile of recovery of growth rates to the timing and profile of the projected recovery of real GDP in Belize. Forecast data in 2009 from the IMF project that Belize real GDP growth rate will be back to long term normal levels after 3 years (see Figure 4.2).

[3] Table 4.2 only shows the key revenue drivers. See Appendix A for more details.

Figure 4.2
Belize Real GDP Growth Forecast

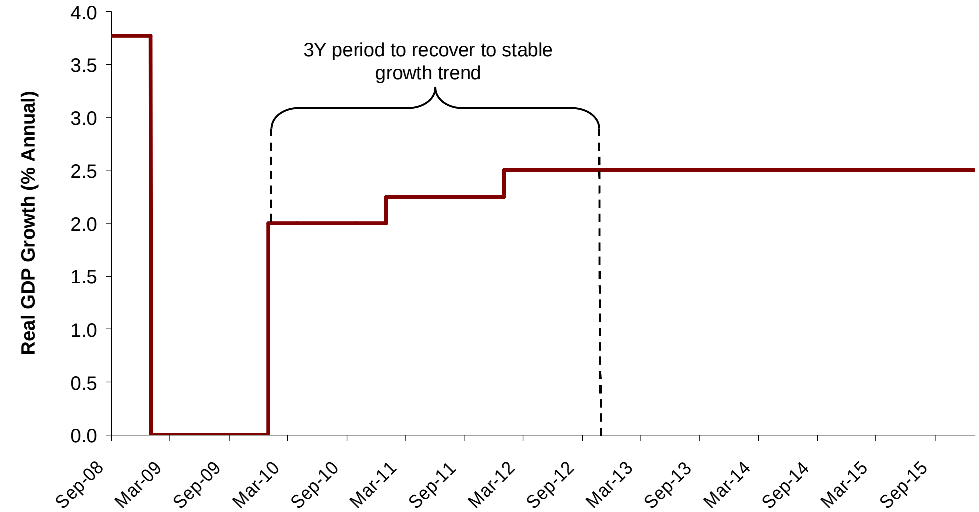


Table 4.3
Belize Real GDP Recovery Rates

	Avg Growth Rate I	LT Growth Rate II	% Recovery III=II/I
2009/10	0.5	2.5	20%
2010/11	2.1	2.5	83%
2011/12	2.3	2.5	93%
2012/13	2.5	2.5	100%
2013/14	2.5	2.5	100%

*Source: International Monetary Fund, World Economic Outlook Database; forecast data for 2009-2015; NERA analysis; Note: 2009/10 (Apr-09 to Mar-10) average GDP growth rate of 0.5% =(9*0.0%+3*2.0%)/12*

Based on our analysis of IMF data, we assume that 20%, 83%, 93% and 100% of the initial shock will have diminished at the end of fiscal year 2009/10, 2010/11, 2011/12 and 2012/13 (Table 4.3).

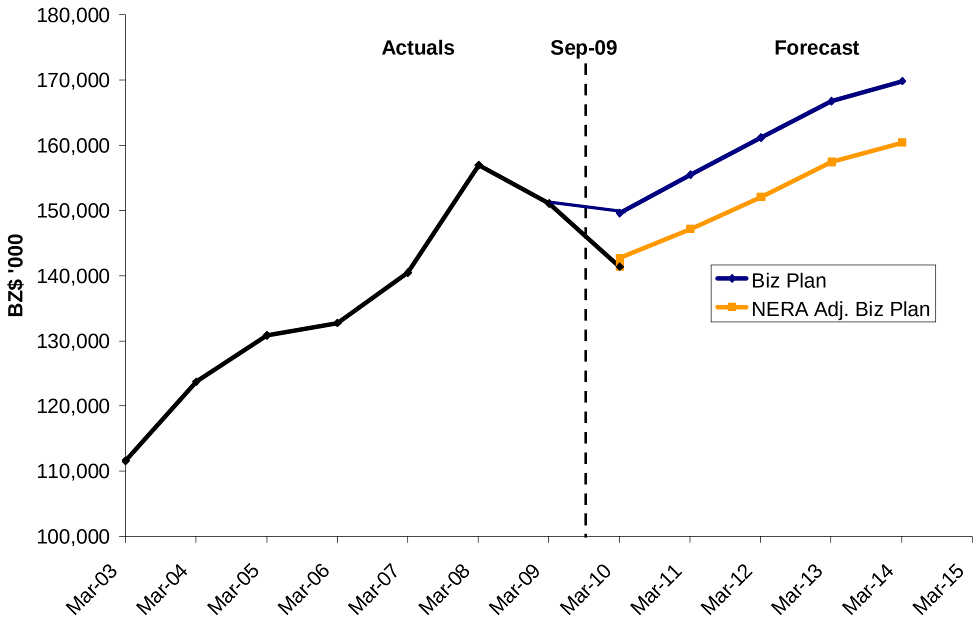
For example for the revenue item ‘Fixed Lines-Installation, LAM, Equipment’, the original Business Plan growth forecast for fiscal year 2009/10 of 3.5% is down by 1.8% at the time of valuation (Sep-09). We assume that the growth rate will increase in the second half of fiscal year 2009/10 and will recover 20% towards its projected growth rate of 3.5% by the end of fiscal year 2009/10. We calculate an ***adjusted*** growth rate for the full fiscal year 2009/10 of 2.0% (=3.5-1.8%*(1-0.2)). Note after 2011/12, we assume that the initial shock will be fully diminished and use the same growth rate as under the original Business Plan of 3.0% (see Table 4.2). Table 4.4 shows our adjusted Business Plan annual growth rates; Figure 4.3 shows total revenue forecast (in BZ$ ‘000) under the original and our adjusted Business Plan.

Table 4.4
NERA Adjusted Business Plan Growth Rates (Revenues)

Revenue Line Item	Sep-09 Actuals	2009/10	2010/11	2011/12	2012/13	2013/14
Fixed Lines-Installation, LAM, Equipment	1.7%	2.0%	4.7%	3.9%	3.0%	1.0%
Fixed Lines-National (To fixed and Cellular)	-13.3%	-11.3%	-0.8%	0.2%	1.0%	1.0%
Fixed Lines-Prepaid, All Destinations	-15.2%	-12.5%	-7.3%	-6.0%	-3.0%	-3.0%
International Settlements	-0.7%	-0.2%	0.5%	0.8%	1.0%	1.0%
GSM Prepaid, All Destinations	-6.8%	-6.6%	5.9%	4.9%	4.0%	2.0%
Internet and Data	-1.3%	0.4%	8.5%	9.4%	10.0%	5.0%

Source: Telemedia Business Plan 2009/10 and NERA analysis;

Figure 4.3
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.

4.4. Historic Time Trend as Basis for Forecast

In this section we cross-check our forecast of revenues under the adjusted Business Plan with the projection of historic revenues. We calculate the time trend of historic revenue growth and project this trend forward over the forecast period 2009/10-2013/14. Our assumption is that rational investors take historic growth trends into account to inform their forecast of future growth rates.

We distinguish between three categories of revenues and estimate time trends separately for each category of revenues:

§ Fixed line services;

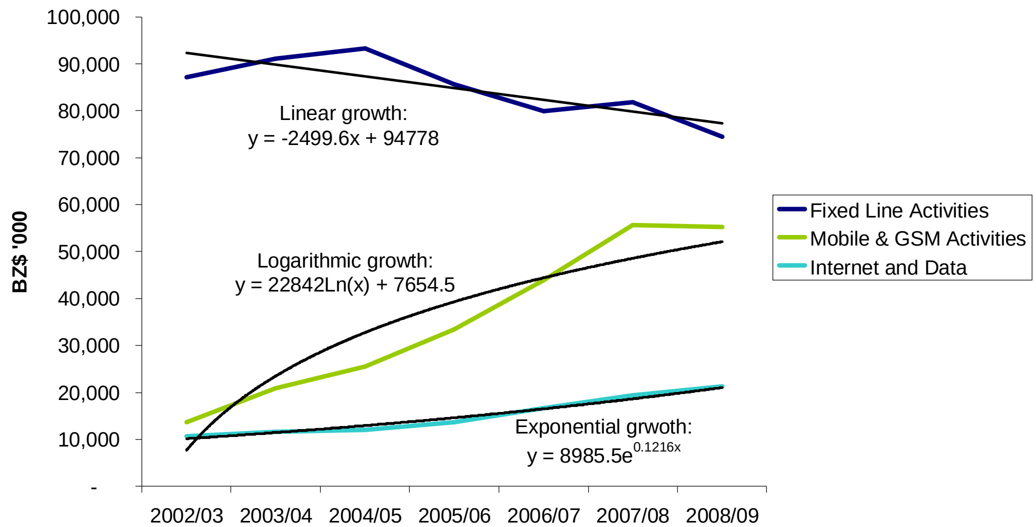
§ Mobile and GSM services; and

§ Internet and data.

Each type of revenue category shows different historic growth pattern, which makes it necessary to calculate growth trends separately for each category. Whilst revenues from fixed line services have declined steadily over time, revenues from mobile and GSM services have increased, with the latest data showing a decrease in growth rates as mobile penetration reaches saturation. Internet and data is the fastest growing line of business with significant growth potential.

Figure 4.4 shows our analysis of historic time trends. We estimate a linear time trend for fixed line services, a logarithmic growth trend for mobile and GSM activities and an exponential growth trend for internet and data services. We use these time trends to forecast revenues over the five year forecast period 2009/10-2013/14.

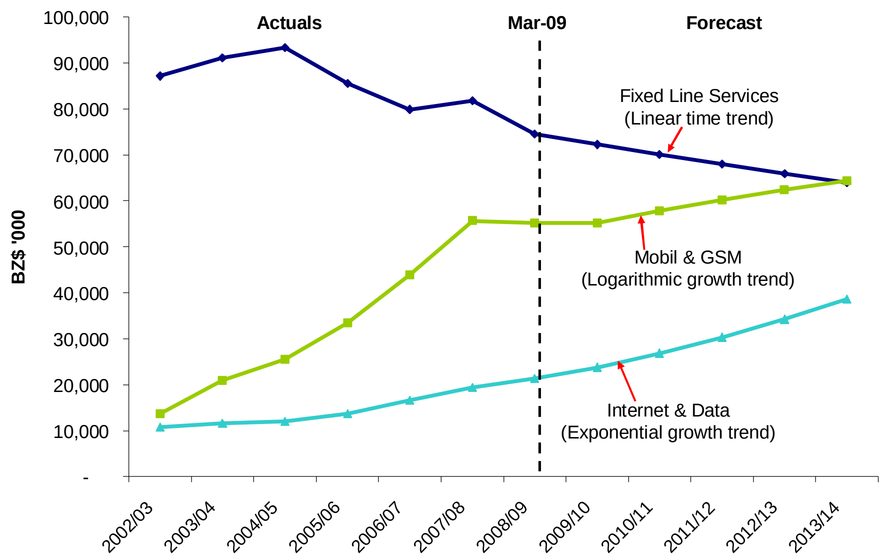
Figure 4.4
Historic Revenue Time Trends



Source: Telemedia Business consolidated financial accounts (2002/3-2009/9) and NERA analysis

Figure 4.5 shows our forecast of revenues using our analysis of historic time trends set out above. Under NERA Time Trend (1) scenario, we have used historic data from 2002/03 to 2008/09.

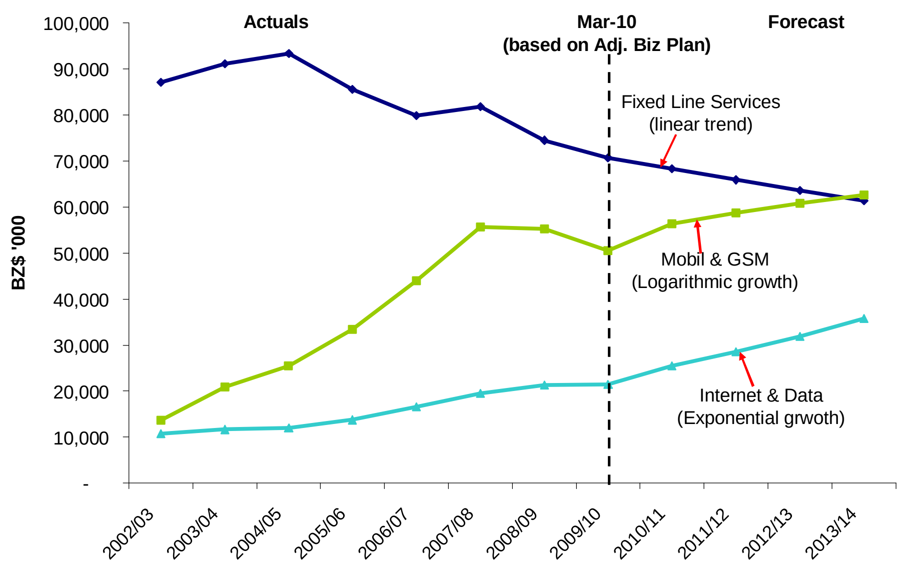
Figure 4.5
Revenue Forecast: NERA Time Trend (1)



Source: Telemedia consolidated financial accounts (2002/3-2009/9) and NERA analysis

Figure 4.6 shows our forecast of revenues under NERA Time Trend (2). Under this scenario, we used historic data from 2002/03 to 2008/09 and our forecast for 2009/10, which is based on our adjustment of Telemedia's 2009/10 Business Plan.

Figure 4.6
Revenue Forecast: NERA Time Trend (2)



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.

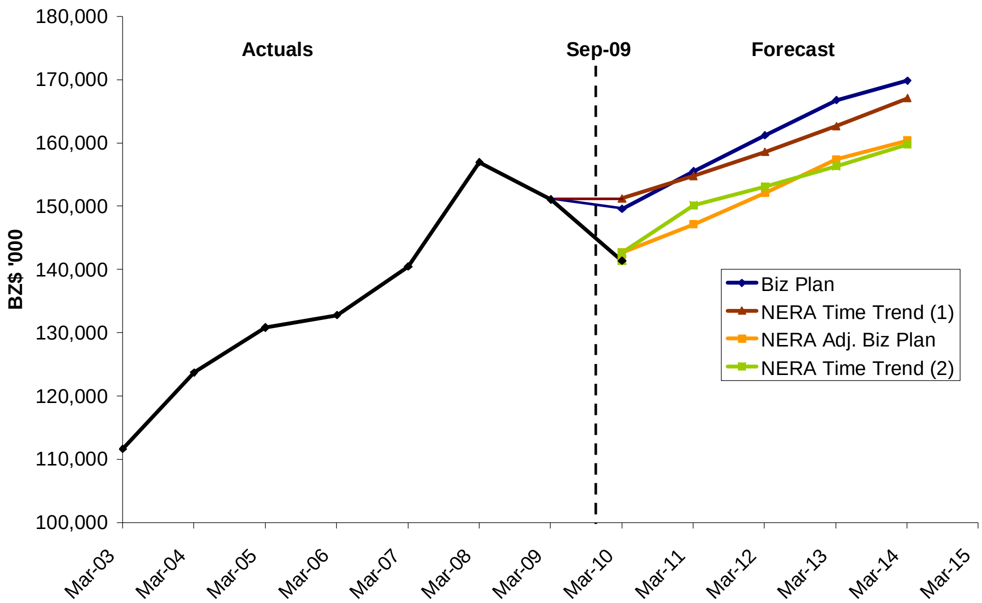
As under Time Trend (1), we estimate a linear time trend for fixed line services, a logarithmic growth trend for mobile and GSM activities and an exponential growth trend for internet and data services. We use then these time trends to forecast revenues over the four year period 2010/11-2013/14.

The key difference between NERA Time Trend (1) and NERA Time Trend (2) is that the former does not fully account for the ongoing financial crisis and recession, whereas the latter does take it into account by drawing on our 2009/10 revenue forecast, which is based on our adjusted Business Plan projections.

4.5. Summary

Figure 4.7 and Table 4.5 compare the different revenue forecasts discussed above.

Figure 4.7
Comparison of Revenue 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.

Table 4.5
Comparison of Revenue Forecasts (BZ$ '000)

	Old Biz Plan	NERA Time Trend (1)	NERA Adj. Biz Plan	NERA Time Trend (2)
31-Mar-09	151,040	151,040	151,040	151,040
31-Mar-10	149,549	151,206	142,665	142,665
31-Mar-11	155,479	154,799	147,144	150,135
31-Mar-12	161,168	158,571	152,071	153,095
31-Mar-13	166,741	162,626	157,407	156,282
31-Mar-14	169,836	167,060	160,384	159,775
CAGR	3.2%	2.5%	3.0%	2.9%

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

In summary, Figure 4.7 and Table 4.5 show the following:

§ Telemedia's original Business Plan and NERA Time Trend (1) do not fully account for the financial crisis and the recession during fiscal year 2009/10. Both forecasts therefore tend to overestimate Telemedia's FMV as of Valuation Date 31 August 2009.

§ Telemedia's original Business Plan produces the most optimistic revenue forecast; based on historic data up to 2008/09, our analysis (NERA Time Trend (1)) shows a revenue forecasts below the Business Plan projection. On average, over the five year forecast period, the original Business Plan forecasts revenues around 1% higher than under NERA Time Trend (1). Historically, Telemedia's Business Plans have overestimated revenues on average by 5%.

§ The NERA Adjusted Business Plan and the NERA Time Trend (2) take the then ongoing financial crisis and recession into account and produce consistent forecasts.

§ The cumulative average growth rate (CAGR) over the forecast period 2009/10-2013/14 varies from 2.5% to 3.2%, with the NERA Adjusted Business Plan showing a CAGR of 3.0%.

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

5. NERA Cost Forecasts for Telemedia

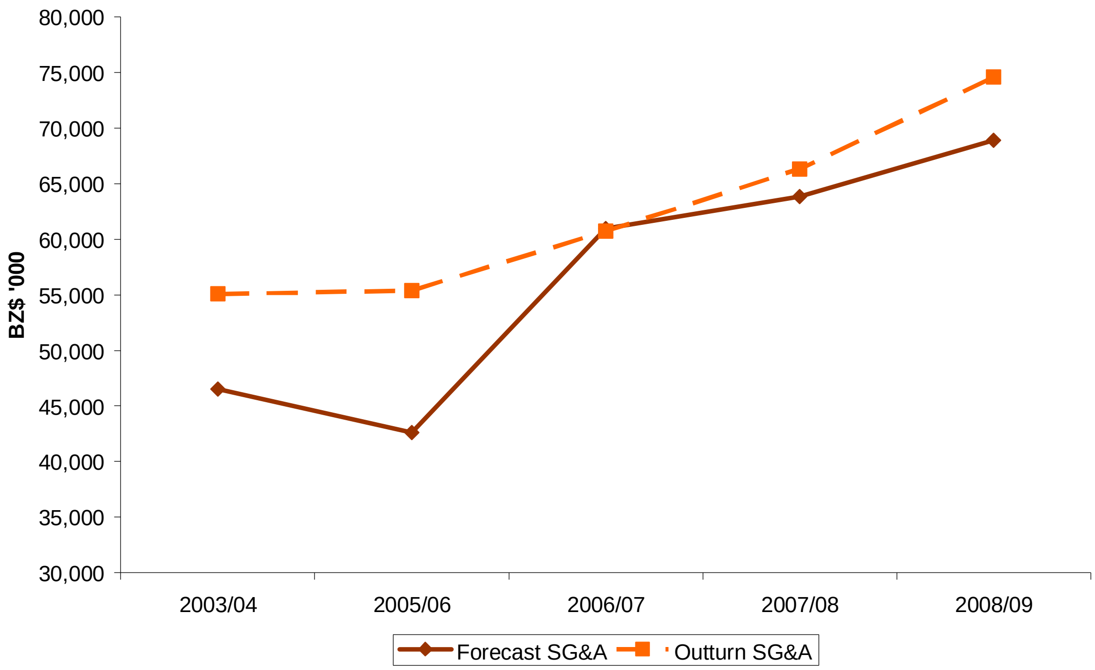
As for revenues, we also draw upon Telemedia's latest Business Plan and historic time trend analysis to forecast Telemedia's total costs over the 2009/10-2013/14 forecast period.

5.1. Business Plan as Basis for Forecast

In this section we assess the accuracy of Telemedia's historic Business Plans. We compare the one-year ahead budget forecasts of costs in Telemedia's previous five Business Plans with actual outturn costs.

Our analysis shows that previous Business Plans generally ***understated*** actual costs by, on average, 10% across the five Business Plans (Figure 5.1).

Figure 5.1
Costs (SGA): Telemedia Business Plans vs. Outturn



Source: Telemedia Business Plans 2003/04-2008/9

Note one-year ahead 'revenues less costs' are higher in every Business Plan compared to actuals since 2003/4; the only exception is the 2007/8 Business Plan, where the one-year ahead 'revenue less cost' forecast turned out to be in line with actuals.

Overall, Telemedia's past Business Plans tend to overestimate future revenues and underestimate future costs. A rational investor is likely to consider Telemedia's valuation based on Telemedia's 2009/10 Business Plan as a possible upper-bound.

5.2. Telemedia's 2009/10 Business Plan Cost Forecasts

Table 5.1 shows Telemedia's Business Plan cost forecasts over the period 2009/10-2013/14. The 2009/10 forecast has been updated on 22 July 2009.[4]

Table 5.1
Telemedia's Business Plan: SGA (BZ$ '000)

Cost Line Item	Actual 2008/9	Forecast 2009/10	2010/11	2011/12	2012/13	2013/14
Staff	23,394	24,096	24,337	24,580	25,072	25,573
Training	643	558	563	569	580	592
Maintenance	11,117	10,720	10,827	10,936	11,045	11,156
Electricity	4,511	4,319	4,405	4,493	4,583	4,629
Office Supplies	874	699	706	713	720	728
Other Operating Expenses	4,709	5,375	5,537	5,647	5,760	5,818
Other General, including Advisory and Legal	29,333	27,206	21,418	21,632	21,848	22,067
Total SGA	**74,580**	**72,973**	**67,794**	**68,571**	**69,610**	**70,562**

Source: Telemedia 2009/10 Business Plan; 2009/10 forecast figures based on 22 July 2009 update of Business Plan; [File: "Updated Scenario 09-10 Business Plan Total Operating Expense 22-7-09.xls" and File "2009-10 Business Plan Financial Projections 24-08-09 Old Mgmt.xls"].

5.3. Cross check Using Historic Data

We estimate Telemedia's proportion of fixed and variable costs drawing on historical data and using regression analysis. A common measure used to estimate the percentage figure of costs that vary with revenues is the coefficient *v* derived from the regression equation:

$$TC_t = F + vS_t$$

Where TC_t and S_t are Telemedia's Total Costs and Sales, respectively, in period *t*, and *F* and *v* are regression estimates of Telemedia's fixed and variable costs (the latter as a percentage of sales), respectively.

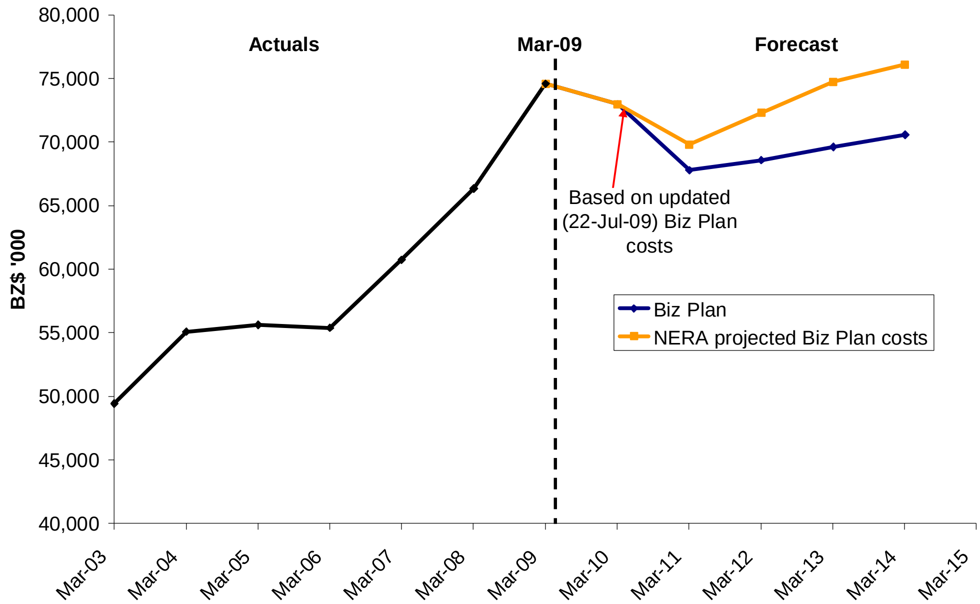
Using historic data from 2002/03 to 2009/10 of SGA and COGS[5], we estimate v=0.44 (and F=3,512), i.e. if Telemedia's revenues grow by 1 dollar, its variable costs are projected to increase by 44 cents. Using the parameters of *v* and *F*, we forecast costs as a function of forecast revenues.

Figure 5.2 compares the Business Plan cost forecast with our forecast of costs using the result of our regression analysis of fixed and variable costs. The figure shows that Telemedia's original Business Plan underestimates costs compared to our analysis based on historic time series data. On average, over the five year forecast period, the Business Plan underestimates costs by 4%. Historically, Telemedia's Business Plans have underestimated one-year ahead budget costs by around 10% (see Section 5.1).

4 The 2010/11 forecast of line item 'Other General, including Advisory and Legal' has been reduced by 6 million, reflecting our forecast that legal costs are projected to be lower going forward.

5 We are aggregating SGA and COGS to total costs in our analysis.

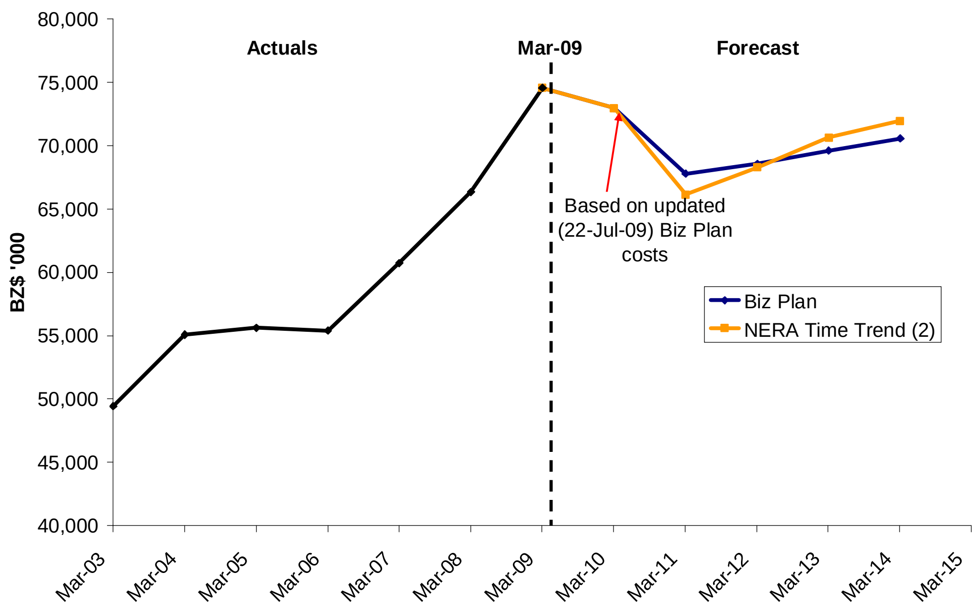
Figure 5.2
Costs (SGA): Telemedia Business Plan vs. NERA Forecast



Source: Telemedia financial statements (2002/03-2008/9); 2009/10 Biz Plan and NERA analysis

Figure 5.2 shows that under the lower revenue growth scenario of NERA Time Trend (2) our cost forecast is broadly consistent with the Business Plan. The same holds true for the NERA Adjusted Business Plan scenario (which has comparable revenue projections, see Figure 4.7).

Figure 5.3
Costs (SGA): Telemedia Business Plan vs. NERA Time Trend (2)



Source: Telemedia financial statements (2002/03-2008/9); 2009/10 Biz Plan and NERA analysis

5.4. Other Expenses

In addition to COGS and SGA, Telemedia incurs space segment charges and license fees. In our valuation we have assumed that these costs increase by 3.0% per year, broadly in line with expected inflation in Belize. Table 5.2 shows our forecast of other expenses, which we assume to be the same under all four scenarios (Original Business Plan; NERA Adjusted Business Plan; NERA Time Trend (1) and NERA Time Trend (2)).

Table 5.2
Other Expenses (BZ$ '000)

	Actual	**Forecast**				
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
Other Expenses	2,384	2,456	2,529	2,605	2,684	2,764
Growth rate		*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*

Source: Telemedia consolidated financial statements (2008/9) and NERA analysis

5.5. Summary

Table 5.3 shows total cost forecasts (SGA, COGS & Other Expenses) under the four scenarios. Note the 2009/10 forecast of costs is equal to the Business Plan update (22 July 2009) and is the same under the four scenarios.[6] This is the most accurate forecast of costs available to an investor as of Valuation Date.

Table 5.3
Total Costs (SGA, COGS & Other Expenses) (BZ$ '000)

	Old Biz Plan	**NERA Time Trend (1)**	**NERA Adj. Biz Plan**	**NERA Time Trend (2)**
31-Mar-09	-78,928	-78,928	-78,928	-78,928
31-Mar-10	-77,368	-77,368	-77,368	-77,368
31-Mar-11	-72,262	-73,971	-72,262	-71,924
31-Mar-12	-73,115	-75,702	-73,115	-73,299
31-Mar-13	-74,232	-77,559	-74,232	-74,776
31-Mar-14	-75,265	-79,585	-75,265	-76,389
CAGR	-0.7%	0.7%	-0.7%	-0.3%

Source: NERA analysis

6 See File "Updated Scenario 09-10 Business Plan Total Operating Expense 22-7-09.xls" and File "2009-10 Business Plan Financial Projections 24-08-09 Old Mgmt.xls".

6. Free Cash Flow Forecast

6.1. Approach

In this section we set out our calculation of Telemedia's free cash flow over the forecast period 2009/10-2013/14. Table 6.1 shows our calculation of free cash flow consistent with general finance theory.

Table 6.1
Free Cash Flow Calculation

Operation	Variable
	Revenues
Minus	Costs (COGS, SGA & Other)
Minus	Depreciation
=	EBIT
Minus	Taxes on Revenues
=	*NOPLAT*
Plus	Depreciation
=	*Gross Cash Flow*
Plus/Minus	Change in Working Capital
Minus	Capital Expenditures
=	***Free Cash Flow***

Free cash flows form the basis of our valuation of Telemedia's operations. We discount free cash flows using the weighted average cost of capital (WACC). Our calculation of the WACC is discussed in Section 8.

6.2. Revenues and Costs

In Section 4 and 5, we have set out our methodology for forecasting revenues and costs. In our FMV assessment, we value Telemedia's operations under our four scenarios:

1. Telemedia's original Business Plan;
2. NERA Adjusted Business Plan;
3. NERA Time Trend (1); and
4. NERA Time Trend (2)

The first two scenarios are based on Telemedia's Business Plan costs, whereas the latter two scenarios are based on our own projections of costs based on regression analysis.

6.3. Capital Expenditure and Depreciation

We use Telemedia's Business Plan forecast of capex over the forecast period 2009/10-2013/14. We forecast depreciation in each year over this period as a fixed proportion (in percentage terms) of previous year's net book value (NBV). The fixed proportion is equal to the ratio of depreciation in year *t* over NBV in ***t-1***. Table 6.2 shows the 2009 Business Plan forecast of capex and our forecast of depreciation.

Table 6.2
Capex and Depreciation Forecast (BZ$ '000)

	Actual						
	2007/08	**2008/09**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**
a CAPEX	20,225	44,673	28,571	15,000	20,000	25,000	30,000
b Depreciation (=c*d)	27,113	21,216	23,921	24,462	23,361	22,970	23,207
c NBV	182,419	205,678	210,328	200,866	197,505	199,534	206,328
d *Depr'n (t) / NBV (t-1)*		*11.63%*	*11.63%*	*11.63%*	*11.63%*	*11.63%*	*11.63%*

Source: Telemedia Limited consolidated financial statements 31st March 2009 and 2008; Note: NBV and capex net of purchase credit; File "Committee Version 2009-10 Business Plan Financial Projections 7-12-09.xls".

NBV and capex figures in Table 6.2 are net of the purchase credit due to Nortel Networks from Telemedia. According to Telemedia consolidated financial statements (31 March 2009), Telemedia's current assets show deferred income of $17.3 million, which represents a purchase credit due to Telemedia from Nortel Networks, detailed in an agreement dated 3rd October 2007, under which Nortel agreed to purchase Telemedia's existing GSM network. The deferred income is to be taken as a credit against various future Nortel equipment purchases, including both the new GSM and CDMA platforms, with the full credit being available to Telemedia when the existing GSM platform is decommissioned.

As of Valuation Date, Telemedia forecasts that during fiscal year 2009/10 the full credit will be available to Telemedia. Our forecast of capital expenditure of $28.6 million (see Table 6.2) for 2009/10 is net of the purchase credit of $28.2 million[7] due to Telemedia from Nortel Networks.

6.4. Taxes

Revenues are subject to business taxes. Revenues generated by BTL and Digicell – i.e., the large majority of revenues – are taxed and are forecast to be taxed at 24.5% as of Valuation Date. Revenues generated by Telemedia's subsidiary BESL are taxed and are forecast to be taxed at 1.75% as of Valuation Date.[8]

According to Telemedia's consolidated financial statements (31st March 2009 and 2008), business tax expense as of March 31, 2008 is BZ$19,981,000 and total revenues were BZ$130,435,000.[9] At the time the business tax rate for revenues from telecommunication services was 19.0% (on 1 January 2009, the tax rate has been increased to 24.5%).

Based on this information we calculate the proportion of Telemedia's revenues from telecommunication services (forecast to be taxed at 24.5% since 1 January 2009) and from other services (forecast to be taxed at 1.75%) according to the following two equations:

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[7] Calculated as the sum of deferred income of $17.3 million and our forecast of $10.9 million of deferred income accrued during fiscal year 2009/10 (see file "Committee Version 2009-10 Business Plan Financial Projections 7-12-09.xls").

[8] The two other subsidiaries of Telemedia, Free Zone and ICSL are not taxed since these operate in a tax free status. However their revenues are less than 1% of total revenues.

[9] Note the more recent March 2009 figures cannot be used to calculate the average effective tax rate as the business tax rate has changed during the fiscal year 2008/09 from 19.0% to 24.5% on 1 January 2009.

(I) $19.0\% \cdot X + 1.75\% \cdot Y = 19{,}981$

(II) $X + Y = 130{,}435$

where *X* is the proportion of revenues from telecommunication services (forecast to be taxed at the higher rate) and *Y* is the proportion of revenues forecast to be taxed at 1.75%.

Solving equations (1) and (2) shows that 79% of revenues come from telecommunication services taxed at the higher rate and 21% of revenues come form other services subject to the lower tax rate.

We assume that the proportion of revenues from telecommunication services and other services will remain constant over the forecast period. Based on this assumption we calculate an effective average tax rate of 19.6% (=24.5%*0.79+1.75%*0.21).

We note that based on March 2009 data, the average tax rate is equal to 20.3%.[10] During fiscal year 2008/09 the business tax rate has increased from 19.0% to 24.5% on 1 January 2009. All else equal, we would expect the average expected tax rate to be above 20.3% going forward and hence above our estimate of 19.6% based on March 2008 data. However footnote 2(i) of Telemedia's consolidated financial statements 31st March 2009 and 2008 suggests that also penalties are also included in the March 2009 business tax figure of $30,849, which may somewhat overstate the effective tax rate. Against this background, our estimate of 19.6% appears reasonable.

We determine Telemedia's average effective tax rate to be 19.6%. This is based on relevant and verifiable information available to an investor at the time of valuation. We note that the current management of Telemedia also calculate an average effective tax rate for fiscal year 2009/10 of 19.6%.[11]

6.5. Working Capital

Changes in working capital cannot be predicted with sufficient certainty. As of Valuation Date it is not clear whether changes in working capital would have a positive or negative contribution to the FMV of Telemedia. We therefore believe it is a reasonable assumption to set changes in working capital equal to zero. Note business tax creditor due to past non-payment is considered separately in Section 9.

6.6. Other Issues

As described above, on August 24th, 2009, one day before the acquisition of Telemedia by the Belize Government, the board of directors of Belize Telemedia Limited approved a dividend in kind of Telemedia's entire shareholding in Katalyst Development Limited which, through subsidiaries, owns 100% of GBPL, to the shareholders of Telemedia.

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[10] Revenues of $152,201 dividend by business tax of $30,849.

[11] See File "Business Tax Calc FY '05 - '08 Forecast '09 (2).xls", w-sheet "Summary".

As of March 31, 2010, the value of the GBPL transactions remains on the books as a receivable of $10.6 million. The accounting treatment of this receivable associated with the GBPL transactions does not have an impact on the forecast of our cash flows and hence on our valuation results for Telemedia's shares.

6.7. Summary

Table 6.3 sets out the calculation of free cash flows over the explicit forecast period 2009/10-2013/14, using the scenario 'NERA Adjusted Business Plan'. See Appendix B for all other Scenarios.

Table 6.3
Free Cash Flow Calculation for NERA Adjusted Business Plan (BZ$ '000)

	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Revenues	142,665	147,144	152,071	157,407	160,384
Costs (COGS, SGA, Other)	-77,368	-72,262	-73,115	-74,232	-75,265
Depreciation	-23,921	-24,462	-23,361	-22,970	-23,207
EBIT	41,376	50,420	55,594	60,204	61,913
EBIT Margin	*29%*	*34%*	*37%*	*38%*	*39%*
Taxes	-28,027	-28,906	-29,874	-30,923	-31,508
NOPLAT	***13,349***	***21,513***	***25,720***	***29,281***	***30,405***
Depreciation	23,921	24,462	23,361	22,970	23,207
Gross Cash Flow	37,270	45,975	49,081	52,252	53,612
Change in Working Capital	0	0	0	0	0
Capital Expenditures	-28,571	-15,000	-20,000	-25,000	-30,000
Free Cash Flow (FCF)	**8,700**	**30,975**	**29,081**	**27,252**	**23,612**

Source: NERA analysis

7. Continuing Value

After the explicit forecast period for the years 2014/15 and beyond, we value Telemedia's continuing operations using the following standard formula:[12]

$$\text{Continuing Value}_{2013/14} = \frac{\text{NOPLAT}_{2014/15}\left(1 - \frac{g}{\text{ROIC}}\right)}{\text{WACC} - g},$$

where

- ROIC is the return on incremental invested capital;
- *g* is the (nominal) NOPLAT growth rate into perpetuity; and
- WACC is the average weighted cost of capital, i.e. the risk reflective discount rate (see Section 8 for its derivation).

We set ROIC equal to the WACC. This means in calculating the CV, we forecast that Telemedia earns its cost of capital on incremental invested capital and does not earn supernormal profits, which may arise e.g. due to a monopoly position. This assumption is consistent with general economic theory, which predicts that in the long-run supernormal profits are likely competed away through new entry (or threat thereof).[13]

We assume a constant growth rate, *g*, for revenues and NOPLAT[14] in calculating the continuing value.

We calculate $\text{NOPLAT}_{2014/15}$ by first deriving $\text{EBIT}_{2014/15}$ and then subtracting taxes from it:

(I) $\text{EBIT}_{2014/15} = \text{Rev}_{2013/14} \cdot (1+g) \cdot \text{Avg. EBIT margin}_{(2009/10-2013/14)}$

(II) $\text{NOPLAT}_{2014/15} = \text{EBIT}_{2014/15} - (\text{Rev}_{2013/14} \cdot (1+g) \cdot \text{effective Tax Rate})$

Table 7.1 set out the calculation and shows the continuing value of operations in 2014/15 for each of the four scenarios. We set the growth rate, g, equal to 3.0%. This is consistent with the CAGR of revenues over the forecast period 2009/10-2013-14 under the NERA Adjusted Business Plan and NERA Time Trend (2) scenarios (see Table 4.5).

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12 For example, see Koller *et al.* "Valuation: Measuring and Managing the Value of Companies." 4th Edition. Chapter 5, for the derivation of this CV formula.

13 For example, the theory of monopolistic competition predicts that many competing producers sell products that are differentiated from one another (that is, the products are substitutes, but, with differences such as branding, are not exactly alike). In monopolistic competition firms can behave like monopolies in the *short-run*, including using market power to generate supernormal profit. However, in the long-run, other firms enter the market and the benefits of differentiation decrease with competition; the market becomes more like perfect competition where firms cannot gain economic profit.

14 NOPLAT stands for "Net Operating Profit Less Adjusted Taxes".

The result of our valuation analysis will be sensitive to our assumption of the long-term growth rate of revenues and NOPLAT. We will consider the sensitivity of Telemedia's share price valuation with regard to the choice of perpetual growth rate (Section 9.3).

Table 7.1
Calculation of Continuing Value in 2014/15 (BZ '000)

	Old Biz Plan	NERA Time Trend (1)	NERA Adj. Biz Plan	NERA Time Trend (2)
Revenues (in 2013/14)	169,836	167,060	160,384	159,775
Growth rate (g)	3.0%	3.0%	3.0%	3.0%
Revenues (in 2014/15)	174,931	172,071	165,196	164,568
Average EBITA margin (2009/10-2013-14)	38.8%	36.7%	35.3%	35.4%
EBITA (in 2014/15)	67,846	63,187	58,372	58,187
Effective Tax Rate	19.6%	19.6%	19.6%	19.6%
Taxes	34,365	33,803	32,453	32,329
NOPLAT (in 2014/15)	33,481	29,383	25,919	25,857
Continouing Value (in 2013/14)	**248,008**	**217,655**	**191,996**	**191,534**

Source: NERA analysis

8. Discount Factor

In a report entitled "Cost of Capital for Belize Telemedia", September 2010, we estimated Telemedia's nominal post-tax WACC, which we use as the discount rate in the FMV assessment.

Our WACC calculation takes into account data up to the Valuation Date. Capital market data after this point in time is not reflected in NERA's WACC calculation. This approach is consistent with general principles of valuation theory, where all parameters are based as of information date of the valuation.

Table 8.1 shows the nominal post-tax WACC for Telemedia at 1 September 2009, as derived in the NERA report. Our report estimates Telemedia's nominal post-tax in the range between 13.1% and 13.5%. We use a nominal post-tax WACC of 13.5%, which is consistent with our proposed range.

Table 8.1
Weighted Average Cost of Capital for Telemedia

Parameter	1 Sept 2009
Nominal BZ$ Risk Free Rate	10.2%
Equity Risk Premium	5.9%
Asset Beta	0.54-0.61
Gearing	21%
Equity Beta	0.65-0.74
Nominal BZ$ Cost of Equity (post tax)	14.1-14.6%
Nominal BZ$ Cost of Debt	9.3%
Nominal BZ$ WACC (post tax)	**13.1-13.5%**

Source: NERA, "Cost of Capital for Belize Telemedia", September 2010.

Note we forecast free cash flow in nominal terms and after the payment of taxes. Consistent with this approach, we discount the free cash flows by a nominal post-tax WACC.

9. Equity Valuation

9.1. Approach

In Section 6 we described our approach of forecasting free cash flows, which form the basis for our valuation of Telemedia's operations. The present value of free cash flows (plus the continuing value) is equal to the operating value. The table below sets out our approach in calculating the equity value from the operating value. This is consistent with general accepted valuation principles.

Table 9.1
Derivation of Enterprise and Equity Value

Operation	Line Item
	Operating Value
Plus	Excess Mkt Securities
=	**Enterprise Value**
Minus	Debt
Minus	Tax Adjustment
=	**Equity Value**

Telemedia told us that the previous owners have taken out all excess cash and marketable securities and the operating cash as of Valuation Date was $5.2 million, which is necessary to run the day to day operations of Telemedia. Hence, we set the enterprise value equal to the value from operations. This approach is correct under the assumption that the excess cash and marketable securities are nil.

To arrive at the equity value of Telemedia, we subtract debt of $11.657 million from Telemedia's enterprise value. This amount is disclosed in Telemedia's consolidated financial statements (31st March 2009), note 10.

The debt amount of $11.657 million excludes the US$22.5 million (BZ$ 45 million) loan agreement with the Belize Bank (Turks and Caicos) Limited now named British Caribbean Bank (Turks and Caicos) Ltd. for the purpose of purchase of Telemedia shares. The present management considers this loan illegal and void. It is our understanding that as of writing this report no court of justice has ruled on this matter. <u>The value of equity would be reduced by BZ$45 million if the ultimate court of justice were to rule on this matter and were to declare this loan to be a legal liability of the company.</u>

According to Telemedia's consolidated financial statements (31st March 2009), there is no further debt obligation outstanding as of 31st March 2009.

In addition to Telemedia's outstanding debt, we subtract unpaid taxes from Telemedia's enterprise value. Unpaid taxes constitute a claim on Telemedia's enterprise value and hence have to be subtracted from it.[15] As of Valuation Date, our 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);[16]
- BZ$15.1 million of past non-payment on international settlement (until March 2009);[17]
- BZ$21.4 million of unpaid withholding tax for 2007 and 2008 dividends.[18]

9.2. Results of Enterprise and Equity Valuation

Table 9.2 shows our valuation results of Telemedia's enterprise and equity value for each of our 4 scenarios. Appendix B shows the detailed cash flow calculation which underlies each scenario. We also calculate the value per share based on 49.552 million shares outstanding.

Table 9.2
FMV of Telemedia's Enterprise and Equity Value (BZ$ '000)

Value of Equity	**Old Biz Plan**	**NERA Time Trend (1)**	**NERA Adj. Biz Plan**	**NERA Time Trend (2)**
Operating Value	223,666	197,716	173,061	173,622
Excess Mkt Securities	0	0	0	0
Enterprise Value	223,666	197,716	173,061	173,622
Debt	(11,657)	(11,657)	(11,657)	(11,657)
Equity Value (excl. Tax adj.)	212,008	186,059	161,404	161,965
Tax Adjustment	(45,572)	(45,572)	(45,572)	(45,572)
Equity Value	166,436	140,487	115,831	116,392
No. shares (thousands)	49.552	49.552	49.552	49.552
Value per Share	**3.36**	**2.84**	**2.34**	**2.35**

Source: NERA analysis

9.3. Sensitivity

In this section we assess the sensitivity of our valuations in Table 9.2 with respect to the perpetual growth rate of revenues and NOPLAT, which we apply after the explicit forecast period of free cash flows in 2014/15. The growth rate in revenues and NOPLAT is a key value driver.

15 The amount of unpaid taxes is set out in two letters from Commissioner of Income Tax, dated 27 March 2010 and 21 June 2010 and in File "Internet Revenues Accrual 2006 - 2010 3-12-10.xls."

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

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

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

Table 9.3
Telemedia's Value per Share (BZ$) under Different Revenue/NOPLAT Growth Rate Assumption

Growth Rate	Old Biz Plan	NERA Time Trend (1)	NERA Adj. Biz Plan	NERA Time Trend (2)
2.0%	3.33	2.81	2.32	2.33
2.5%	3.35	2.82	2.33	2.34
3.0%	3.36	2.84	2.34	2.35
3.5%	3.37	2.85	2.35	2.36
4.0%	3.38	2.86	2.36	2.37
4.5%	3.40	2.87	2.37	2.38

Source: NERA analysis

Table 9.3 shows that under the NERA Adjusted Business Plan and NERA Time Trend (2) scenarios, a share price of about $2.35 is consistent with a perpetual growth rate assumption after the explicit forecast of cash flows for revenues and NOPLAT of 2.0-4.0%.

Note revenue growth rates under the different scenarios over the explicit forecast period (2009/10-2013/14) lie within the range of 2.5-3.2% (see Table 4.5).

9.4. NERA Fair Market Valuation

Our analysis shows the following:

- Telemedia's original Business Plan does not fully account for the financial crisis and the recession during fiscal year 2009/10. Therefore the valuation based on Telemedia's original Business Plan overestimates Telemedia's FMV as of Valuation Date 31 August 2009.
- The NERA Adjusted Business Plan and the NERA Time Trend (2) scenario take into account the impact of the financial crisis and recession during fiscal year 2009/10. Both forecasts produce similar valuation results of around $2.35 per share.
- Our sensitivity analysis shows that Telemedia's share price of $2.35 is consistent with a plausible range of perpetual revenue and NOPLAT growth rates.

Based on the above analysis, our assessment Telemedia's fair market value (based on 49.552 million shares outstanding) is $2.35. This fair value reflects the impact of the financial crisis and recession on Telemedia's business.

Further, it is based on the reasonable assumption that a rational investor attributes no value to the Accommodation Agreement, which the Government of Belize considers as unlawful and void.

Finally, our fair value excludes the US$22.5 million (BZ$ 45 million) loan agreement with the Belize Bank (Turks and Caicos) Limited now named British Caribbean Bank (Turks and Caicos) Ltd. for the purpose of purchase of Telemedia shares. The present management considers this loan illegal and void. It is our understanding that as of writing this report no court of justice has ruled on this matter. The value of equity would be reduced by $45 million if the ultimate court of justice were to rule on this matter and were to declare this loan to be a legal liability of the company. <u>In this case the fair value of Telemedia's shares would be reduced by $0.91 from $2.35 to $1.44 (based on 49.552 million shares outstanding).</u>

Appendix A. NERA Adjusted Business Plan 2009/10

Table A.1 and Table A.2 set out our forecast of revenues for 2009/10.

Table A.1
Derivation of NERA Adjusted Business Plan 2009/10 Revenue Forecast (Part I)

	Actuals				
	1st Half of FY08/09 (reclassified)	1st Half of FY09/10 (reclassified)	FY-end 08/09 (reclassified)	FY-end 08/09	Proportion of Rev in 1st Half
	30.9.08	30.9.09	31.3.09	31.3.09	
	I	II	III	IV	V=I/III
Fixed Lines-Installation	9,101	9,253	18,053	18,053	50%
Fixed Lines-National	13,903	12,051	25,929	25,929	54%
Fixed Lines-International	2,938	2,577	5,521	5,521	53%
Fixed Lines-Prepaid, All Dest.	2,934	2,490	5,128	10,250	57%
International Settlements	6,255	6,210	11,226	11,226	56%
International Roaming	3,689	2,958	6,958	6,958	53%
GSM Post Pd Nat.	2,820	2,206	4,949	4,949	57%
GSM Post Paid International	426	461	844	844	50%
GSM Prepaid, All Destinations	23,998	22,373	46,148	41,026	52%
GSM Other	668	690	1,169	1,169	57%
AMPS MOBILE	39	25	56	56	70%
Internet and Data	10,819	10,677	21,319	21,319	51%
ICSL	92	90	200	200	46%
Other Revenue	1,811	2,220	3,540	3,540	51%
Total Revenue	**79,493**	**74,281**	**151,040**	**151,040**	

Table A.2
Derivation of NERA Adjusted Business Plan 2009/10 Revenue Forecast (Part II)

	Forecast					
	FY-end 09/10	Growth Rate	Growth Rate		Growth Rate - NERA	NERA adj. Biz Plan
	Based on Sep-09 projection	Based on Sep-09 projection	Original Biz Plan	Difference	Growth - NERA (20% recovery towards Biz Plan)	FY-end 09/10
	VI=II/V	VII=VI/III-1	VIII	IX=VII-VIII	X=VIII+IX*(1-20%)	XI=IV*(1+X)
Fixed Lines-Installation	18,356	1.7%	3.5%	-1.8%	2.0%	18,422
Fixed Lines-National	22,473	-13.3%	-3.0%	-10.3%	-11.3%	23,009
Fixed Lines-International	4,841	-12.3%	-3.0%	-9.3%	-10.4%	4,944
Fixed Lines-Prepaid, All Dest.	4,351	-15.2%	-2.0%	-13.2%	-12.5%	8,967
International Settlements	11,145	-0.7%	2.0%	-2.7%	-0.2%	11,206
International Roaming	5,580	-19.8%	-2.0%	-17.8%	-16.2%	5,827
GSM Post Pd Nat.	3,872	-21.8%	-2.0%	-19.8%	-17.8%	4,067
GSM Post Paid International	913	8.2%	-5.0%	13.2%	5.5%	891
GSM Prepaid, All Destinations	43,024	-6.8%	-6.0%	-0.8%	-6.6%	38,312
GSM Other	1,208	3.3%	0.0%	3.3%	2.6%	1,200
AMPS MOBILE	35	-36.7%	-100.0%	63.3%	-49.3%	28
Internet and Data	21,040	-1.3%	7.0%	-8.3%	0.4%	21,394
ICSL	196	-2.2%	0.0%	-2.2%	-1.7%	197
Other Revenue	4,340	22.6%	3.0%	19.6%	18.7%	4,202
Total Revenue	**141,374**					**142,665**

Source: NERA analysis; File "Committee Version 2009-10 Business Plan Financial Projections 7-12-09.xls" and "Consolidated Financials September 2010.xls".

Appendix B. Detailed Valuation Results

B.1. Scenario: Original Business Plan

The table below sets out our valuation of Telemedia's operations under the 'Original Business Plan' scenario.

Table B.1
Value of Telemedia's Operations under Original Business Plan (BZ$ '000)

	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
Revenues	149,549	155,479	161,168	166,741	169,836	174,931
Costs (COGS, SGA, Other)	(77,368)	(72,262)	(73,115)	(74,232)	(75,265)	
Depreciation	(23,921)	(24,462)	(23,361)	(22,970)	(23,207)	
EBIT	48,260	58,755	64,691	69,538	71,364	67,846
EBIT Margin	*32%*	*38%*	*40%*	*42%*	*42%*	*39%*
Taxes	(29,379)	(30,544)	(31,661)	(32,756)	(33,364)	(34,365)
NOPLAT	***18,881***	***28,211***	***33,030***	***36,782***	***38,000***	***33,481***
Depreciation	23,921	24,462	23,361	22,970	23,207	
Gross Cash Flow	42,802	52,673	56,391	59,753	61,206	
Change in Working Capital	-	-	-	-	-	
Capital Expenditures	(28,571)	(15,000)	(20,000)	(25,000)	(30,000)	
Free Cash Flow (FCF)	**14,231**	**37,673**	**36,391**	**34,753**	**31,206**	
Discount Factor	0.88	0.78	0.68	0.60	0.53	
Present Value of FCF	12,538	29,244	24,889	20,941	16,568	

Sum of Present Value	104,181
Continuing Value	248,008
PV of Continuing value	131,670
Operating Value	235,850
Mid -Year Adjustment Factor	0.95
Operating Value (Adjusted)	**223,666**

B.2. Scenario: NERA Adjusted Business Plan

The table below sets out our valuation of Telemedia's operations under the 'NERA Adjusted Business Plan' scenario.

Table B.2
Value of Telemedia's Operations under NERA Adjusted Business Plan
(BZ$ '000)

		31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
Revenues		142,665	147,144	152,071	157,407	160,384	165,196
Costs (COGS, SGA, Other)		(77,368)	(72,262)	(73,115)	(74,232)	(75,265)	
Depreciation		(23,921)	(24,462)	(23,361)	(22,970)	(23,207)	
EBIT		41,376	50,420	55,594	60,204	61,913	58,372
EBIT Margin		*29%*	*34%*	*37%*	*38%*	*39%*	*35%*
Taxes		(28,027)	(28,906)	(29,874)	(30,923)	(31,508)	(32,453)
NOPLAT		***13,349***	***21,513***	***25,720***	***29,281***	***30,405***	***25,919***
Depreciation		23,921	24,462	23,361	22,970	23,207	
Gross Cash Flow		37,270	45,975	49,081	52,252	53,612	
Change in Working Capital		-	-	-	-	-	
Capital Expenditures		(28,571)	(15,000)	(20,000)	(25,000)	(30,000)	
Free Cash Flow (FCF)		**8,700**	**30,975**	**29,081**	**27,252**	**23,612**	
Discount Factor		0.88	0.78	0.68	0.60	0.53	
Present Value of FCF		7,665	24,045	19,889	16,421	12,536	
Sum of Present Value	80,556						
Continuing Value	191,996						
PV of Continuing value	101,933						
Operating Value	182,489						
Mid -Year Adjustment Factor	0.95						
Operating Value (Adjusted)	**173,061**						

B.3. Scenario: NERA Time Trend (1)

The table below sets out our valuation of Telemedia's operations under the 'NERA Time Trend (1)' scenario.

Table B.3
Value of Telemedia's Operations under NERA Time Trend (1) (BZ$ '000)

		31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
Revenues		151,206	154,799	158,571	162,626	167,060	172,071
Costs (COGS, SGA, Other)		(77,368)	(73,971)	(75,702)	(77,559)	(79,585)	
Depreciation		(23,921)	(24,462)	(23,361)	(22,970)	(23,207)	
EBIT		49,917	56,366	59,508	62,097	64,268	63,187
EBIT Margin		*33%*	*36%*	*38%*	*38%*	*38%*	*37%*
Taxes		(29,704)	(30,410)	(31,151)	(31,948)	(32,819)	(33,803)
NOPLAT		***20,212***	***25,956***	***28,357***	***30,149***	***31,449***	***29,383***
Depreciation		23,921	24,462	23,361	22,970	23,207	
Gross Cash Flow		44,133	50,418	51,718	53,119	54,656	
Change in Working Capital		-	-	-	-	-	
Capital Expenditures		(28,571)	(15,000)	(20,000)	(25,000)	(30,000)	
Free Cash Flow (FCF)		**15,563**	**35,418**	**31,718**	**28,119**	**24,656**	
Discount Factor		0.88	0.78	0.68	0.60	0.53	
Present Value of FCF		13,712	27,494	21,693	16,944	13,090	
Sum of Present Value	92,932						
Continuing Value	217,655						
PV of Continuing value	115,555						
Operating Value	208,487						
Mid -Year Adjustment Factor	0.95						
Operating Value (Adjusted)	**197,716**						

B.4. Scenario: NERA Time Trend (2)

The table below sets out our valuation of Telemedia's operations under the 'NERA Time Trend (2)' scenario.

Table B.4
Value of Telemedia's Operations under NERA Time Trend (2) (BZ$ '000)

		31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14	31-Mar-15
Revenues		142,665	150,135	153,095	156,282	159,775	164,568
Costs (COGS, SGA, Other)		(77,368)	(71,924)	(73,299)	(74,776)	(76,389)	
Depreciation		(23,921)	(24,462)	(23,361)	(22,970)	(23,207)	
EBIT		41,376	53,749	56,434	58,536	60,180	58,187
EBIT Margin		*29%*	*36%*	*37%*	*37%*	*38%*	*35%*
Taxes		(28,027)	(29,494)	(30,076)	(30,702)	(31,388)	(32,329)
NOPLAT		***13,349***	***24,255***	***26,359***	***27,834***	***28,792***	***25,857***
Depreciation		23,921	24,462	23,361	22,970	23,207	
Gross Cash Flow		37,270	48,716	49,720	50,805	51,999	
Change in Working Capital		-	-	-	-	-	
Capital Expenditures		(28,571)	(15,000)	(20,000)	(25,000)	(30,000)	
Free Cash Flow (FCF)		**8,700**	**33,716**	**29,720**	**25,805**	**21,999**	
Discount Factor		0.88	0.78	0.68	0.60	0.53	
Present Value of FCF		7,665	26,173	20,327	15,550	11,679	
Sum of Present Value	81,393						
Continuing Value	191,534						
PV of Continuing value	101,687						
Operating Value	183,080						
Mid -Year Adjustment Factor	0.95						
Operating Value (Adjusted)	**173,622**						

Appendix C. Report Qualifications and Assumptions

This report is for the exclusive use of our client to whom it is addressed and its professional advisers. It does not represent investment advice or provide an opinion regarding the fairness of any transaction to any and all parties. There are no third party beneficiaries with respect to this report, and we accept no liability to any third party.

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Information furnished by third parties, upon which this report is based, is believed to be reliable but has not been verified. No warranty is given as to the accuracy of such information. Public information and industry and statistical data, including without limitation information and data with respect to Belize Telemedia and Belize Telecommunications Limited, are from sources we deem to be reliable and accounts have been audited; however, we make no representation as to the accuracy or completeness of such information and have accepted the information without further verification.

In rendering this report, we have also relied upon and assumed the accuracy of data and information provided to us by Telemedia, such as audited financial statements and past Business Plans of Belize Telemedia Limited and its predecessors for the years 2001 through to 2010.

No responsibility is taken for changes in market conditions or laws or regulations and no obligation is assumed to revise this report to reflect changes, events or conditions, which occur subsequent to the date hereof.

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