BRIEF CASES

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Nextel Peru: Emerging Market Cost of Capital

In early April 2013, Rafael d'Anconia, a first-year associate with Andean Capital Advisors (ACA), a well-diversified global investor, was tasked with reviewing the firm's investment in Empresa Nacional de Telecomunicaciones S.A. ("Entel" or "ENT"). Entel was a Chilean wireless provider, which had just agreed to a purchase of Nextel Peru from NII Holdings, Inc. for a price ranging from $397 million to $415 million.[1] The final purchase price would be based on customary closing adjustments as well as the timing of the completed transaction. The deal was scheduled to close in mid-August 2013.

D'Anconia's ultimate goal was to determine the appropriateness of the valuation placed on Nextel Peru. As a first step, d'Anconia believed his analysis should focus on understanding Nextel Peru's cost of capital, in particular, the required return on assets or un-levered cost of capital. With that piece of the puzzle in place, he believed he could then estimate the implied cash flows from the new subsidiary to gauge the appropriateness of the purchase price.

NII Holdings & Nextel Peru

NII Holdings traced its origins to 1995, when it was organized as the holding company for Nextel Communications, Inc. In December 2000, the firm was reorganized as the former operations of Nextel International. The firm focused on Latin America, where it believed its wireless services could take advantage of the growing upward economic mobility and low wireline penetration in the region. NII operated in Argentina, Brazil, Chile, and Mexico, but maintained its headquarters in Reston, VA.

Overview of NII Holdings

NII Holdings focused on business customers located in major urban areas and main transportation arteries. These customers exhibited above average usage, loyalty, and revenue characteristics, and were drawn to the firm's Nextel Direct Connect® "push-to-talk" service and superior customer care.

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[1] See NII Holdings, Inc. form 8-K filed on April 4, 2013.

NII's network was originally rolled out on 800 MHz spectrum that was often non-contiguous. To overcome some of these limitations and support the company's flagship Direct Connect offerings, NII utilized the iDEN[2] platform developed by Motorola. iDEN was the only widely available commercial technology capable of utilizing non-contiguous spectrum, but it had drawbacks. First, the 800 MHz spectrum owned by NII was less well suited for advanced 3G and 4G networks. While the longer wavelength of the spectrum covered a larger geographic area, the longer cycle time of the frequency also meant less data capacity for advanced cellular services. Second, Motorola was the sole supplier of the technology. NII thus depended on Motorola not only to continue supporting and developing the technology, but also to continue providing new handset models. When Sprint Nextel, which was the largest purchaser of iDEN technology, decided to decommission its iDEN network, Motorola was no longer willing to commit its support for the technology. Agreements to support the iDEN network infrastructure and provide compatible handsets ran only through the end of 2014.

The phasing out of iDEN, along with the wireless industry's evolution toward third and fourth-generation services based on wideband code division multiple access (WCDMA) technology that used spectrum in the 1.7 GHz – 2.1 GHz range, forced NII to play catch-up. The company's large investments in spectrum and network reconfiguration increased its operating costs. It subsequently launched its first WCDMA network in Peru in 2010, and began similar launches for Brazil, Chile, and Mexico in 2012.[3] Despite these investments, competition decreased the firm's operating performance relative to its peers. (**Exhibit 1** shows the results for comparable wireless firms in the region.) In each of its markets, NII competed with at least two larger rivals with more financial resources, larger networks and distribution channels, and significant scale advantages. Those circumstances, along with a desire to enhance liquidity, contributed to the firm's decision to concentrate its efforts on its core markets in Brazil and Mexico while considering strategic alternatives for Argentina, Chile, and Peru.

NII Operating Performance

As competition in the Latin American wireless market intensified, leading providers such as Telefonica SA and America Movil targeted NII's higher-paying corporate clients by leveraging their larger faster networks and attracting customers with unlimited calls. Many analysts felt that NII's technology was outdated. The region's increasingly sophisticated customers had moved past push-to-talk, and were demanding smart phones on mobile data networks, which offered a number of instant messaging alternatives.

The competitive pressures had affected the company's financial results. NII had budgeted $1.5 billion to build out its new network and subsidize handsets, but its total revenue had decreased from $6.7 billion in 2011 to $6.1 billion in 2012, and service revenue had fallen from $6.4 billion to $5.8 billion. NII's bottom line had swung from a profit of $225.2 million to a loss of $765.2 million, and its stock price had decreased 65% over the year. (**Exhibit 2** shows the company's actual and pro forma results).

In a press release on November 6, 2012, NII announced that it would reduce the headcount at its headquarters by 20%.[4] The falling revenue and profits had also prompted concern among the analyst community. Christina Ronac of Gleacher & Co. expressed concern that NII could burn through most

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[2] iDEN is an integrated digital enhanced network developed by Motorola based on time division multiple access technology, which focuses on the use of discontinuous GSM spectrum.

[3] In September 2012, the Argentine government canceled its auction of PCS and 850 band spectrum. As a result, Nextel Argentina does not have access to spectrum that would support a WCDMA network.

[4] Company press release, November 6, 2012, http://phx.corporate-ir.net/phoenix.zhtml?c=137178&p=irol-newsArticle&ID=1754868&highlight=. Accessed on 4/14/14.

of its $2.0 billion of cash by the end of 2013.[5] Similarly, Carlos Sequeria of BTG Pactual Group worried that the company's net debt could surpass 4.0x EBITDA over the next 12 months.[6] To ameliorate some of the liquidity pressure, NII announced it would refocus its operations on Brazil and Mexico and pursue strategic options for its operations in Argentina, Chile, and Peru.[7] In conjunction with the strategic shift, the firm announced a $300 million non-cash impairment charge related to its Chilean operations.

Overview of Nextel Peru

The Peruvian operations were similar to those of NII as a whole. Nextel Peru was focused on business and high value customers in major urban areas that were attracted to its push-to-talk feature, and its superior customer care. The company operated in a market dominated by much larger rivals with significantly more resources, Telefonica of Spain and Claro, a unit of America Movil. Likewise, it faced the same technological dilemmas. Nextel Peru had significant nationwide holdings of 800 MHz spectrum. However, because the spectrum was largely non-contiguous, or only partially contiguous, its usefulness for CDMA, WCDMA, or other cellular technologies beyond iDEN was limited.[8] To make use of the spectrum, its band would have needed to be reconfigured, which would have required regulatory support.

From a financial perspective, Nextel Peru accounted for 6% of NII's operating revenue and 15% of the firm's subscriber base during 2012. (**Exhibit 2** provides consolidated operating data and **Exhibit 3** provides operating data for Nextel Peru)[9] Prior to the launch of Nextel Peru's WCDMA network in 2010, the firm had just over a million subscribers, which NII doubled by the end of 2012. (**Exhibit 4** provides subscriber data for NII Holdings and Nextel Peru). However, much of this growth was due to promotional data card plans, which negatively affected the average revenue per user (ARPU). Even though the firm began operating its new network in 2010, it did not begin Direct Connect until September 2011. In addition to the drop in ARPU, the transition to 3G forced the company to simultaneously support its legacy iDEN network along with the new WCDMA network. This resulted in an 8% increase in the cost of services, and a 14% increase in selling and marketing expenses. In turn, these factors lead to a 14% drop in the 2012 EBITDA margin.

Long-Term Prospects for Nextel Peru

As d'Anconia contemplated Nextel Peru's recent results and competitive position, he believed that the firm's current problems would largely be ameliorated in the hands of a larger firm with strong operations such as Entel. As a result, he believed Nextel Peru's long-term prospects would mirror those of other firms in the industry, and be driven by the Peruvian economy.

Peru's economy was among the fastest growing in Latin America, while its rate of inflation was among the lowest in the region, averaging approximately 2.78% over the past ten years. During 2012, GDP grew 6.3% on top of 7.0% growth for 2011.[10] In contrast, ACA estimated a long-term growth rate for the United States of only 3.0%. Further, the Peru's central bank predicted annual economic growth

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[5] Parra-Bernal, Guillermo and Haynes, Brad, "Analysis: Nextel's NII Faces Uphill Battle in Brazil", Reuters, November 7, 2012.

[6] Parra-Bernal, Guillermo and Haynes, Brad, "Analysis: Nextel's NII Faces Uphill Battle in Brazil", Reuters, November 7, 2012.

[7] Company press release February 5, 2013, http://phx.corporate-ir.net/phoenix.zhtml?c=137178&p=irol-newsArticle&ID=1781387&highlight=. Accessed on 4/4/14.

[8] The 800MHz SMR band was used exclusively for iDEN however, in the US, Sprint is deploying CDMA and LTE technology on the band. Also, on September 2, 2011, the FCC approved the SMR band for several CDMA devices.

[9] Nextel Peru's operating and reporting currency is the US dollar.

[10] http://www.focus-economics.com/country-indicator/peru/gdp.

for 2013 and 2014 to be between 6.0% and 6.5%. On the other hand, the most recent quarterly data were a mixed bag. A slowdown in domestic demand during the fourth quarter led to growth of 5.9%, below consensus expectations of 6.3%. Gross fixed investment had slowed to 11.3% from 17.1% in the previous quarter. However, Peru's trade balance had improved somewhat export growth increased from 1.1% to 1.2%, and the growth of imports decreased from 15.2% to 9.9%. Overall, the external sector improved from a -3.3% contribution to GDP to a -2.0% contribution. **Exhibit 5** shows the long-term trends in Peru's real per capita GDP and CPI.

The Cost of Capital

To determine the required rate of return, d'Anconia began by employing a framework based on the portfolio improvement rule; and in turn, the Capital Asset Pricing Model (CAPM), as shown below.

$$Required\ Rate\ of\ Return = r_f + \beta(Market\ Risk\ Premium)$$

In CAPM, the term r_f denotes the risk-free rate, β is a measure of systematic risk, and the market risk premium is the amount by which the return on a broadly diversified portfolio of risky assets is expected to exceed the risk-free return over a specific investment horizon. In considering the CAPM, d'Anconia also needed to consider whether his analysis should be based on the local market, global market, broader emerging market, or U.S. market data.

In addition to the portfolio improvement rule, d'Anconia had observed that practitioners often modified the CAPM to include estimates of country risk premium for investments made in less developed markets. The logic employed for these premiums was based on various considerations, including: the lack of political stability, market liquidity, sovereign credit risk, size of the economy, and size of the middle class among others. Moreover, a number of these practitioner rules, such as those promulgated by Damodaran, Lessard, Godfrey-Espinosa, and Goldman Sachs, appeared to have significant following.[11] Finally, there was the matter of how, if at all, differences in expected inflation might figure into required return estimates. D'Anconia believed inflation in the United States and other major developed economies would be approximately 2.0% versus Peru's 2.78%.

Practitioner Use of Country Risk Premiums

With respect to the country risk premium and its incorporation into the required rate of return, d'Anconia considered several approaches, each having varying degrees of market acceptance. As a starting point, he looked at the spread between local government bonds and U.S. treasury bonds. (**Exhibit 6** in the Student Spreadsheet, HBS No. 916-518, contains these returns).[12] According to some proponents, the upside to this approach was its simplicity, and the fact that the difference in bond spreads incorporated many of the same macroeconomic factors that affect equities such as inflation, trade balances, budget deficits, and political stability. The downside was that the spread between country bond yields measured primarily relative default risk. D'Anconia realized that if he were to employ a country risk premium, perhaps the equity risk should also be considered.

As an alternative, d'Anconia also considered adjusting the U.S. equity market risk premium to reflect the relative volatility of Peruvian equities vis-à-vis their U.S. counterparts. The logic was that

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[11] See Damodaran, Aswath, "*Security Analysis for Investment and Corporate Finance*", 2nd Edition, John Wiley & Sons, 2006. Lessard, D. R., "*Incorporating Country Risk in the Valuation of Offshore Projects*", Journal of Applied Corporate Finance, Vol. 9, 1996. Godfrey, S. and Espinosa, R., "*A Practical Approach to Calculating the Cost of Equity for Investment in Emerging Markets*", *Journal of Applied Corporate Finance*", Fall 1996.

[12] Country bond spreads can have significant volatility. In practice, this can be mitigated by averaging the spread over time.

the standard deviation of emerging market equity returns should reflect their increased risk. The method d'Anconia was considering is laid out below.[13] (**Exhibit 6** in the Student Spreadsheet, HBS No. 916-518, contains Peruvian and U.S. stock market returns.)

$$Relative\ \sigma_{Country\ X} = \frac{\sigma_{Country\ X}}{\sigma_{US}}$$

The adjusted equity market risk premium would be determined as shown below. The country risk premium would be the difference between the U.S. market risk premium and the local market risk premium.

$$Adjusted\ Equity\ Market\ Risk\ Premium = (EMRP_{US})(Relative\ \sigma_{Country\ X})$$

The final method d'Anconia considered for determining country risk premium involved multiplying the country default spread by the relative standard deviation of Peruvian equities versus Peruvian long-term government bonds.[14] The logic behind this approach was straightforward. Equities carried more risk than sovereign bonds did, and this incremental risk was reflected by the relative standard deviations. The equation below illustrates d'Anconia's approach.

$$Country\ Risk\ Premium = (Country\ Default\ Spread)\left(\frac{\sigma_{Equity\_Country\ X}}{\sigma_{Debt\_Country\ X}}\right)$$

The country risk premium would then be added to the U.S. equity market risk premium to arrive at an equity market risk premium for Peru.

Integrating Country Risk Premium into the Cost of Capital

D'Anconia realized if he were to employ a separate country risk premium, he would also have to incorporate it within CAPM. Again, practitioners used numerous methods for integrating the country risk premium into the cost of capital determination. The first method was to add the country risk premium to the CAPM as follows.

$$Required\ Rate\ of\ Return = r_f + \beta(EMRP_{US}) + Country\ Risk\ Premium$$

Although this approach was widely used, d'Anconia had some reservations about it because it implied that all companies had the same country risk exposure. As an alternative, he noticed that many professionals scaled the country risk premium by the company's level of systematic risk exposure as shown below.

$$Required\ Rate\ of\ Return = r_f + \beta(EMRP_{US} + Country\ Risk\ Premium)$$

So long as Nextel Peru's country risk exposure approximated its exposure to all other macroeconomic risks, professionals felt this approach would be satisfactory. However, there was the possibility that country risk might be different from other types of risk, and could therefore be scaled separately by its own factor, λ in the following identity.

$$Required\ Rate\ of\ Return = r_f + \beta(EMRP_{US}) + \lambda(Country\ Risk\ Premium)$$

If d'Anconia were to go this route, he considered whether to use the ratio of Nextel Peru's domestic revenue relative to the average percentage of domestic revenues earned by Peruvian firms generally.

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[13] Damodaran, Aswath, "Damodaran on Valuation: Security Analysis for Investment and Corporate Finance, 2nd Edition, John Wiley & Sons, 2006, pg. 42-44.

[14] Damodaran, Aswath, "Damodaran on Valuation: Security Analysis for Investment and Corporate Finance, 2nd Edition, John Wiley & Sons, 2006, pg. 44-45.

HARVARD BUSINESS SCHOOL | BRIEFCASES   **5**

He assumed that Nextel Peru earned 100% of its revenues domestically, while the average Peruvian firm derived 75% of its revenue locally.

As d'Anconia sized up the tasks at hand, he considered his objectives. Ultimately, he wanted to understand whether the $400 million purchase price for Nextel Peru was reasonable. Further, he believed that the valuation would be driven primarily by the timing, growth, and riskiness of expected cash flows. To simplify the exercise, he wanted to employ ACA's assumption for the market risk premium, which was 5.0%. However, he was uncertain if this assumption was appropriate for Peru. He knew that a number of analysts were using a 7.0% risk premium for Latin America. As a final simplification, d'Anconia decided to treat the Peruvian wireless market as mature, and then estimate the expected cash flows as the function of a growing perpetuity.

Ultimately, d'Anconia's immediate concern was the cost of capital. He felt that once this was determined, the rest of the analysis would fall into place. In turn, this meant he needed to decide on an appropriate methodology. On the one hand, there was the portfolio improvement rule, which d'Anconia recalled from his days in school as the foundation of CAPM. On the other hand, there were the various practitioners' methodologies to consider.

Exhibit 1 Comparable Latin American Wireless Companies

(Local Currency in Millions)

Companies:	Equity Value[1]	Net Debt	Minority Interest	Enterprise Value	Current D/V	Historic D/V[2]	S&P Equity Beta[3]	MSCI World Equity Beta[4]	MSCI Latin Equity Beta[5]	Local Equity Beta[6]	Debt Beta[7]
America Movil	963,882	363,978	8,990	1,336,850	27.23%	17.73%	1.12	1.01	0.75	0.91	0.12
Embratel Participacoes S.A.	13,173	2,238	4,842	20,252	11.05%	25.18%	0.53	0.63	0.64	0.56	0.05
Empresa Nacional De Telecomunicaciones	2,356,959	385,754	0	2,742,713	14.06%	13.74%	0.83	0.80	0.81	0.77	0.07
NII Holdings	943	3,774	0	4,716	80.01%	41.68%	0.65	0.77	0.67	0.65	0.18
Oi SA	10,152	28,921	0	39,073	74.02%	32.48%	1.08	1.14	1.08	0.86	0.15
Telecom Argentina	24,167	(3,969)	200	20,398	-19.46%	-13.91%	1.31	1.17	0.89	1.05	0.00
Telefonica Brasil	59,983	975	0	60,957	1.60%	3.28%	0.73	1.58	0.63	0.47	0.00
Telefonica Del Peru	7,833	2,213	0	10,045	22.03%	26.57%	0.38	0.35	0.24	0.49	0.17
TIM Participacoes S.A.	21,196	1,632	0	22,828	7.15%	6.78%	0.82	0.81	0.74	0.58	0.07

Source: All information except equity betas S&P Capital IQ, accessed 3/14/14.

1 Stock prices as of 4/1/13, except NII Holdings, which was 4/5/13.
2 Quarterly average over the past three years.
3 Source: Bloomberg, accessed 3/14/14. Raw three year monthly betas.
4 Source: Bloomberg, accessed 3/14/14. Raw three year monthly betas based on U.S. dollar denominated returns.
5 Source: Bloomberg, accessed 3/14/14. Raw three year monthly betas based on U.S. dollar denominated returns.
6 Source: Bloomberg, accessed 3/14/14. Raw three year monthly betas based on local currencies.
7 Case writer estimates

(Local Currency in Millions)

	Last 12 Months:					5 Year Average:				
Companies:	Revenue Growth	EBIT Margin	EBITDA Margin	EBIAT Margin[1]	FCF Margin	Revenue Growth[2]	EBIT Margin	EBITDA Margin	EBIAT Margin[1]	FCF Margin
America Movil	13.0%	19.7%	33.0%	21.8%	10.6%	19.1%	12.0%	14.4%	10.3%	11.1%
Embratel Participacoes S.A.	45.0%	11.5%	26.9%	5.9%	-11.0%	17.2%	12.1%	13.1%	8.6%	1.3%
Empresa Nacional De Telecomunicaciones	14.8%	17.4%	38.4%	14.5%	3.0%	8.1%	21.6%	42.7%	18.2%	5.6%
NII Holdings	-11.7%	0.9%	14.2%	NM	-6.7%	10.4%	14.0%	24.2%	9.1%	3.0%
Oi SA	165.1%	18.6%	30.1%	12.3%	2.4%	20.5%	22.2%	33.9%	15.9%	16.0%
Telecom Argentina	18.3%	18.3%	26.3%	11.9%	8.5%	19.4%	20.8%	30.5%	13.5%	12.1%
Telefonica Brasil	2.1%	20.2%	35.9%	12.8%	19.2%	18.1%	21.4%	36.9%	15.0%	16.9%
Telefonica Del Peru	5.3%	19.3%	34.7%	11.3%	12.8%	6.3%	19.2%	39.7%	10.9%	15.7%
TIM Participacoes S.A.	6.8%	13.8%	28.0%	9.5%	2.3%	8.6%	8.6%	26.6%	5.2%	4.2%
Average	28.7%	15.5%	29.7%	12.5%	4.6%	14.2%	16.9%	29.1%	11.9%	9.5%
Median	13.0%	18.3%	30.1%	12.1%	3.0%	17.2%	19.2%	30.5%	10.9%	11.1%

Source: Data from S&P Capital IQ, accessed 2/27/13.

1 EBIAT = EBIT(1–t) using the effective tax rate.
2 5 year revenue growth is on a compound annual basis.

Exhibit 2   NII Holdings Historical Financial Data

Historical Consolidated Income Statements for NII   ($000's)

Operating Results:	2010	2011	2012
Service Revenue	5,348,400	6,403,519	5,779,159
Plus: Handset & Accessory Revenue	257,407	331,427	307,304
Total Operating Revenue	**5,605,807**	**6,734,946**	**6,086,463**
Less: Cost of Service (Excluding Depreciation & Amortization)	1,504,603	1,789,402	1,690,464
Less: Cost of Handset Sales	719,219	855,929	915,120
Gross Profit	**3,381,985**	**4,089,615**	**3,480,879**
Less: Selling & Marketing[1]	1,946,706	2,504,976	2,875,359
EBITDA	**1,435,279**	**1,584,639**	**605,520**
Less: Depreciation & Amortization	554,886	653,087	728,780
Operating Income	**880,393**	**931,552**	**(123,260)**
Less: Interest Expense	344,999	322,111	373,253
Plus: Interest Income	28,841	34,224	34,143
Plus: Foreign Currency Gains	52,374	(36,975)	(53,415)
Less: Other Expenses	18,686	37,305	27,355
Earnings Before Taxes	**597,923**	**569,385**	**(543,140)**
Less: Taxes	259,465	344,189	222,109
Net Income	**338,458**	**225,196**	**(765,249)**

Historical Consolidated Balance Sheets for NII   ($000's)

Assets:	2010	2011	2012
Cash & Cash Equivalents	1,767,501	2,322,919	1,383,491
Plus: Short-Term Investments	537,539	343,422	204,834
Plus: Net Accounts Receivable	788,000	858,471	705,737
Plus: Handset Inventory	227,191	277,291	349,704
Plus: Deferred Taxes	186,988	203,012	175,753
Plus: Prepaid Expenses & Other Current Assets	393,658	331,407	515,513
Total Current Assets	**3,900,877**	**4,336,522**	**3,335,032**
Net Property, Plant & Equipment	2,960,046	3,481,869	3,884,947
Plus: Net Intangible Assets	433,208	1,182,380	1,164,672
Plus: Deferred Taxes	486,098	410,162	367,182
Plus: Other Assets	410,458	411,203	471,245
Total Assets	**8,190,687**	**9,822,136**	**9,223,078**
Liabilities & Owners' Equity:			
Accounts Payable	300,030	377,679	485,542
Plus: Accrued & Other Expenses	827,253	1,008,932	1,015,788
Plus: Deferred Revenue	158,690	159,150	161,451
Plus: Current Portion of Long-Term Debt	446,995	573,465	97,244
Total Curent Liabilities	**1,732,968**	**2,119,226**	**1,760,025**
Long-Term Debt	2,818,423	4,244,752	4,768,958
Plus: Deferred Revenue	20,476	15,585	14,007
Plus: Deferred Tax Liabilities	88,068	61,156	58,189
Plus: Other Long-Term Liabilities	211,179	243,335	305,450
Total Liabilities	**4,871,114**	**6,684,054**	**6,906,629**
Total Stockholders' Equity	3,319,573	3,138,082	2,316,449
Total Liabilities & Stockholders' Equity	**8,190,687**	**9,822,136**	**9,223,078**

Source: Company annual 10-Ks.

Exhibit 2A   NII Holdings Historical Pro Forma Financial Data

Historical Pro Forma Consolidated Income Statements for NII   *($000's)*

Operating Results:	2010	2011	2012
Service Revenue	5,066,404	6,081,577	5,465,120
Plus: Handset & Accessory Revenue	227,387	299,240	278,002
Total Operating Revenue	**5,293,791**	**6,380,817**	**5,743,122**
Less: Cost of Service (Excluding Depreciation & Amortization)	1,404,555	1,681,692	1,574,327
Less: Cost of Handset Sales	656,409	784,072	829,859
Gross Profit	**3,232,827**	**3,915,053**	**3,338,936**
Less: Selling & Marketing[1]	1,813,607	2,360,303	2,714,770
EBITDA	**1,419,220**	**1,554,750**	**624,166**
Less: Depreciation & Amortization	502,203	588,164	649,545
Operating Income	**917,017**	**966,586**	**(25,379)**
Less: Interest Expense	335,918	311,735	365,521
Plus: Interest Income	28,334	34,096	33,862
Plus: Foreign Currency Gains	52,412	(37,297)	(53,957)
Less: Other Expenses	18,686	37,750	28,340
Earnings Before Taxes	**643,159**	**613,900**	**(439,335)**
Less: Taxes	269,869	351,204	158,141
Net Income	**373,290**	**262,696**	**(597,476)**

Source: NII Holdings 8-K filed 8/19/2013.

[1] Includes doubtful accounts $73,497, $159,202, and $217,315 for the years 2010, 2011, and 2012 respectively. 2012 also includes a $329,767 impairment charge

Exhibit 3   Nextel Peru Historical Financial Data

Historical Operating Results   *($000's)*

Operating Results[1]:	2010	2011	2012
Service Revenue	281,995	321,942	314,039
Plus: Handset Revenue	30,021	32,187	29,302
Total Operating Revenue	**312,016**	**354,129**	**343,341**
Less: Cost of Services[2]	100,048	107,710	116,137
Less: Cost of Handset Sales	62,810	71,857	85,261
Gross Profit	**149,158**	**174,562**	**141,943**
Less: Selling & Marketing Expenses[3]	55,783	63,575	72,375
Less: General & Administrative Expenses	71,112	75,672	83,549
Segment EBITDA	**22,263**	**35,315**	**(13,981)**
Estimated Depreciation[4]	34,137	35,858	35,088
Total Assets	556,752	597,891	498,230
Capital Expenditures	94,000	105,500	77,700
Net Reinvestment in Long-Term Assets	59,863	69,642	42,612

[1] Source: Company 10-K's for the years 2010-2012.

[2] Excludes depreciation and amortization.

[3] For 2012, the figure includes $3.28 million of doubtful accounts.

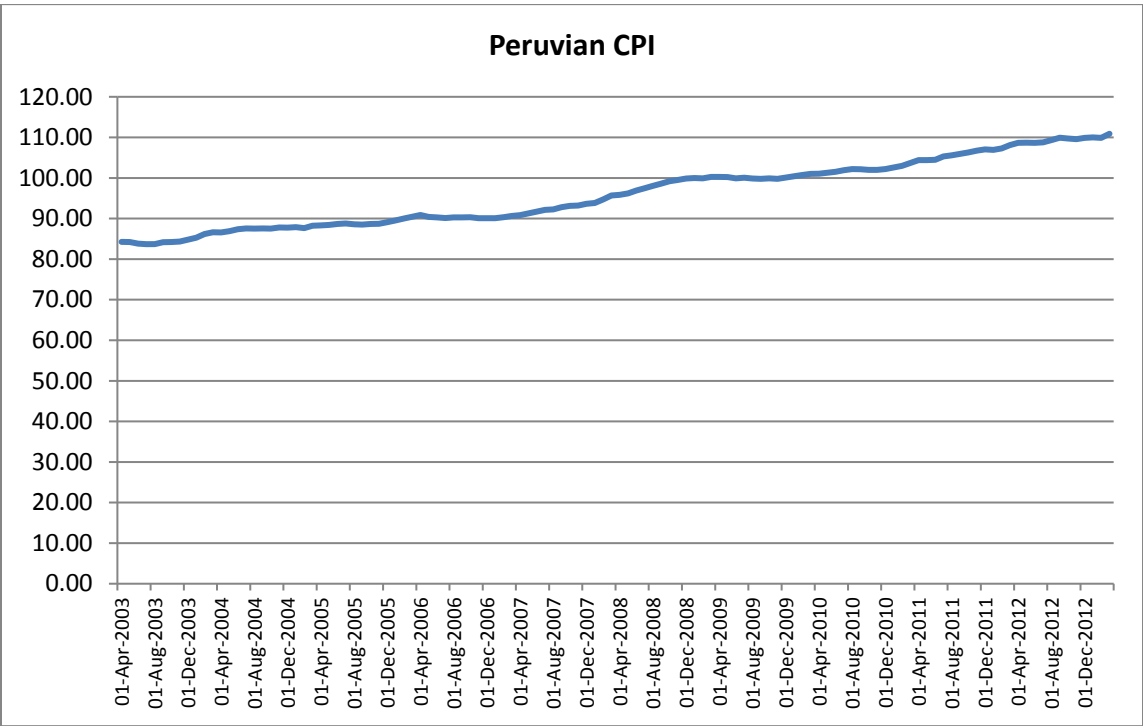[4] Case writer estimate based on proportion of segment assets to total consolidated assets.

Exhibit 4   NII Holdings and Nextel Peru Historical Subscriber Data

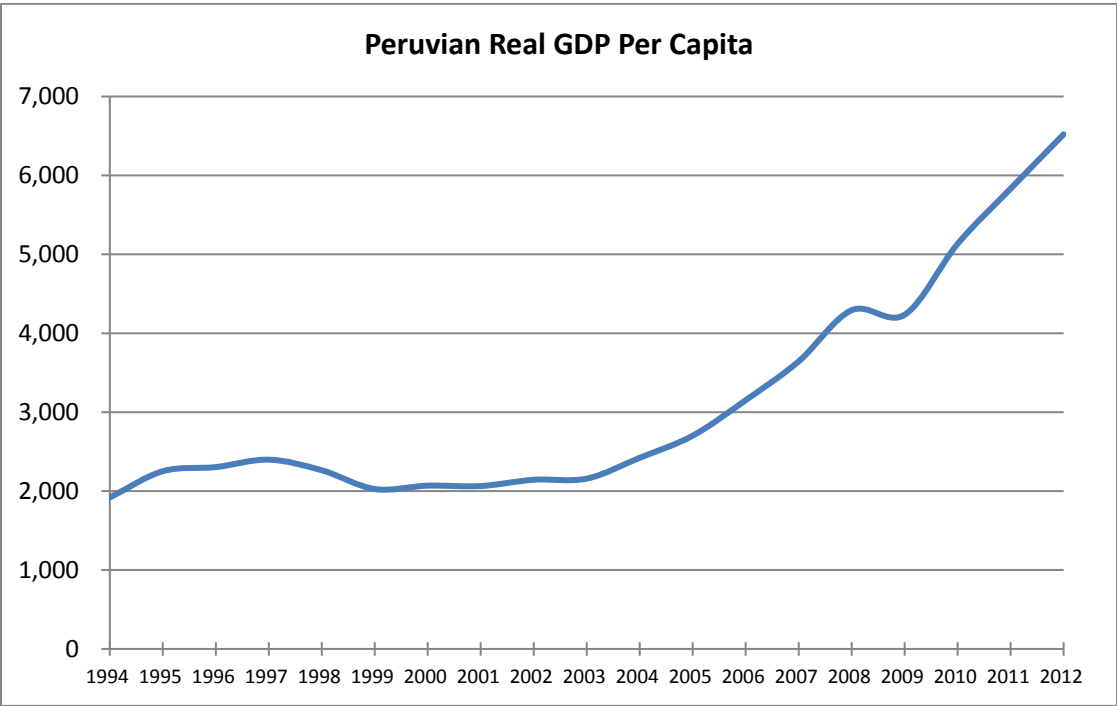| _NII Holdings Subscriber Data:_	2010	2011	2012
Total Handsets in Use	9,027	10,712	11,362
Net Sbscriber Increase	1,685	650	629
Estimated Average Subscribers	8,816	10,491	11,121
Growth in Subscribers	21.0%	19.0%	6.0%
ARPU[1]	607	610	520
Nextel Peru Subscriber Data:			
Total Handsets in Use	1,128	1,435	1,660
Net Sbscriber Increase	286	307	225
Estimated Average Subscribers	985	1,282	1,548
Growth in Subscribers	34.0%	27.2%	15.7%
ARPU[1]	286	251	203

Source: Company 10-Ks

[1] Calculated as service revenue divided by estimated average subscribers.

Exhibit 5   Peruvian Economic Data

Peruvian CPI

Source: FactSet Economics, accessed 6/19/14

Peruvian Real GDP Per Capita

Source: FactSet Economics, accessed 6/19/14.