




Mobile Interconnect Rates

Presentation to the Parliamentary Portfolio Committee on
Communications 13-14 October 2009.



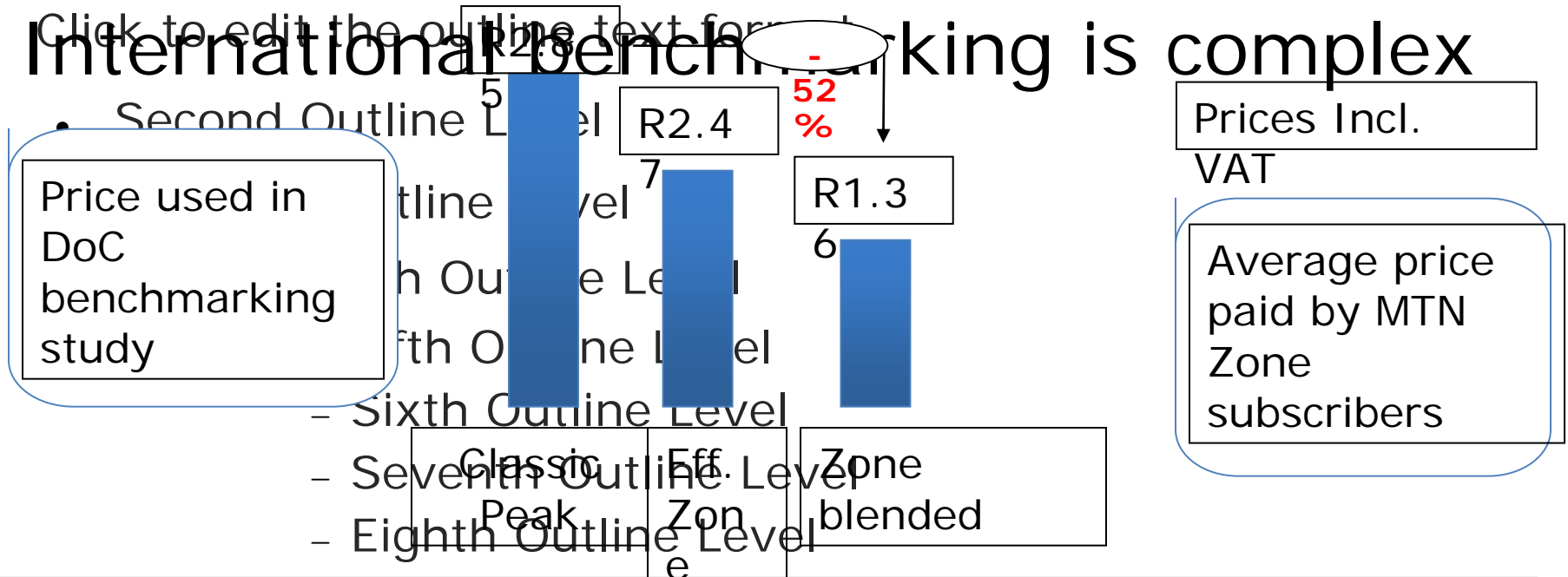
- Key Messages have declined for the last 10 years and continue to decrease.
 - Today average pre-paid prices are below post-paid.
 - MTN's world class access costs (funded through interconnection) delivered penetration rates of 104% - compared to India at 37% and even the US at 97%
- MTN is investing more than its profits back into South Africa's infrastructure.



Call rates in South
Africa have declined for
the last 10 years



• International benchmarking is complex



- Ninth Outline Level Click to edit Master text styles
 - DoC study compares peak rates of MTN's old Classic package
 - Second level
 - Less than 1% of our Prepaid base uses Classic
 - Third level
 - MTN Zone average price is c. 50% lower than the benchmarked rate

– Fifth level

Click to edit the outline text format Real price decline prices are declining

last 10 years

POST-PAID PRE-PAID

Anytime (post-paid):
effective price cut: - 10%



MTN Zone (pre-paid):
effective price cut: - 20%
Up to 95% discounts
available
Now also for SMS

- Fourth Outline Level
- With Outline Level
- With Outline Level
- Seventh Outline
- Eighth Outline
- Ninth Outline Level

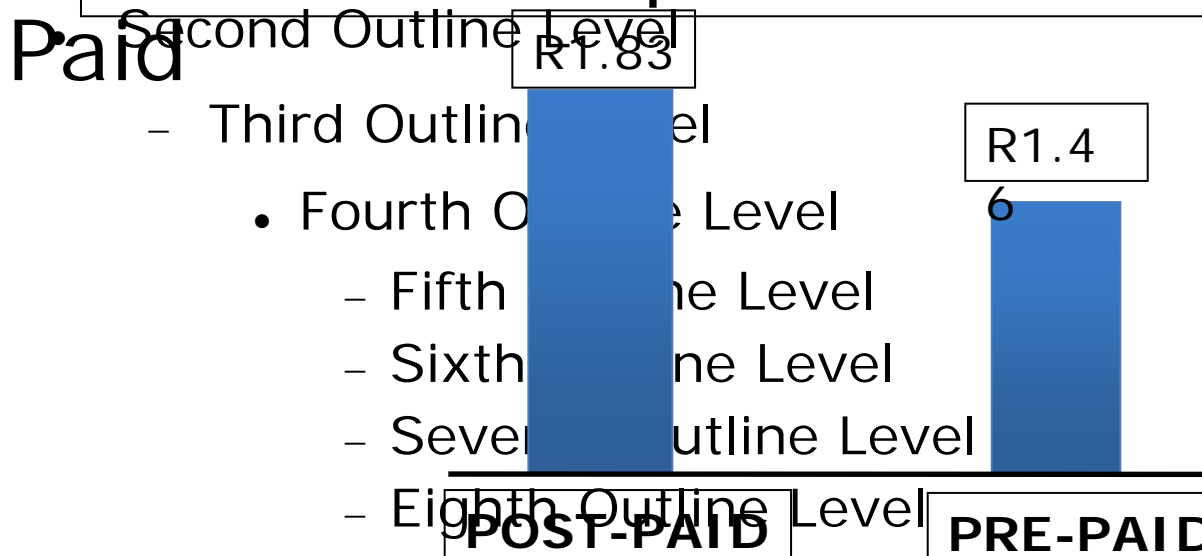
1. Second level

1. Third level

Even at current interconnect price levels, competitive activity is bringing retail prices down

1. Fifth level

Click to edit the effective price per Minute (inc VAT) Excl. promotional discounts • Pre-Paid is more affordable than Post-Paid



1. Ninth Outline Level Click to edit Master text styles
- 24 months contract
 - Cheap off-peak prices
 - Up to 95% discounts
1. Second level
1. Third level (R150 for R1500)

1. Fourth level

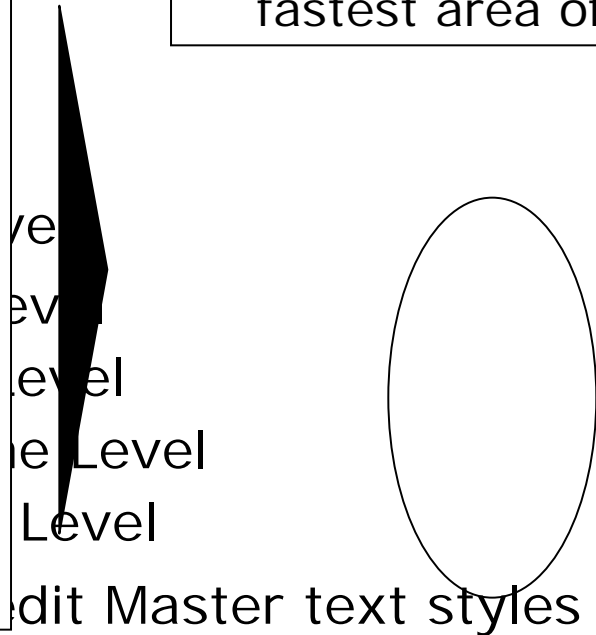
1. Fifth level

Access prices in SA are amongst the lowest in the world

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LSM 1-4: 50% penetrated, now fastest area of subs growth

- 49c to get a SIM
- Subsidised handsets
- 1 call every 90 days (in or out) to remain connected
- Minimum airtime validity: 20 days
- Free call me SMS's
- Free Voice Mail



1. Second

1. Third level
Access costs below India

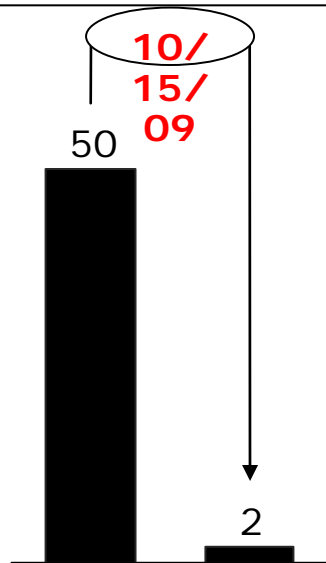
1. Fourth level

1. Fifth level

Source : SAARF

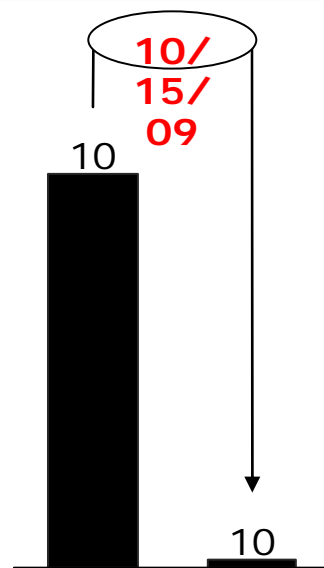
.Data price cuts have been significant

Standard Data Tariff per MB



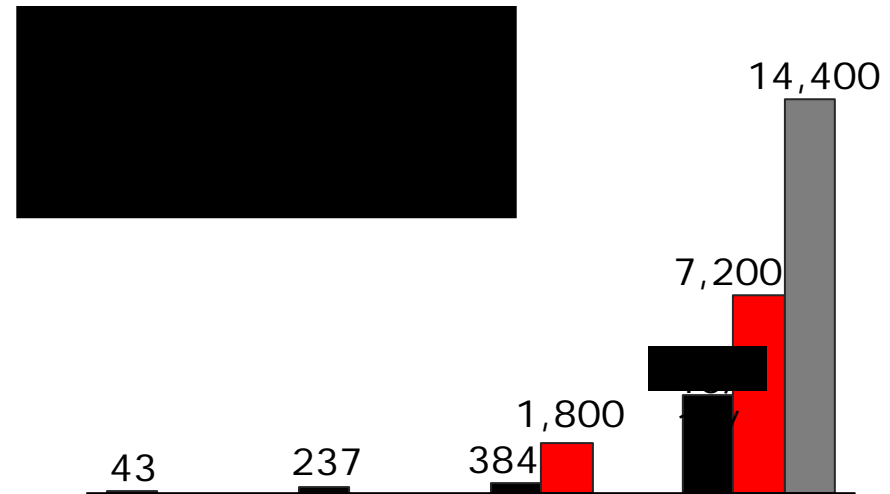
Bundles offer rates as low as 10/15/09 per MB

Minimum Charge per session



Population Coverage: 98%

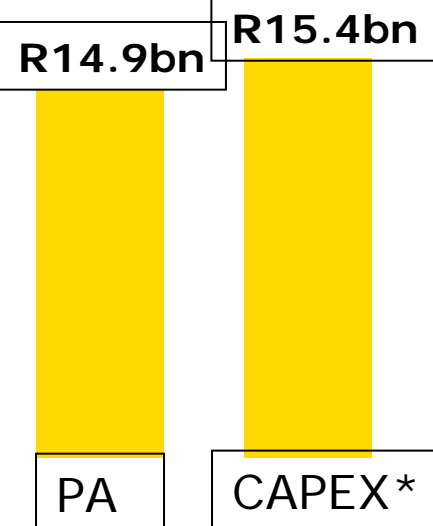
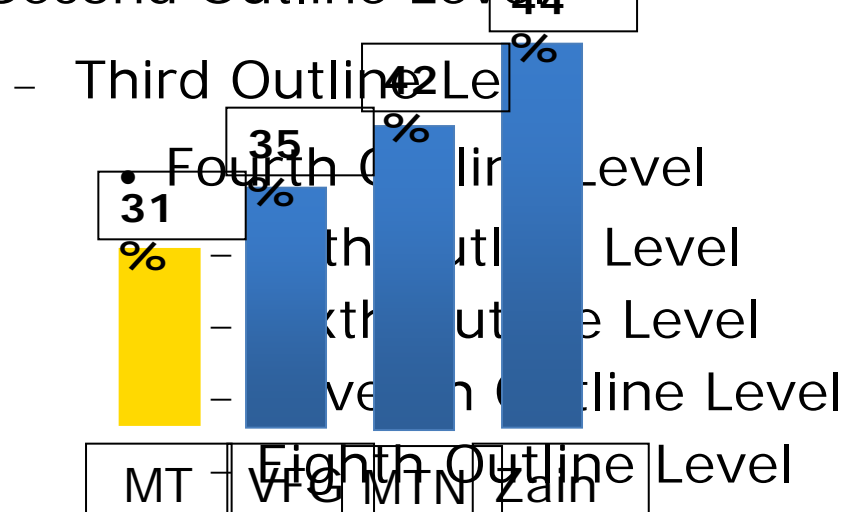
Data Speeds in kbit/s



Population Coverage: 80%

The DoC study appears to be based on old / incorrect data: e.g.. MTN data prices are 40 times cheaper than Chile

MTN invests in infrastructure (HY1 09)



1. Ninth Outline Level

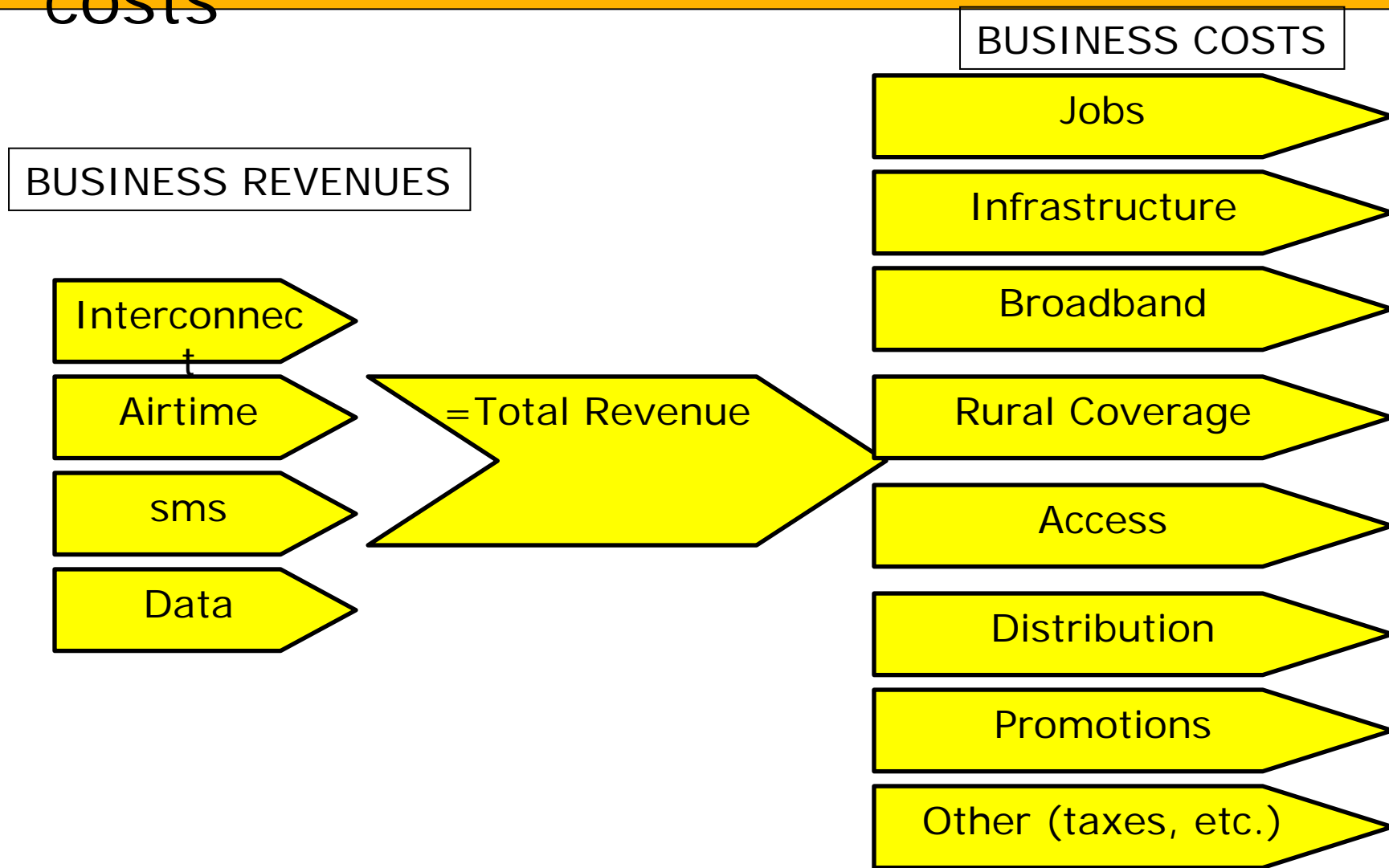
- Confusion between MTN Group, benefiting from large scale and leading position in Africa /Middle East; and
 - Third level
- MTN South Africa, a 35% market share challenger with low margins.
 - Fourth level
- Over the last 3 years, MTN has re-invested the equivalent of all its after tax profits into CAPEX (delivering new coverage, capacity, broadband).



Interconnect is a key
driver of SA's world-
class mobile penetration
and network coverage



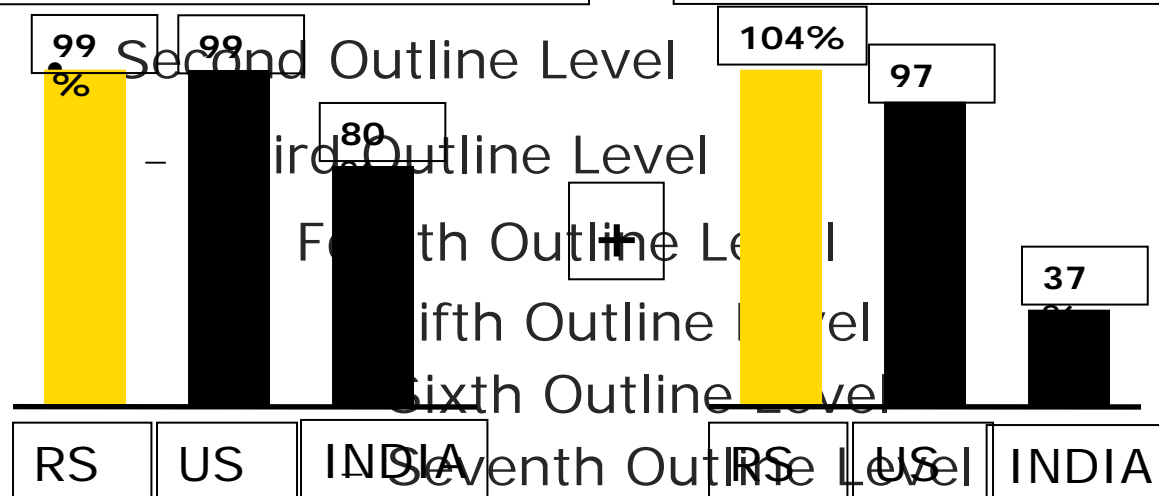
Interconnect funds business costs



Interconnect delivers access for all

• NETWORK COVERAGE

• SIM PENETRATION



=

**ACCESS
FOR ALL**

Interconnect funds better rural coverage and affordable access for the poor:

- R3.9bn in handset subsidies, connection incentives, access subsidies in 2008

R5.9bn invested in network in 2008

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Annex 7 - A report for Ofcom



WHOLESALE TERMINATION REGIME,
TERMINATION CHARGE LEVELS AND
MOBILE INDUSTRY PERFORMANCE

A study undertaken for Ofcom

Dr Barbara Veronese
Prof Martin Pesendorfer

20 April 2009

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Brussels | London | Melbourne | Milan | Palo Alto | Sydney | Vienna
www.ceb-europe.com

Interconnect

Independent study of 39 countries found:

GDP growth is real

- The higher the interconnect rates, the higher the penetration

Level

Level

Economic benefits of penetration:

Line . GDP growth: +10% penetration =
he Level +0.8% GDP growth – Source:
World Bank

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- Inclusiveness: 50% of LSM1-4 now connected

Fifth level



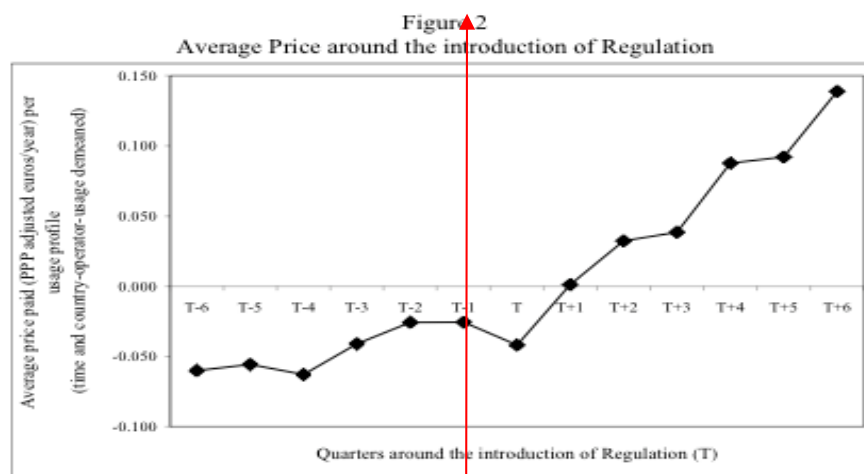
Interconnect cuts
impact policy objectives



Retail impact

Retail prices pre and post intervention (multi-country study 2007)

- Second
- Third
- F

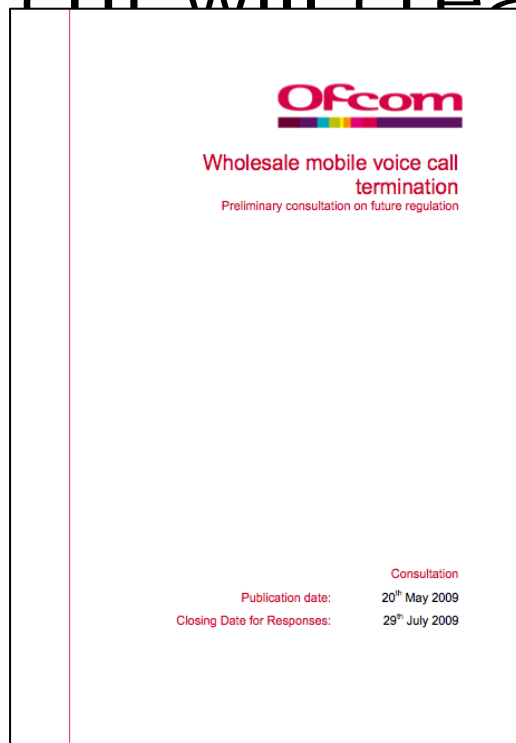


Intervention

Source: testing the "Waterbed" Effect in Mobile Telephony, Christos Genakos and Tommaso Valletti, October 2007

Interconnect is a net source of income for all SA mobiles.

A cut in interconnect will create winners and losers



Level 1: Interconnect subsidises those who receive more calls than they make: typically the poor.
 Level 2: Lower interconnect means marginal users become unprofitable to serve or connect.

Changing the level of termination charges is likely to affect retail charges in ways that produce 'winners and losers' – that is, there are likely to be some distributional effects. **The net effect of the rebalancing of calls and subscriptions charges would likely favour consumers that make more calls, against those that make fewer calls**".

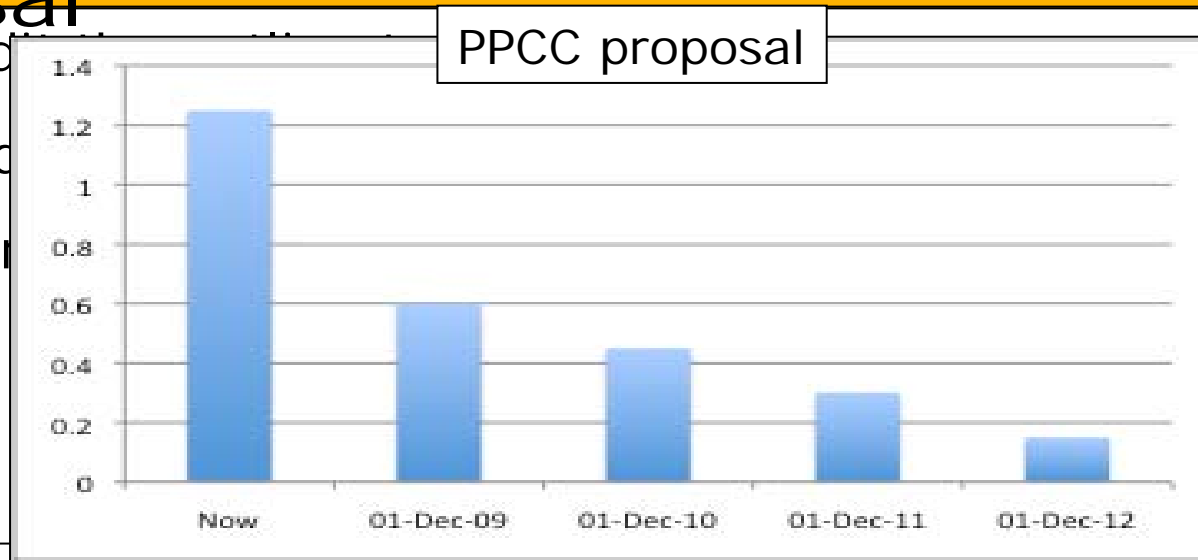
• A cut in interconnect may favor fixed line users at the expense of mobile users, the rich at expense of poor and the

Business impact of the PPCC proposal

Click to edit

Second

Rand/min



MTN interconnect prices aligned with the COA/CAM regulations, designed to ensure cost orientation.

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Investment plans and long term contracts are based on these audited costs (compiled when our CAPEX was only R2.8bn)

Second level

The PPCC proposals will set prices below cost.

Third level

All MTN profits are being re-invested into CAPEX so there is no excess to absorb prices below costs.

Fourth level

Fifth level

Immediate cut to R0.60 means no time to rebalance the business: cost cutting will be required

MTN CAPEX investment benefits SA

- Second Outline Level CAPEX

5.

Third Outline Level

One of the most capital intensive networks

- Fourth Outline Level

Fifth Outline Level

Substantial benefits to South Africa's future

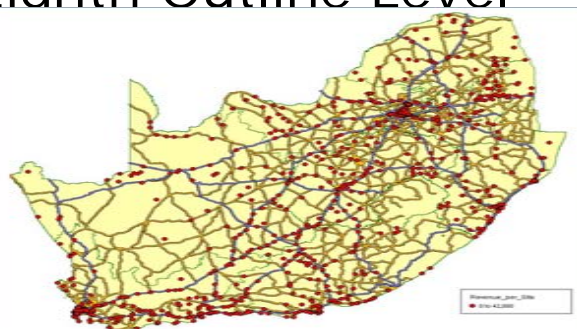
Sixth Outline Level

Seventh Outline Level

Eighth Outline Level

INTERNATIONAL CABLES

3G



Fourth level
A steep cut in interconnect threatens these investments

Fifth level

Wider economic impact of the PPCC proposals

- Second Outline Level
 - Lower rural coverage
 - Third Outline Level
 - Lower investment in broadband (each 10% growth in broadband penetration boosts GDP by 1.4%)
 - Fourth Outline Level
 - Fifth Outline Level
 - Mobile competition may be hurt by the PPCC proposals
 - Sixth Outline Level
 - Seventh Outline Level
 - Impact on 634,000 jobs in SA dependent on the telecoms service industry (source Indepen, 2006)
 - Eighth Outline Level
- 1. Ninth Outline Level
 - Impact on >R27 billion in revenue for the Government in the form of value added, income and corporation tax **plus** industry specific fees of R1.5 billion and dividends of R1.8 billion (source Indepen, 2006)
 - 1. Second level
 - 1. Third level
 - 1. Fourth level
 - 1. Fifth level

Our vision for mobile technology in South Africa

- Click to edit the footer text for consulting in access for all
- Second Outline Level
 - Grow access for low income subscribers further
 - Third Outline Level
 - Further improvement in rural coverage
 - Fourth Outline Level
 - Continue to drive retail prices down
 - Fifth Outline Level
 - Sixth Outline Level
 - Continuous investment in infrastructure
 - Seventh Outline Level
 - Drive adoption of the latest technology
- Ninth Outline Level Click to edit Master text styles
 - Broadband penetration
 - Second level
 - Mobile television
 - Third level
 - Continue contribution to jobs growth and the economy
 - Fourth level
 - Related industries
 - Fifth level
 - Skills and new jobs

- The lowest possible interconnect does not necessarily deliver best deal for consumers.

- Fourth Outline Level

- In the US, interconnect is very close to zero but users get charged by their networks both to make and receive calls.

1. Ninth Outline Level
 - In India interconnect is very close to zero but penetration is 37%

1. Third level

1. Fourth level

• The real challenge is to bring rates down



Thank You - Questions

