PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Multinet
Wireless

SUBMISSION

I.R.O

THE HIGH COSTS OF INTERCONNECTION & TELECOMS IN SOUTH AFRICA

1: MYTHS & FACTS

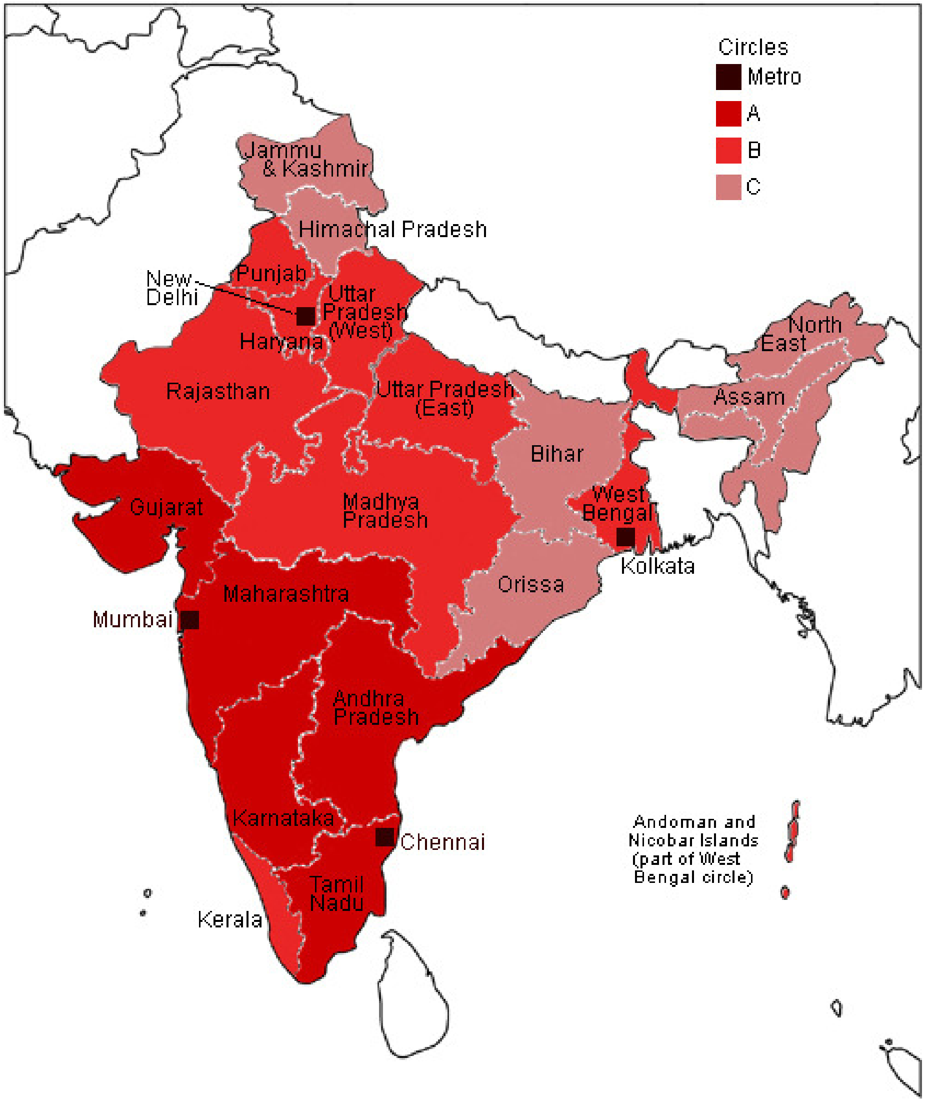
Multinet Wireless

"The market in South Africa is very competitive"

- **Only 3 operators with 2 dominant – de facto oligopoly**
- **Lack of competition a result of government policy**
- **Example of India very instructive**
- **In India, 23 regional licences ("Circles")**
- **In excess of 100 GSM licences**
- **Market extremely competitive**
- **There are valuable lessons to be learnt from India**

2: REGIONAL LICENCES - INDIA

Multinet Wireless



Multinet Wireless

3: LICENCES BY OPERATOR

Operator	Licenses held	Licenses approved Jan 2008
Aircel	23 (operates in 9)	--
Bharti Airtel	23	--
BPL Mobile	1	--
BSNL	21	--
Datacom Solutions	--	22
HFCL Infotel	1	--
IDEA Cellular	13 (operates in 11)	9
MTNL	2	--
Loop Telecom (BPL)	--	21
Reliance Communications	21	--
Reliance Telecom	8*	--
Shyam Telelink-JFSC Sistema	1	21
Spice Telecom	2	4
S Tel	--	6
Swan Telecom	--	13
Tata Teleservices	20	3
Unitech	--	22
Vodafone Essar	22 (operates in 16)	--
TOTAL LICENCES:	**149 +**	**121 = 270**

4: MYTHS & FACTS II

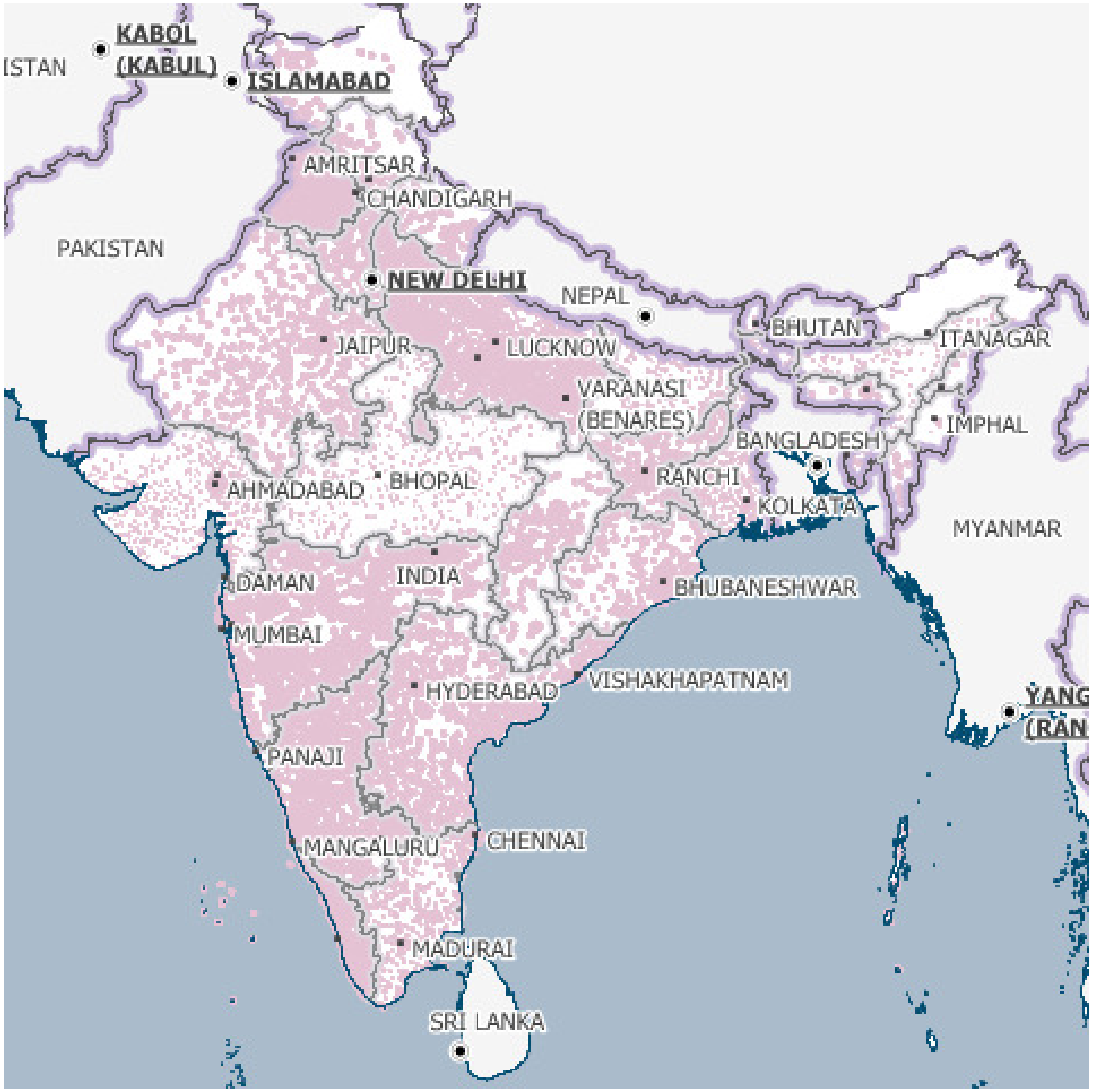
Multinet Wireless

"Myth 1: South African cellular costs are the highest in the world"

- **Stated Indian coverage urban only with 15% mobile teledensity**
- **India teledensity actually 37.87% (TRAI August 2009)**
- **Urban teledensity is 88.66%!**

5: SAMPLE COVERAGE MAP

Multinet Wireless



6: INDIAN MARKET

Multinet Wireless

Wireless Subscribers	
Total Wireless Subscribers	391.76 Million
% Growth During Quarter	12.93%
Urban Wireless Subscribers	282.05 Million (72%)
Rural Wireless Subscribers	109.71 Million (28%)
GSM Subscribers	297.26 Million (75.88%)
CDMA Subscribers	94.50 Million (24.12%)

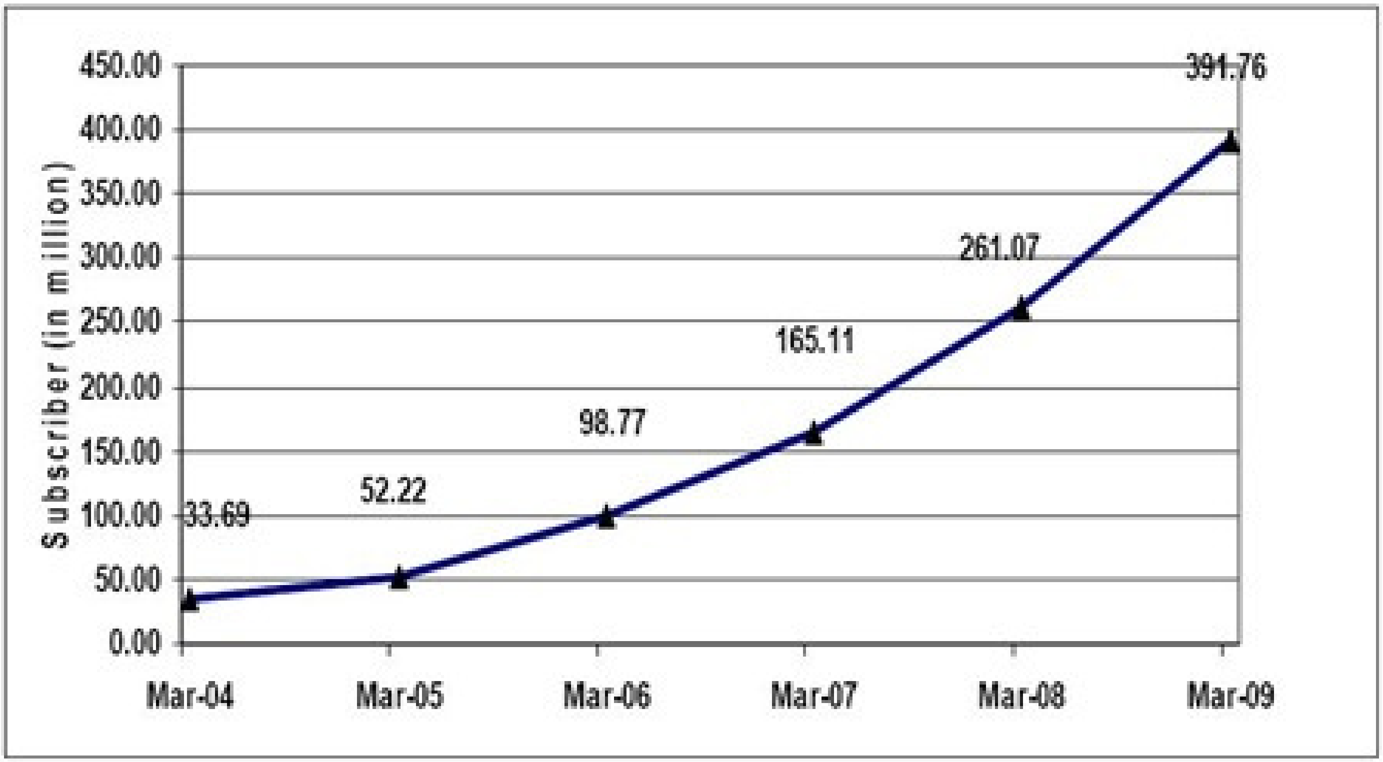
Indian Market – March 2009

Rural subscribers make up 28% of total

7: MARKET GROWTH

Multinet Wireless

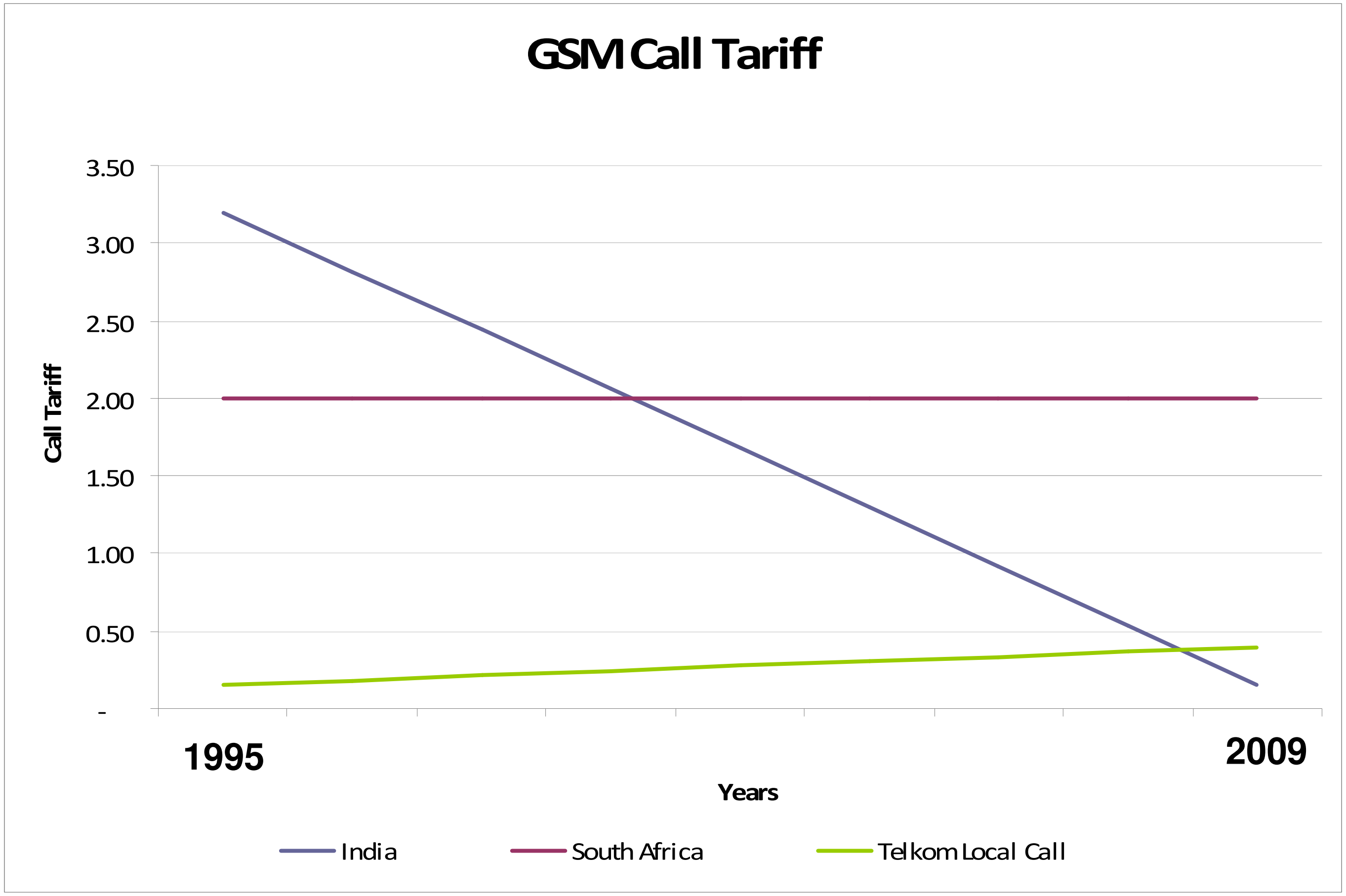
Figure-6: Growth Trends of Subscriber Base (Wireless)



In 5 years, India has gone from 33 million mobile subscribers to close to 400 million !

8: AFFORDABILITY

Multinet Wireless



9: MYTHS & FACTS III

Multinet Wireless

"Myth 2: Cell firms in South Africa make obscene profits"

- **Typical SA GSM operator EBITDA margins 30-40%**
- **EBITDA simply is Revenue minus Direct Costs**
- **Indian operators' EBITDA also around 30-40%**
- **So, there should be no issue?**

10: MARKET COMPARISON

Multinet Wireless

	VODACOM	AIRCEL
Av. Revenue per Min.	R1.98	R0.15
Av. User Minutes per Month (MOU)	67	354
Av. Revenue per User	R133	R53.1
EBITDA	34%	38%

In spite of higher installed capacity per user and lower revenue per user, Aircel EBITDA is higher!

11: OPERATOR COMPARISON

Multinet Wireless

	SOUTH AFRICA	MUMBAI CIRCLE
Population	47M	15M
Poverty Level	15%	35%
Available Population	40M	10M
No. of 2G Operators	3	14
Population/Operator	13,333,000	714,000

Note: Mumbai figures exclude 3G operators

By comparison, competitive situation in SA very poor

12: THE INDIA EFFECT

Multinet Wireless

- **In India, operators are regionalised**
- **Basic call tariffs are therefore localised**
- **Inter-region calls are charged at higher rate (>3x)**
- **Roamers pay roaming charges to make/receive calls**
- **In South Africa, one tariff for local and national calls**

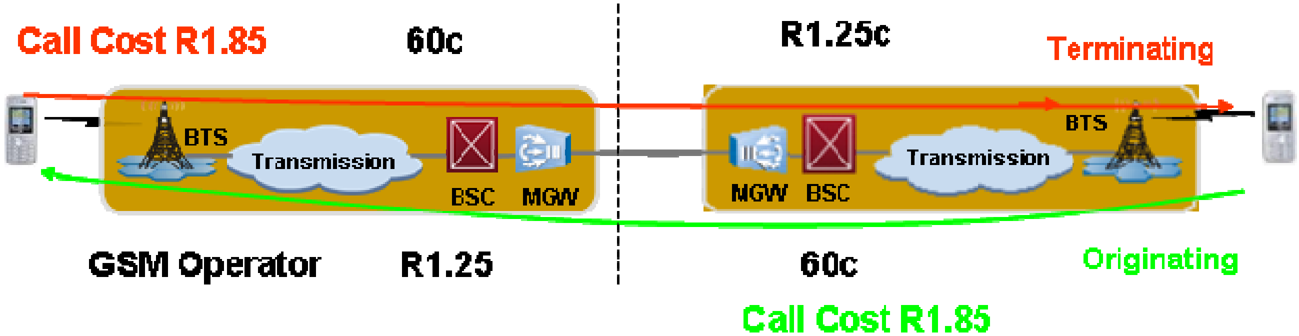
In SA, rural subscribers subsidise business users by >300%!

13: INTERCONNECT PROBLEM

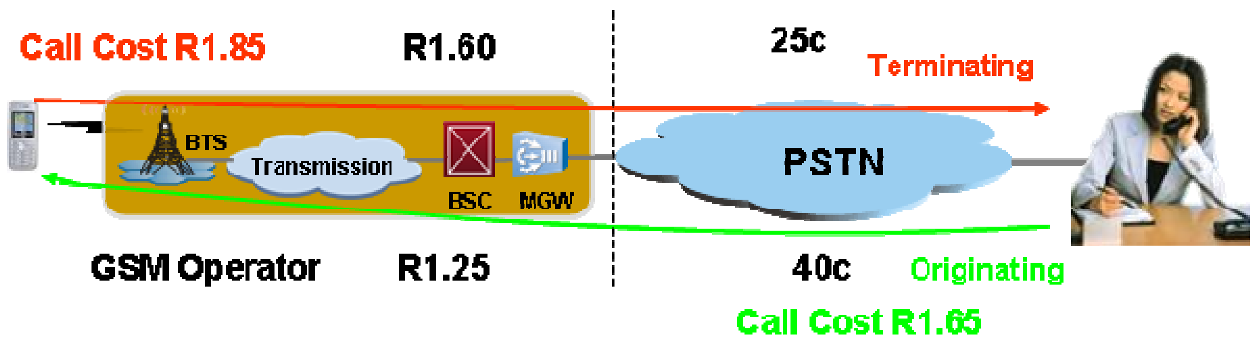
Multinet Wireless

EXTRANET COST PER MINUTE:

Mobile To/From Mobile



Mobile To/From Telkom



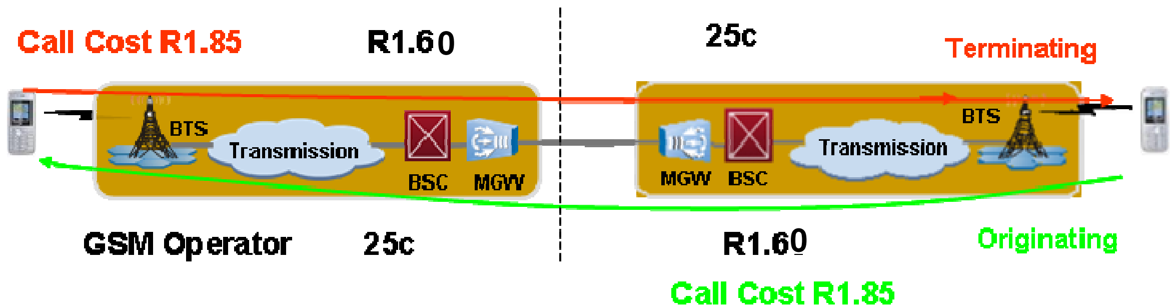
Large divergence in Origination costs – "access" beneficiaries pay more!

14: INTERCONNECT PROBLEM

Multinet Wireless

EXTRANET COST PER MINUTE:

Revised Mobile To Mobile



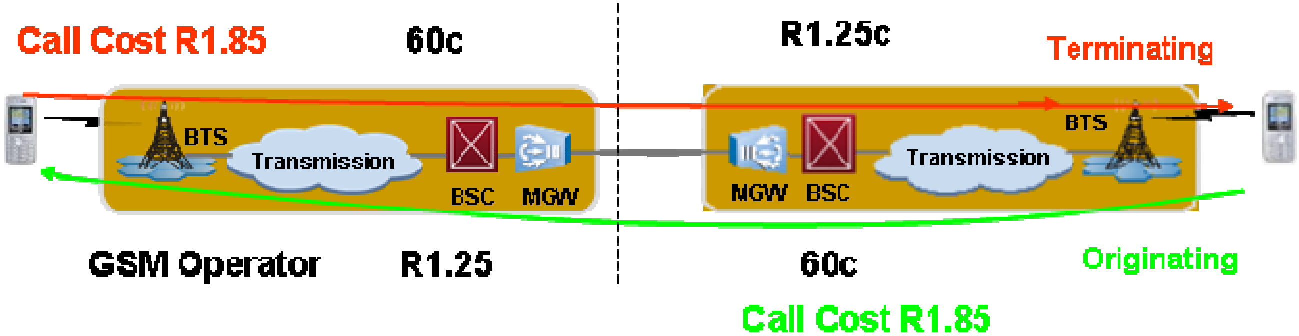
Likely outcome if interconnect rate forced down to 25c (same as Telkom tariff)

15: INTERCONNECT PROBLEM

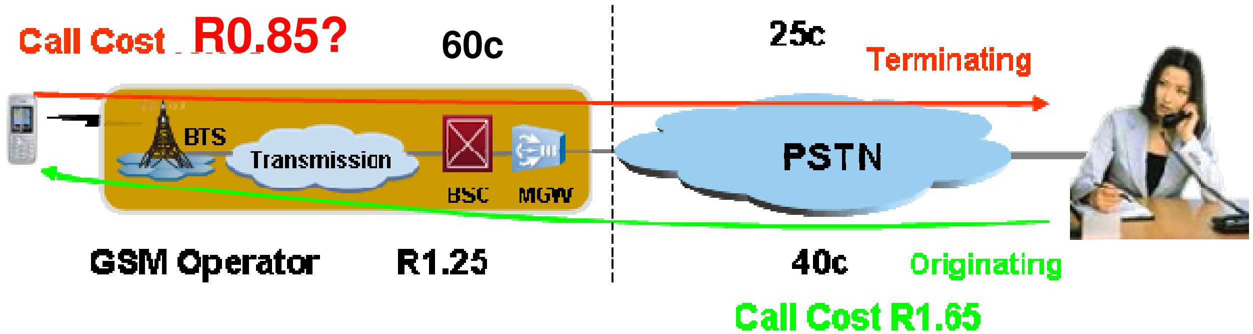
Multinet Wireless

EXTRANET COST PER MINUTE:

Mobile To/From Mobile



REVISED Mobile To/From Telkom



If top interconnect rate is "social", why is Telkom tariff then not 85c!

16: WHAT IS OUR PROPOSAL?

Multinet Wireless

- Greater competition – more GSM operators (not national ones)
- Licence Metro and Provincial operators
- Regulate Interconnect and National Roaming rates
- Licence only 2 national Broadband licences (2.5GHz)
- Provide 2.5GHz licences for LTE to Metro & Provincial operators
- Refarm unused spectrum from existing operators
- No further spectrum awards to incumbents
- Transfer some wealth to Government through higher fees
- Proposed Interconnect rate should be 29c! (ref. Neotel)

17. CONCLUSION

Multinet Wireless

Greater competition is the way, not greater regulation

Through greater competition, regional operators will drive down the cost of local calls!

The hype around new broadband licences must not detract from the cellular cost problem