PPCC Public Hearings

MTN SA CEO - Karel Pienaar

Cape Town 30th November 2012

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Agenda and content

1. Mobile pricing - Much has changed and for the good
2. International benchmarking - How does SA retail pricing compare with international peer markets?
3. Mobile affordability
4. Where to from here –
   i. What are the challenges and how can Government assist?
   ii. How does MTN’s investment support the “Broadband for All” vision

MOBILE PRICING

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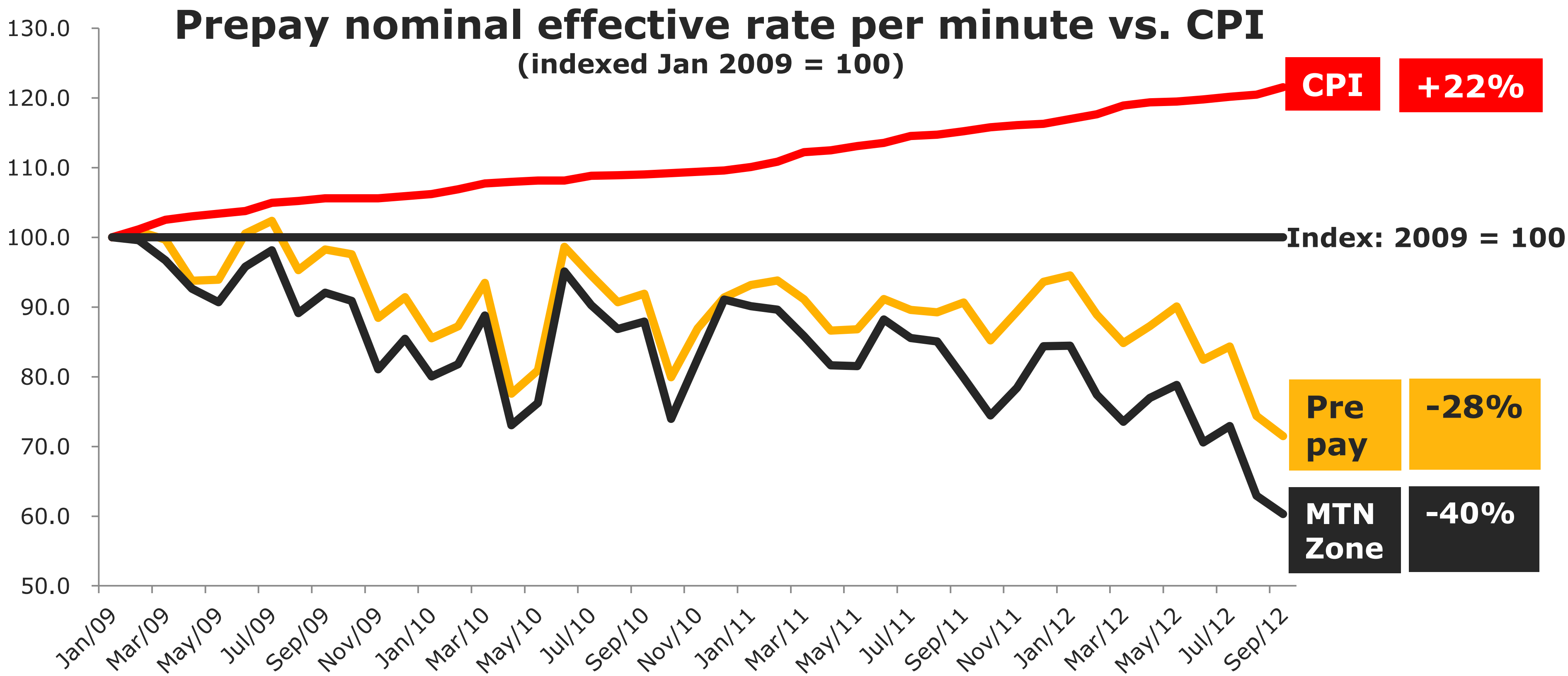
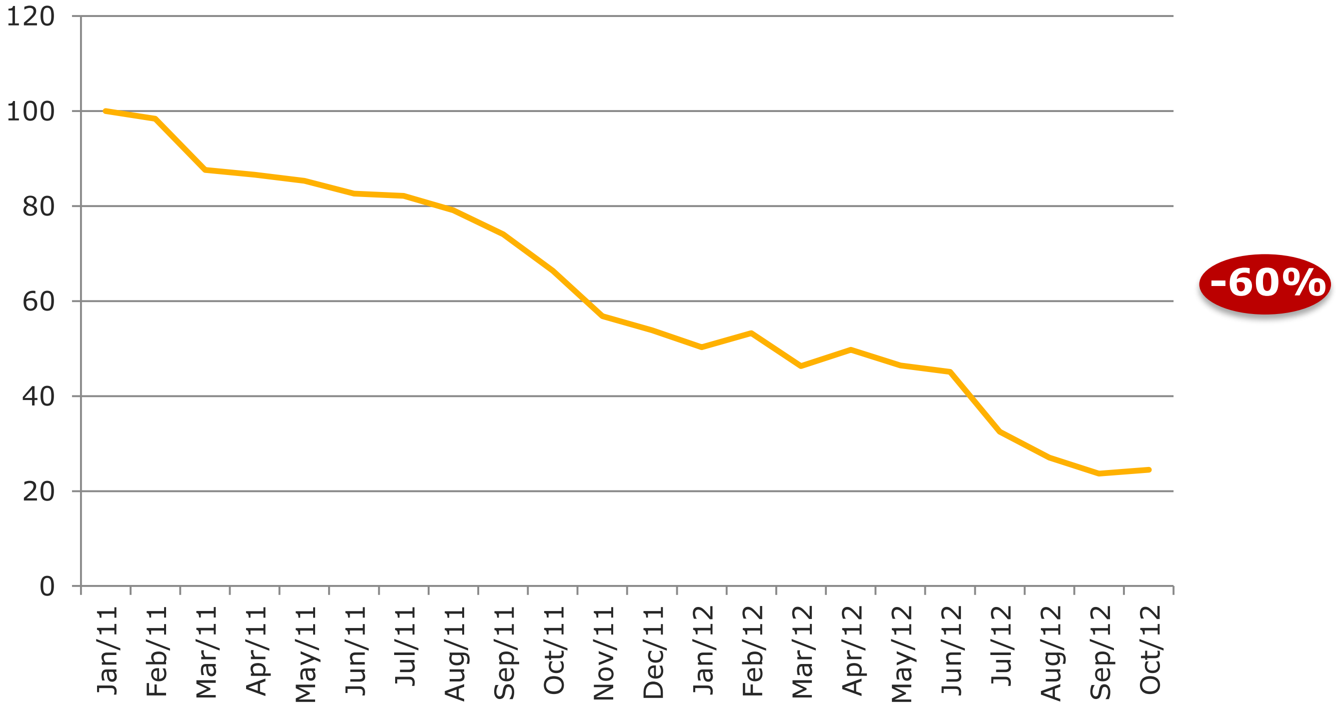
How have MTN voice prices fared in the last 3 years?



An average MTN Zone customer now pays less than 99c / min to make a voice call (and our customers experience that)

Data prices are falling even faster

MTN data effective tariff per MByte
(indexed Jan 2011 = 100)

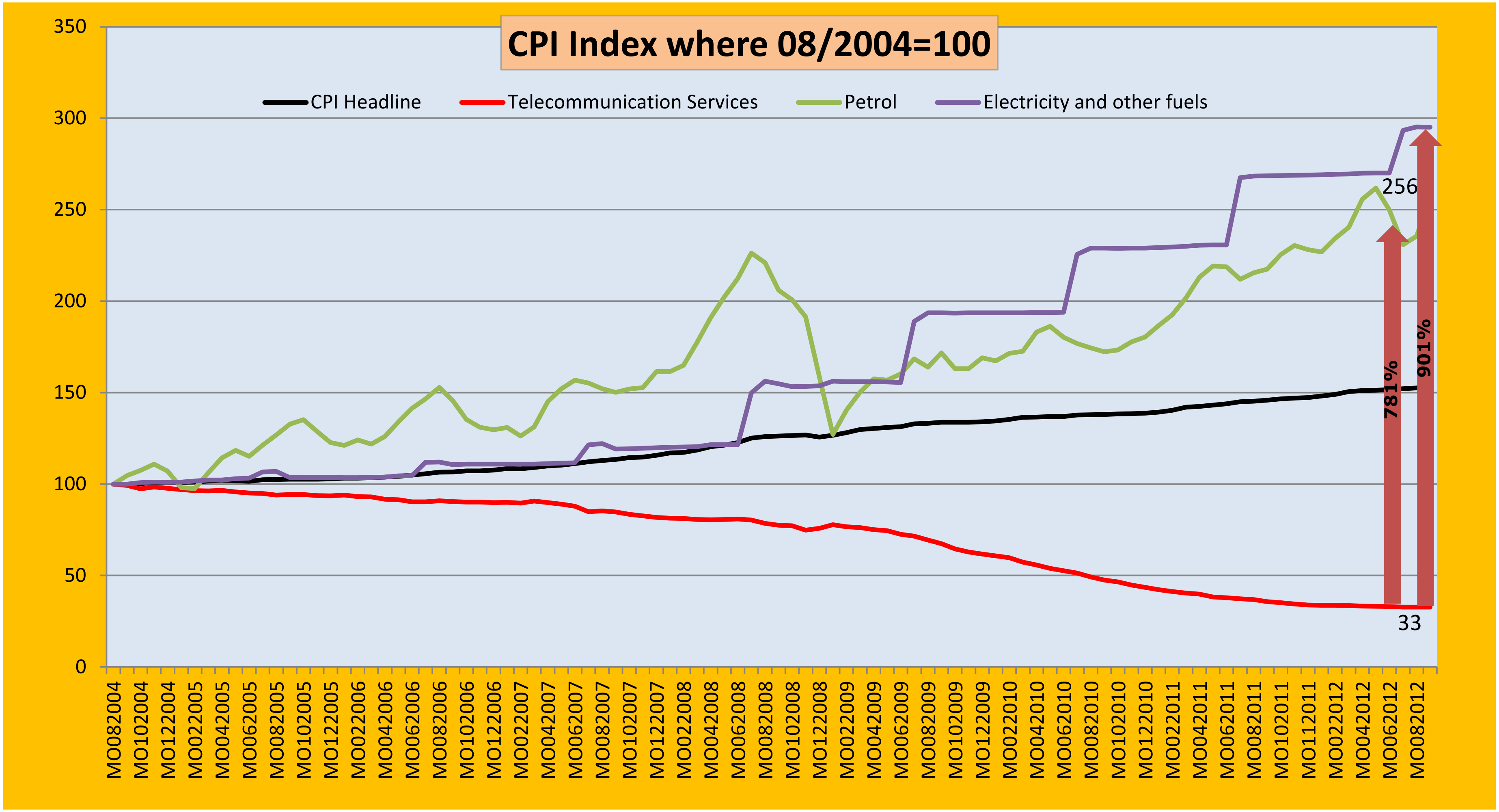


Data becoming ever more relevant

- c. 50% of base is data active
- Almost 4 million smart phones on the network
- MTN Download speed = 6.1Mbps (Source: My Broadband)

Over the last 23 months, price per Mbyte has fallen by 60%

Where should the focus of price reduction really be?



PRICE BENCHMARKING: Strategy Analytics and Pygma Consulting Report (2012)

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Why are "PEER" group countries critical in a price benchmarking analysis?

•A performance comparison must be based on similar socio-economic and ICT indicators otherwise it will be meaningless as retail prices are influenced by these factors.

Socio-economic Indicator	ICT Indicator
Area (sq km)	Mobile penetration rates
Share of Urban Population %	Number of Base Stations per sq km
GDP per capita	Share of Technology
Purchasing Power Parity (PPP)	EBITDA margin

Independent Benchmarking report having applied this rigorous selection criteria identified 10 Peer Group Countries for South Africa:

Algeria	Mexico
Egypt	Saudi Arabia
Morocco	Columbia
Poland	Peru
Turkey	Venezuela

Source: Strategy Analytics / Pygma Consulting (2012)

Price Benchmarking Report Methodology

Strategy Analytics / Pygma Consulting benchmarking methodology:

1. Start with 151 countries and selected 10 "peer" countries
2. Price benchmarked all services, i.e. voice, SMS and data;
3. Establish South African usage profiles - considers prices from a mobile user perspective;
4. Collection and analysis of actual effective mobile tariffs (not headline tariffs) for MTN, Vodacom and Cell C and peer countries
5. Analysis of results must account/reflect purchasing power parity ("PPP")/Tax and VAT levels and discounts.

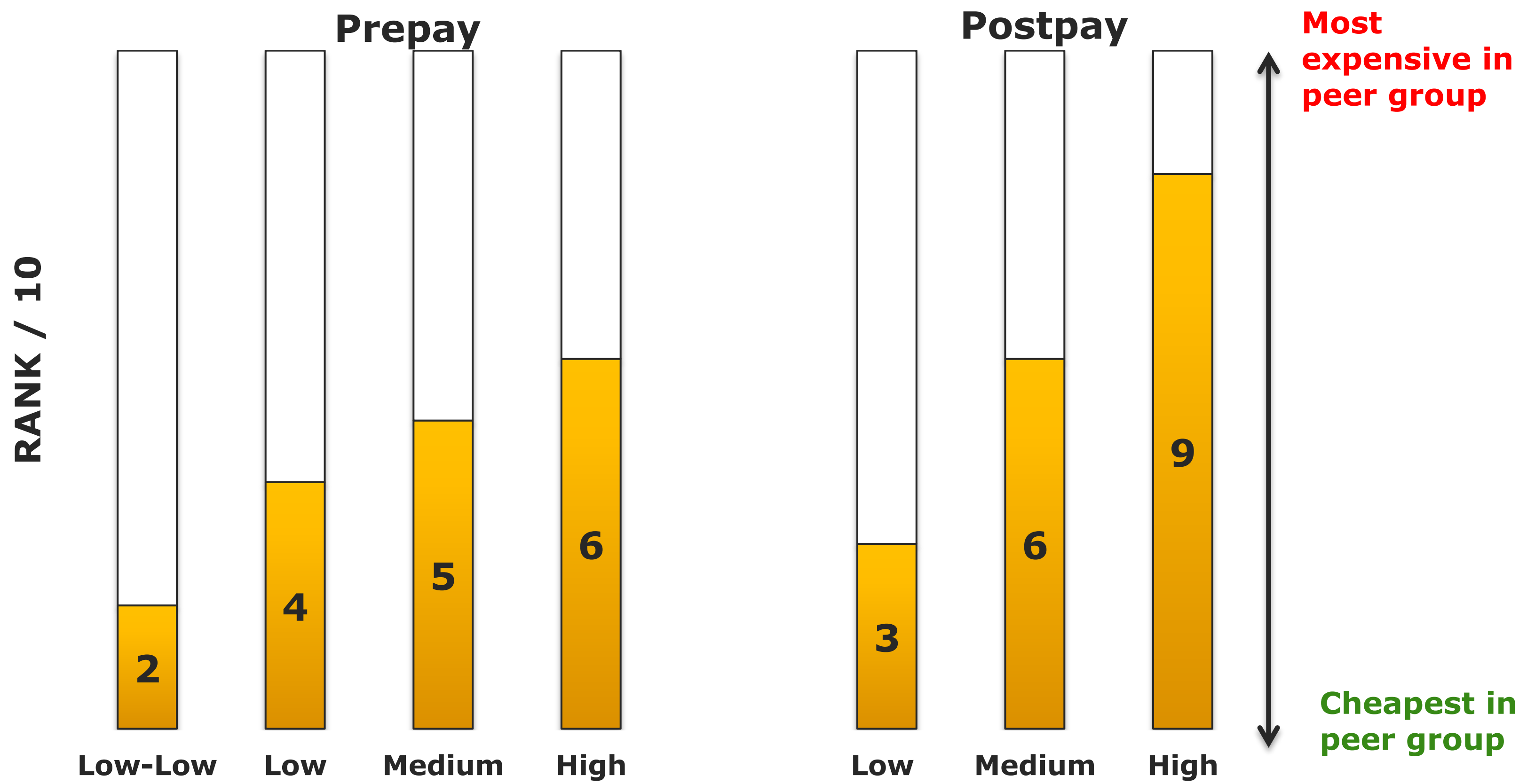
 # Competitive information shared directly with Consultant to comply with competition laws

Source: Strategy Analytics / Pygma Consulting (2012)

Results show the poorest get a great deal in SA – up to 65% cheaper than average in peer group

Voice + SMS + data baskets

SA rank in peer countries group[1]



% cheaper / **% more expensive** than average: -65% -29% -15% -10% -51% -29% +9%

1. Source: Strategy Analytics / Pygma Consulting / MTN analysis

The competitive landscape has changed

MTN's traditional cellular competitors

New Competitors

In summary on mobile pricing

1. SA may not have the lowest mobile price per minute in the world, BUT
2. We compare very favourably with peer countries in low usage category (where majority of mobile subscriber base is located (LSM 1-4))
3. Effective prices are falling quickly – cf. voice by 40% since Jan 2009, data even more aggressively (c. 60% yoy);
4. SA has great voice and data coverage, cheap devices, R4-6bn capex p.a. being invested in future-proofing a key piece of economic infrastructure; and
5. Mobile is delivering Broadband for All, while also ensuring the poorest South Africans get a good deal.

MOBILE AFFORDABILITY

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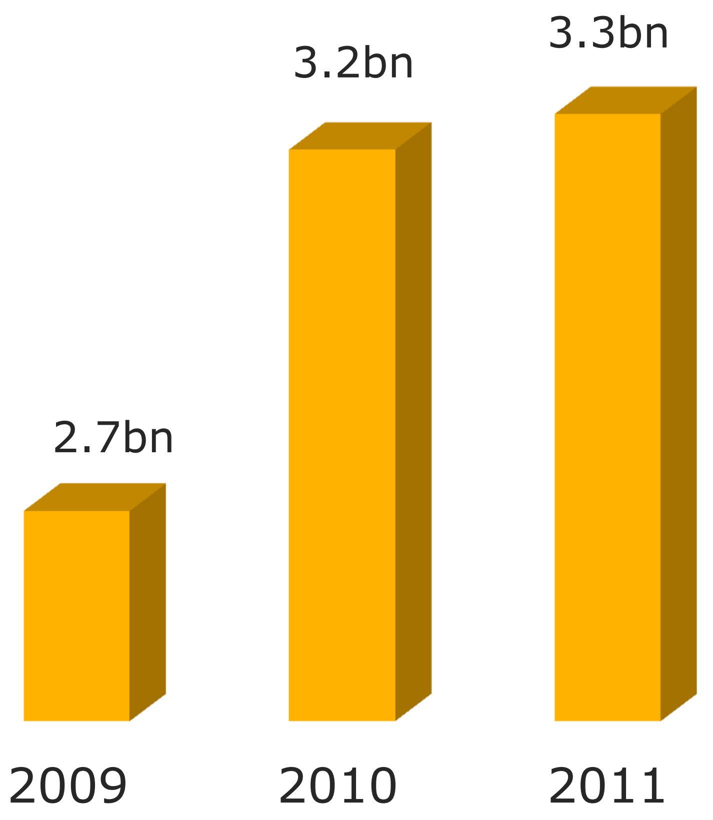
But affordability is more than just a price per minute

- Affordability =
  1. Cost of *getting* connected,
  2. Cost of *staying* connected, and
  3. Cost of *using* the service.
- Price per minute / price per MB is just about the latter.
- Ignores significant drivers of affordability: eg. MTN spends to to 3.3bn p.a. subsidizing SIMs and handsets to get more people connected, faster.

SIM /Handset subsidies pa. (Bn Rand)[1]



1. Connection Incentive and Promotional Funding

What has MTN Done in the past 6 months?

MTN handset strategy

❖ **MTN has driven a low cost handset strategy applying heavy subsidies over the past three years that has seen the average handset cost declining by 10% to 15% year on year, and this has attracted new mobile customers in LSMs 1 to 3.**

BUT WHAT ARE OUR CUSTOMERS TELLING US ABOUT THEIR NEEDS…

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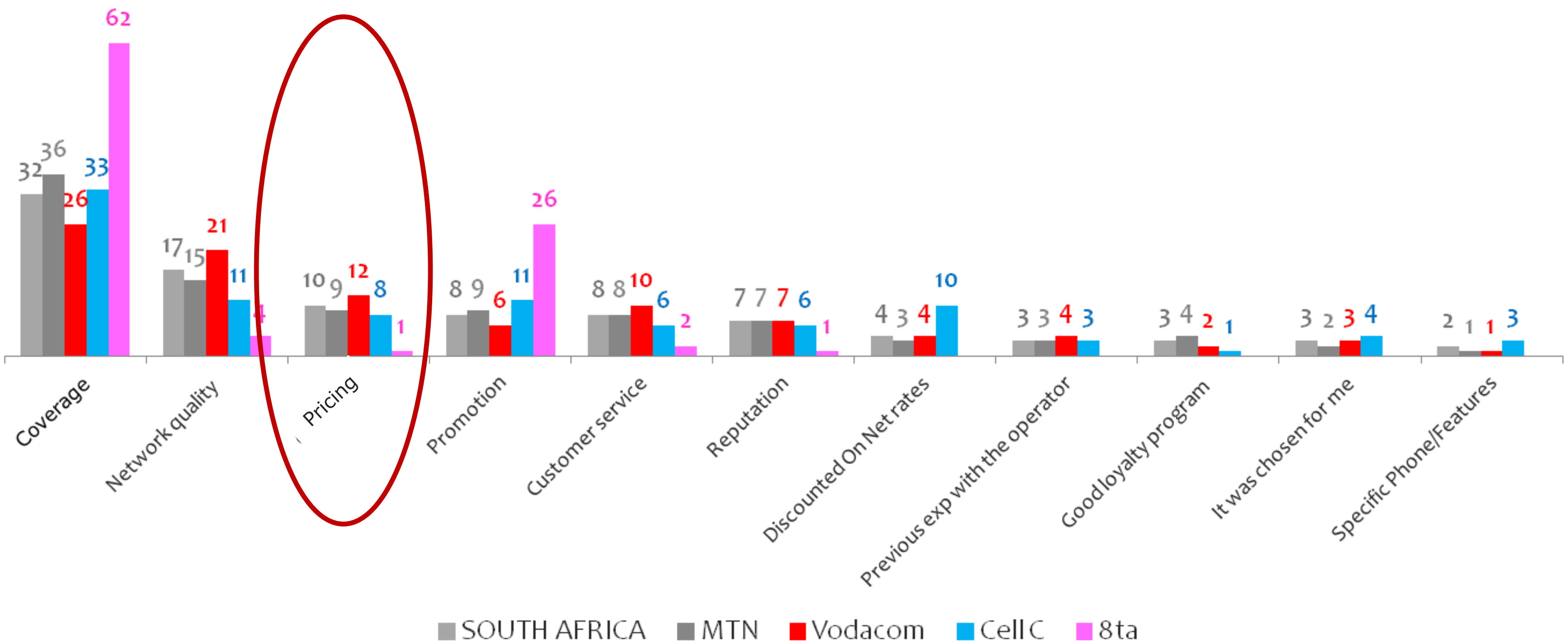
Reasons for selecting a mobile operator

❖**Network quality and coverage are of prime importance when choosing a mobile service provider. Promotions also have some influence together with pricing.**



Base: All Respondents n=2000 (Pop n = 17833)

Nielsen Mobile Report 2012

INVESTMENT CASE/ MARGIN COMPARISON

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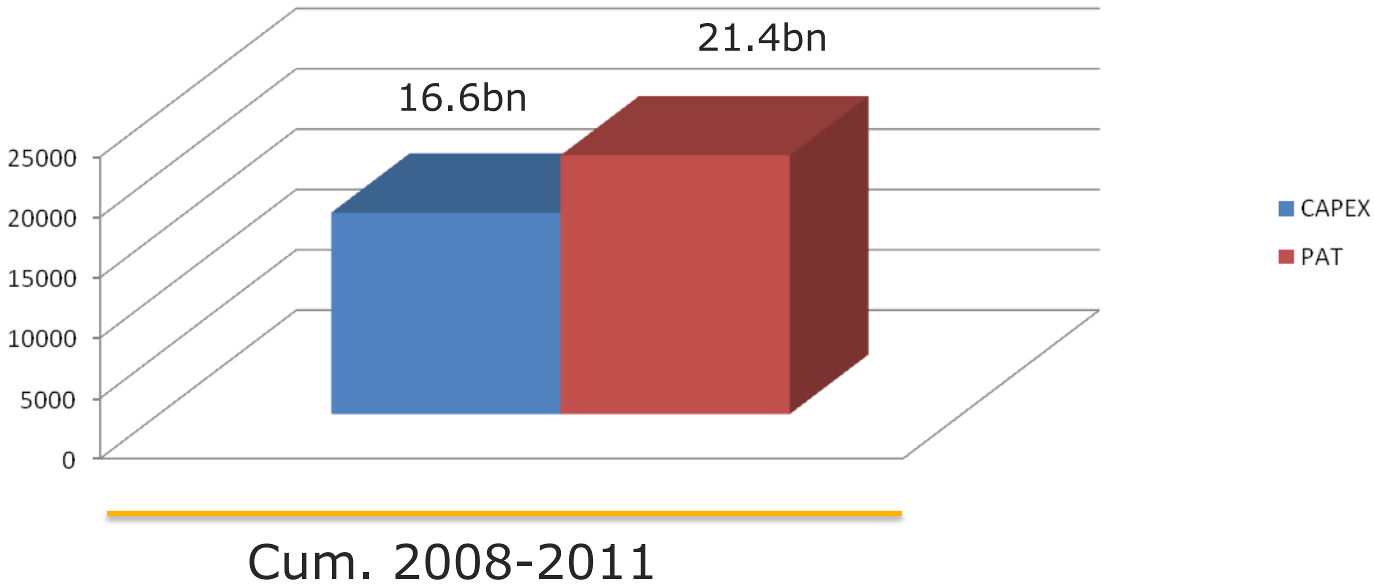
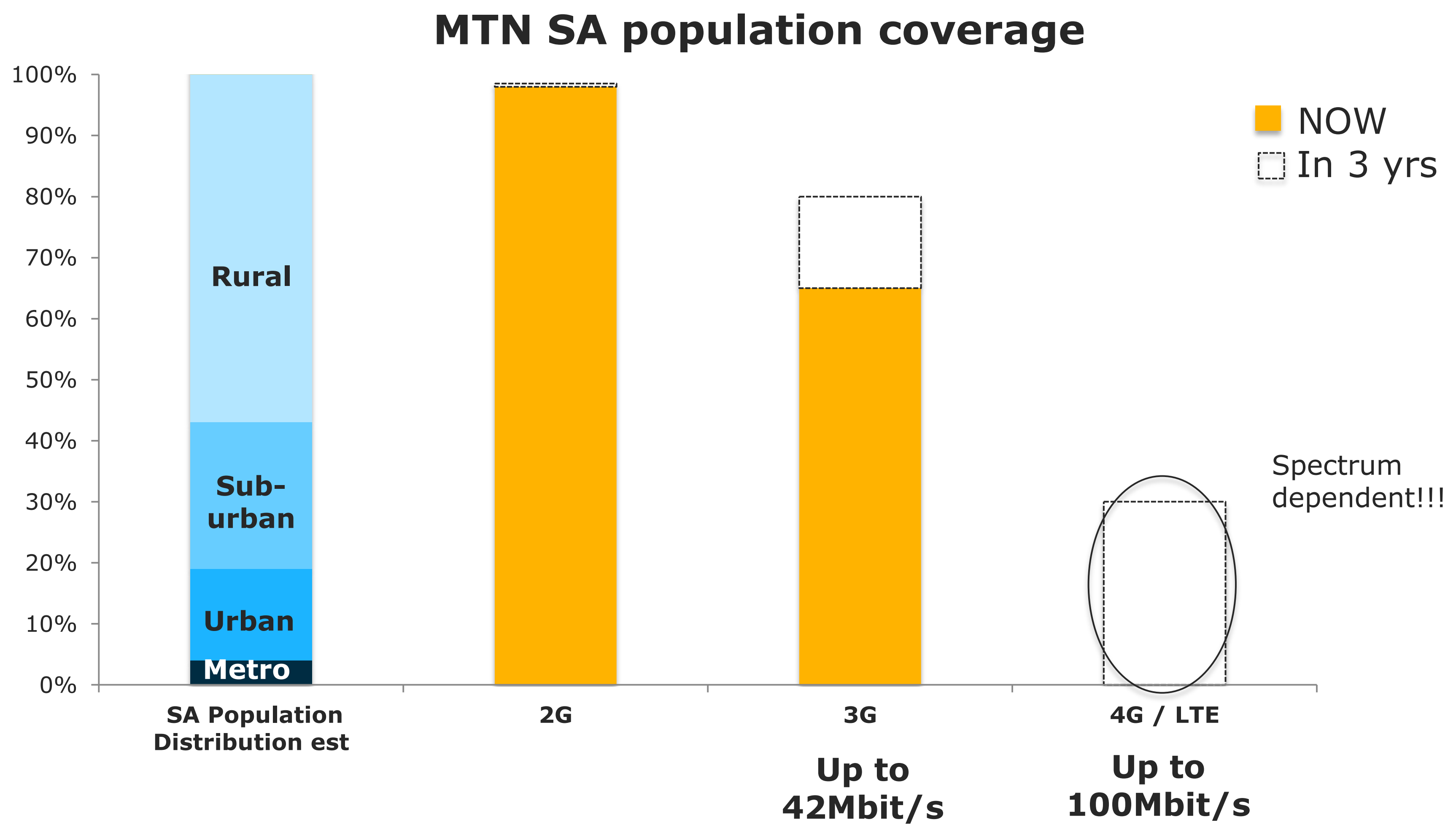
80% of MTN SA profits are being ploughed back into SA infrastructure

Where is MTN SA spending its profits?



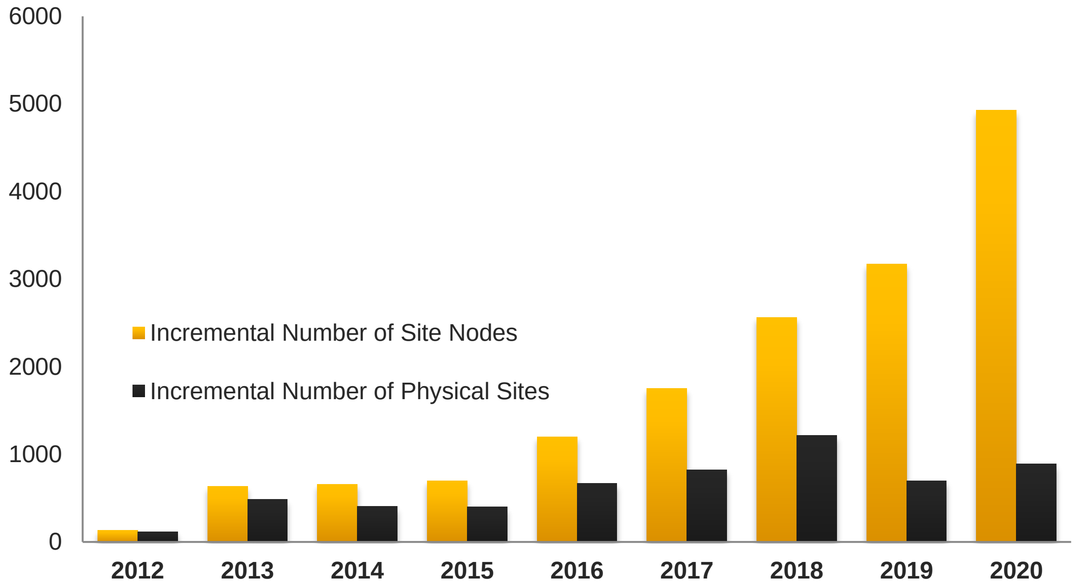
- Over the last 4 years, MTN has re-invested nearly 80% of its profits into infrastructure (delivering new coverage, capacity, broadband).

The results of MTN's investment : Broadband for All being delivered *today*



We still have a long way to go on infrastructure…

Based on maximum performance of individual nodes, approx 6,000 more physical sites will be required to carry the traffic forecasted for 2020.



- **Site acquisition**
- **Power and utilities**
- **Environmental approvals**
- **Fibre or microwave backhaul**

The speed at which these rollouts need to happen is still accelerating. And the vast majority of these new sites will require fibre to the base station…

What is the way forward?

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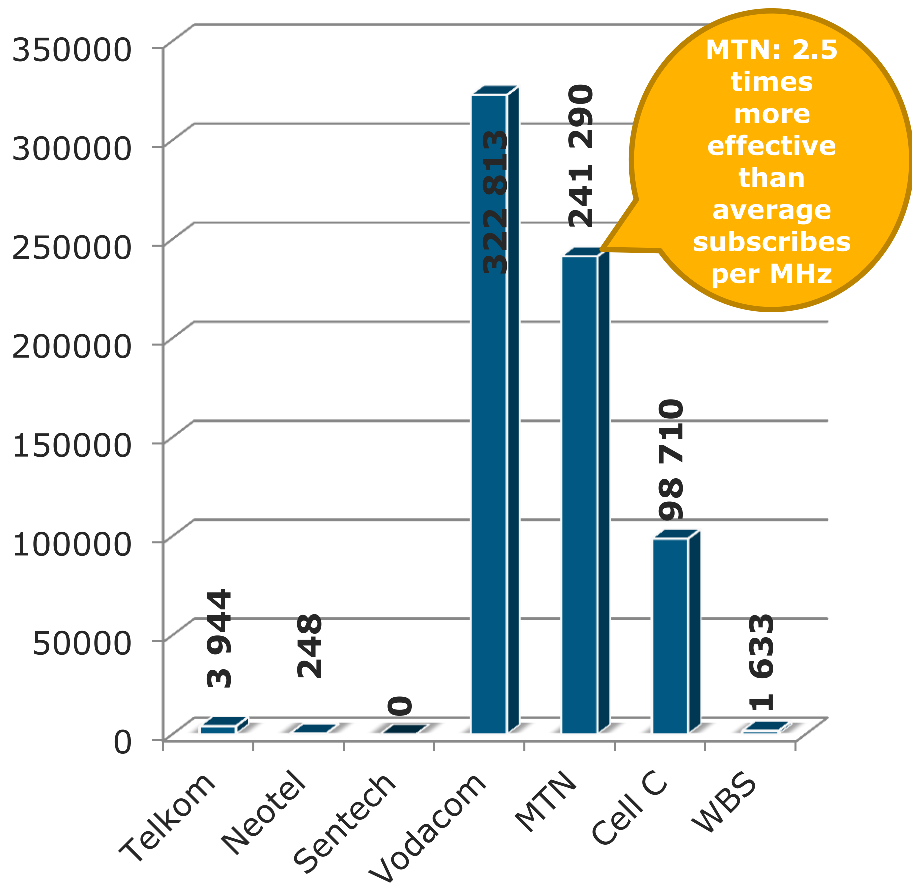
What pragmatic steps can Government take - Spectrum

- The lions share of Broadband for all will be delivered by mobile operators;
- Don't exclude the most spectrally efficient operators (those that have the largest number of subscriber per MHz) from obtaining the necessary spectrum that will be utilised to drive the attainment of the SA vision of Broadband for all.
- Finalise the Broadband policy earlier rather than later

Number of subscribers per MHz



What about the next 3 years?

1. Competition has driven down mobile pricing (comparing favourably with peer countries) - **let market forces continue to drive pricing down**

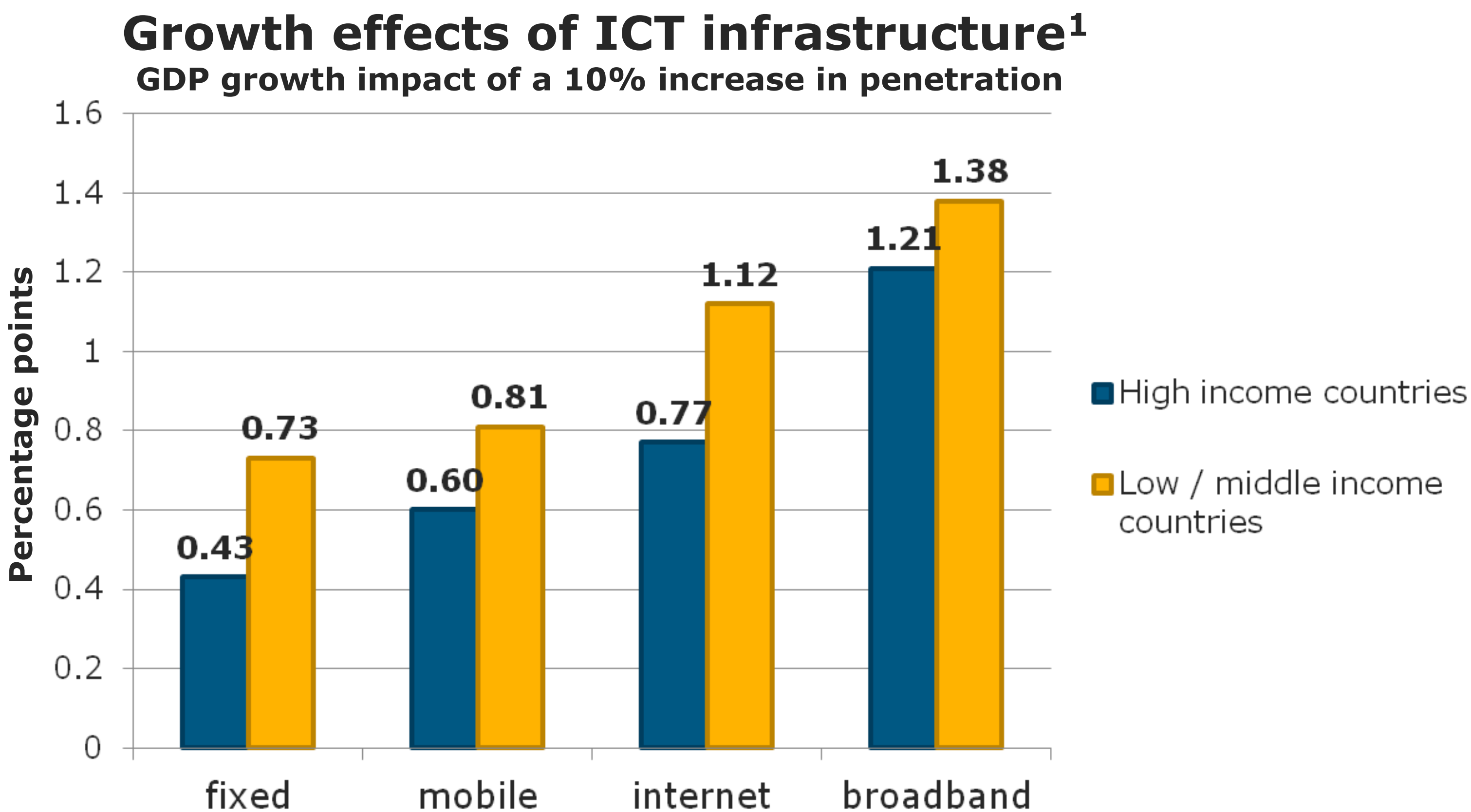
2. There is no place for regulatory subsidies between mobile operators any longer ("asymmetries on interconnection for mobile") - **don't reward inefficient operators**

3. The big challenge and opportunity for SA is now data**. Data needs massive capital investment.** With your help, we can leapfrog years of fixed under-investment and deliver "Broadband for All" faster than ever before

4. **Incentivise Broadband investment in infrastructure roll out by private** companies by providing spectrum to those that can use it efficiently and that have the required economies of scale

5. Address Rights of Way, permits – finalise the rapid roll out guidelines

The prize: economic growth, jobs and inclusiveness



MTN is looking forward to continuously delivering better prices, better broadband, better growth and new jobs opportunities to SA

1) Source: World Bank (2009)

Full Steam Ahead

Thank You