Cost of communications in SA

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Outline

- Absence of evidence
- Demand side & supply side data
- Negative implications of Africa position at WICT-12 on affordability
- What is happening in the market/let the people speak
- Fixed, leased lines, data pricing
- Interconnection - terminate rate debate
- Prepaid mobile pricing
- Profitability of mobile sector
- Recommendations

Challenges of gathering evidence...

- Classical asymmetries of information
- Not even high level ITU data available (little demand side data from StatsSA and incomplete response on the basis of data not available from operators to ITU long questionnaire in 2010 - 2009 data- from ICASA)
- South Africa's ranking on the *ITU ICT Development Index* has slipped from 72nd in 2002, to 97 in 2012 (ITU 2002 -2012) In Africa, SA ranks fifth after Mauritius (69), Seychelles (71), Tunisia (84), Morocco (90), and Egypt (91)
- South Africa was ranked 72 globally in terms of network readiness down from 62 in the 2010 Network Readiness Index in Global Information Technology Report
- Census 2011, forthcoming StatsSA ICT Satellite Account.

Caution against unintended/anti-poor outcomes of Africa position at WCIT-12

- Revision the International Telecommunication Regulations (ITRs) that govern the way nations handle telecommunications network traffic as it crosses their borders at ITU 2012 World Conference on International Telecommunications (WCIT-12) in Dubai, in December
- Concerning proposals submitted to the ITU's Council Working Group to prepare for WCIT-12 are the contribution from European Telecommunications Network Operators Association (ETNO) and the Africa Region contribution submitted by Egypt.
- ETNO wants the ITU to designate Internet content providers as "call originators" and subject them to a "sending party network pays" rule that would allow telecommunications operators to charge them rates they believe are commensurate with the bandwidth their content consumes.

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Negative implications for digital economy in developing world

- Access to content would become more expensive if content providers must pass along costs.
- Content providers may respond by terminating connections with operators, especially in countries with populations that have limited buying power and access to payment mechanisms.
- The Internet would be "balkanized" by cutting off some countries from large swaths of content.
- Loss of this access to content and applications, given the role played by the Internet in supporting these countries' transitions from low-income to middle-income economies, could cost them billions of dollars in lost growth.

African Region's threaten affordable connectivity and access to content

- The Africa Region's proposal aims to impose broad regulations on the economics and content of the Internet, and seeks to redefine narrow ITR definitions to encompass the much-larger ecosystem of the digital economy.
- "The proposals from ETNO and the Africa Region seek to reverse twenty years of liberalized, pro-market policies in international telecom regulation. These policies have delivered affordable connectivity to some of the world's most remote peoples and places and are beginning to bring the benefits of the Internet to them as well." Rohan Samarajiva, LIRNEasia see www.researchICTafrica.net

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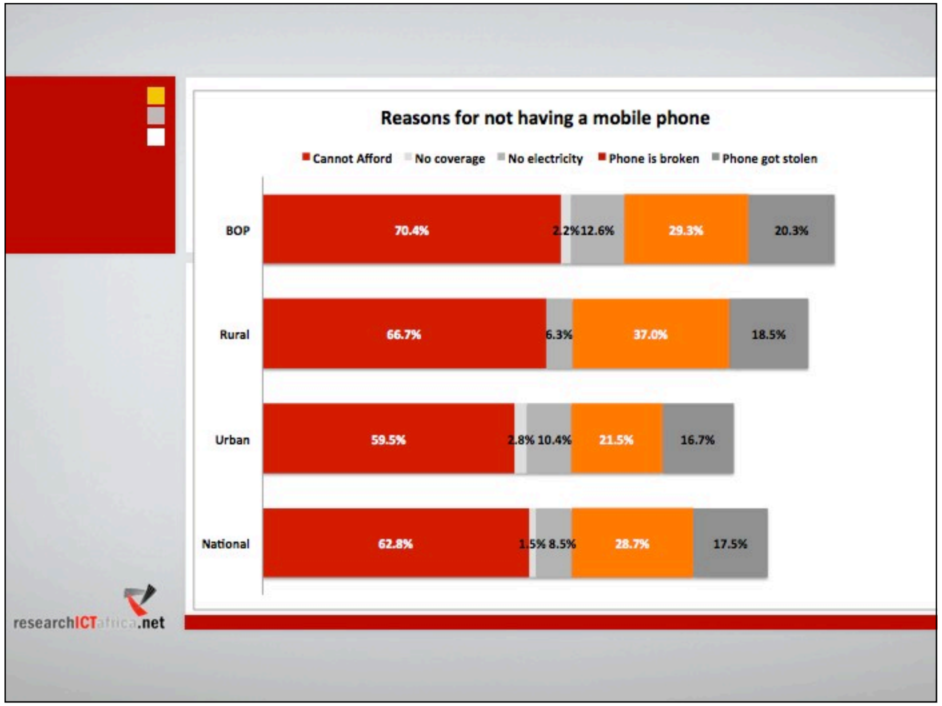
Census and RIA national ICT survey

	Census Data		RIA Survey Data	
	2006	2011	2007	2011
Households with Fixed Line	18,5%	14,5%	18,2%	18,0%
Households with Computer	15,6%	21,4%	14,8%	24,5%
Household with Radio	76,5%	67,5%	77,7%	62,3%
Households with Television	65,5%	74,5%	71,1%	78,2%
Households with Internet		35,2%	4.8% (Household) 15.0% (Individual)	19.7% (Household) 33.7% (Individual)
Cellphone Ownership	72,7%	88,9%	62,1%	84,2%

Mobile access good but usage suboptimal...

- Total connections in South Africa, the country has a 138% mobile penetration (operator supply side information). When looking at individual subscribers, the figure is at 66% of the population. (GSMA 2012)
- RIA 2011 and Census closer to 85%
- 15% duplicate SIMs (RIA 2011)
- Inhibiting factor for those without services price
- Price an inhibiting factor in limiting usage
  - 8% of income at national but bottom of pyramid closer to 18%
- Substitution
  - 1.0 - Voice fixed to mobile;
  - 2.0 - voice to text SMS, Mxit
  - 3.0 - Text to data - social netwoking platforms


Reasons for not having a mobile phone
Cannot Afford
No coverage
No electricity
Phone is broken
Phone got stolen
BOP
70.4%
2.2%
12.6%
29.3%
20.3%
Rural
66.7%
6.3%
37.0%
18.5%
Urban
59.5%
2.8%
10.4%
21.5%
16.7%
National
62.8%
1.5%
8.5%
28.7%
17.5%
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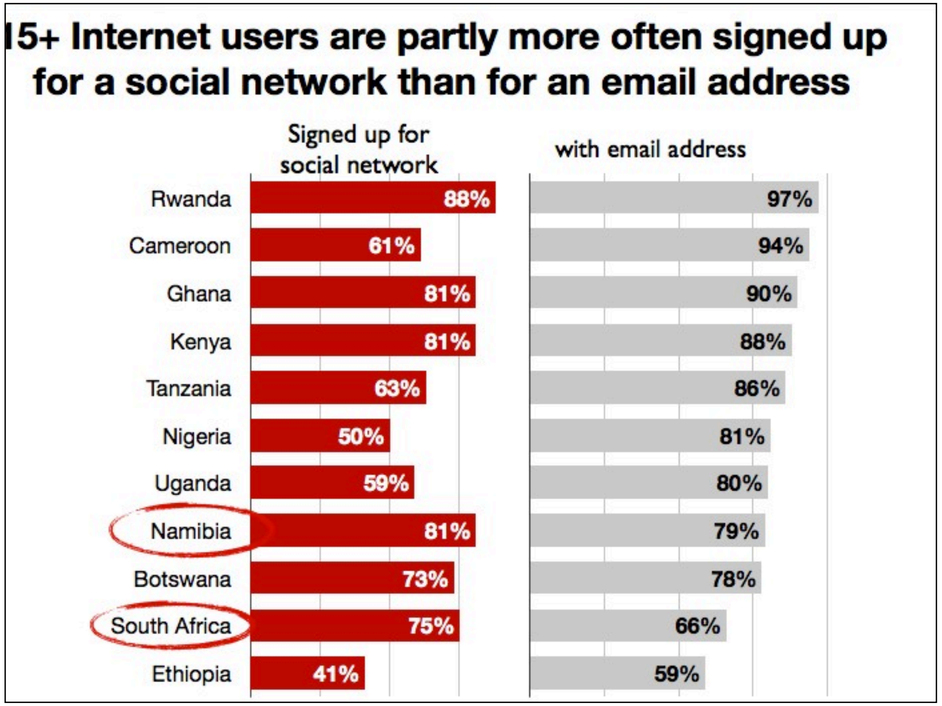
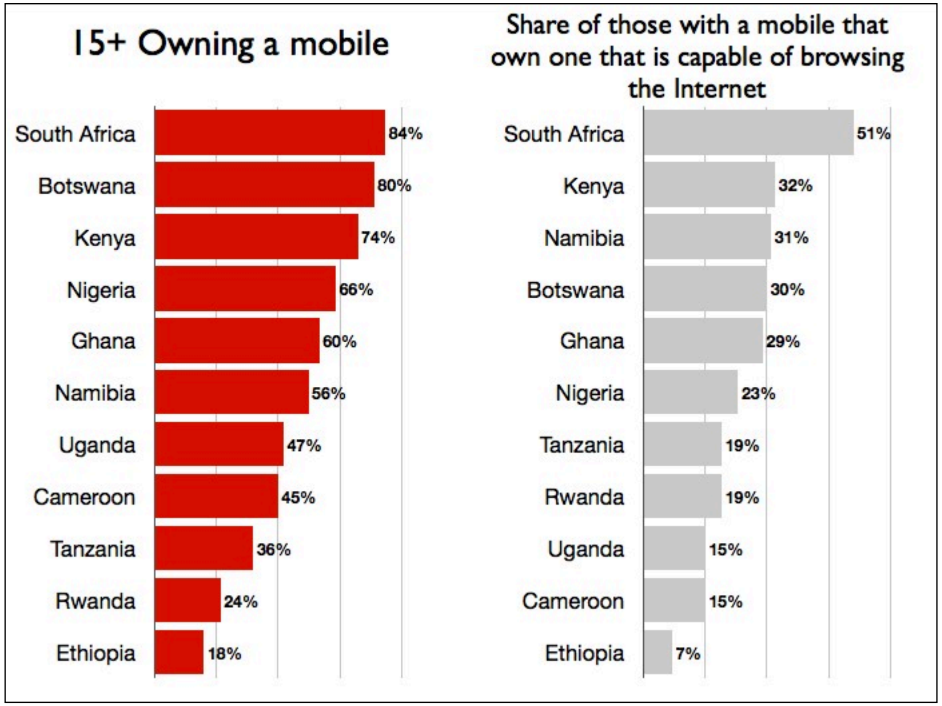
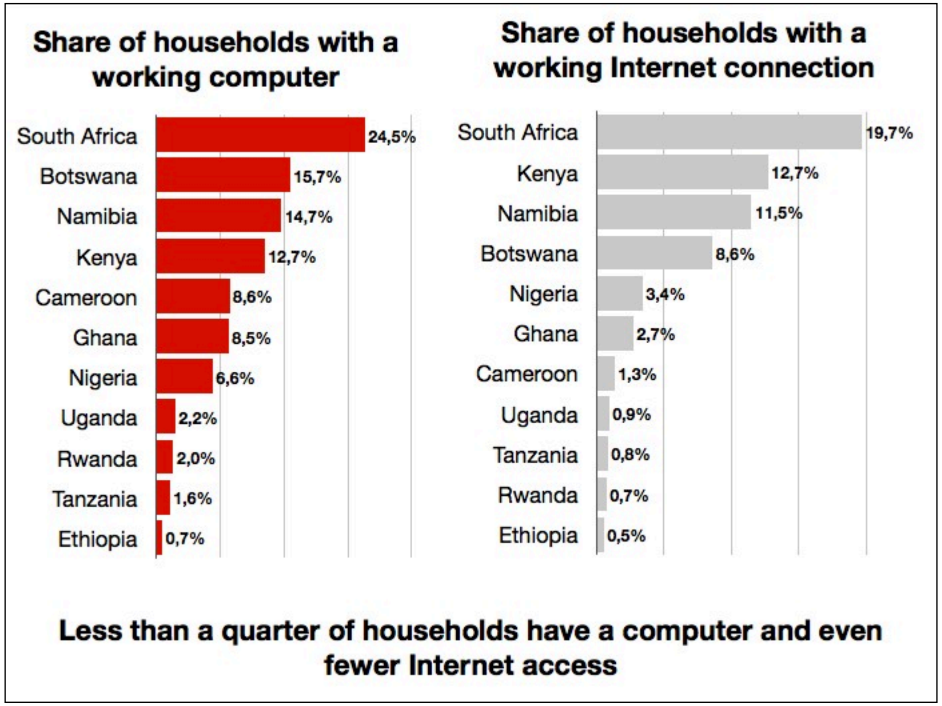
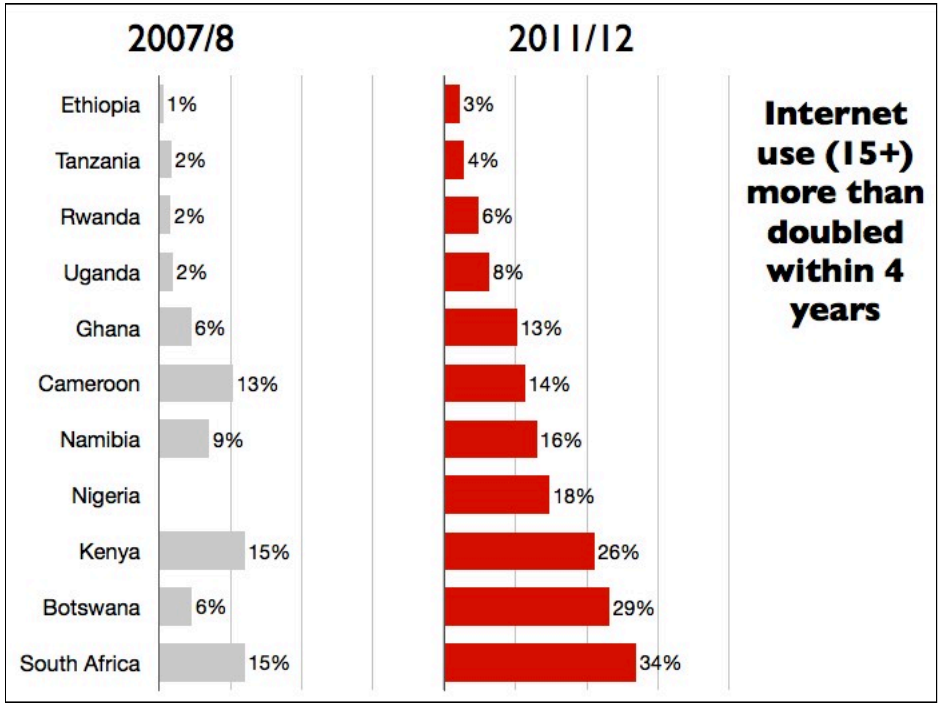
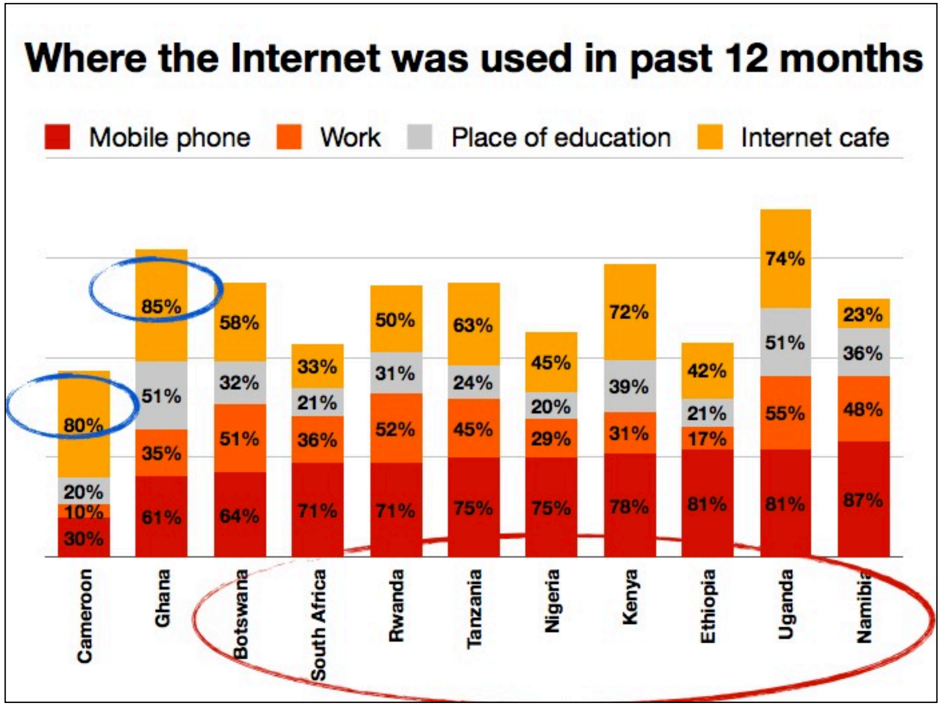

15+ Internet users are partly more often signed up for a social network than for an email address
Signed up for social network
with email address
Rwanda
88%
97%
Cameroon
61%
94%
Ghana
81%
90%
Kenya
81%
88%
Tanzania
63%
86%
Nigeria
50%
81%
Uganda
59%
80%
Namibia
81%
79%
Botswana
73%
78%
South Africa
75%
66%
Ethiopia
41%
59%


15+ Owning a mobile
South Africa 84%
Botswana 80%
Kenya 74%
Nigeria 66%
Ghana 60%
Namibia 56%
Uganda 47%
Cameroon 45%
Tanzania 36%
Rwanda 24%
Ethiopia 18%
Share of those with a mobile that own one that is capable of browsing the Internet
South Africa 51%
Kenya 32%
Namibia 31%
Botswana 30%
Ghana 29%
Nigeria 23%
Tanzania 19%
Rwanda 19%
Uganda 15%
Cameroon 15%
Ethiopia 7%

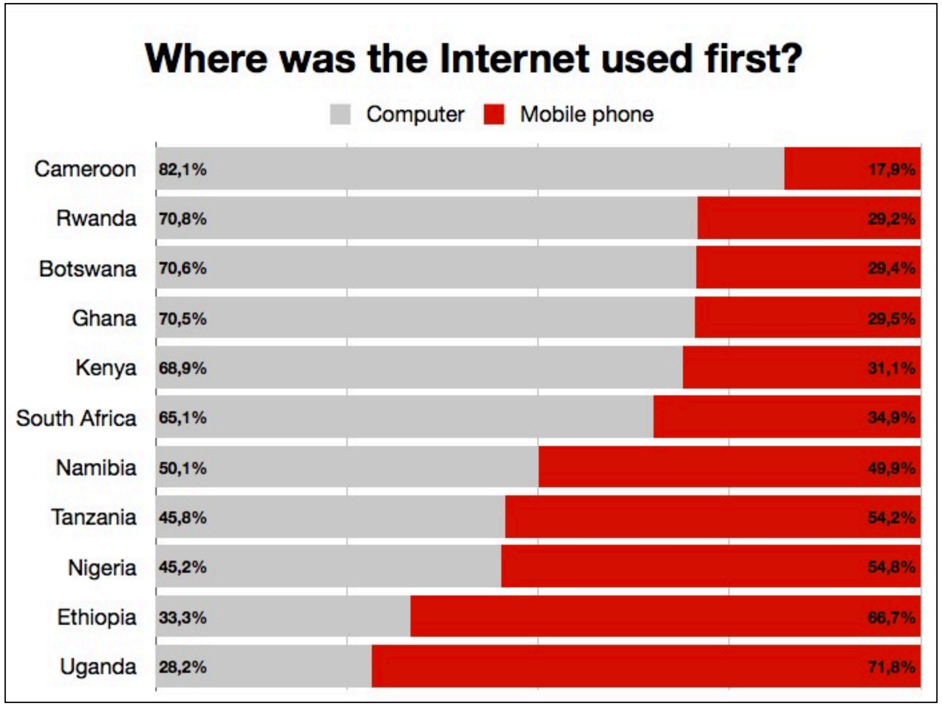

Share of households with a working computer
South Africa 24,5%
Botswana 15,7%
Namibia 14,7%
Kenya 12,7%
Cameroon 8,6%
Ghana 8,5%
Nigeria 6,6%
Uganda 2,2%
Rwanda 2,0%
Tanzania 1,6%
Ethiopia 0,7%
Share of households with a working Internet connection
South Africa 19,7%
Kenya 12,7%
Namibia 11,5%
Botswana 8,6%
Nigeria 3,4%
Ghana 2,7%
Cameroon 1,3%
Uganda 0,9%
Tanzania 0,8%
Rwanda 0,7%
Ethiopia 0,5%
Less than a quarter of households have a computer and even fewer Internet access



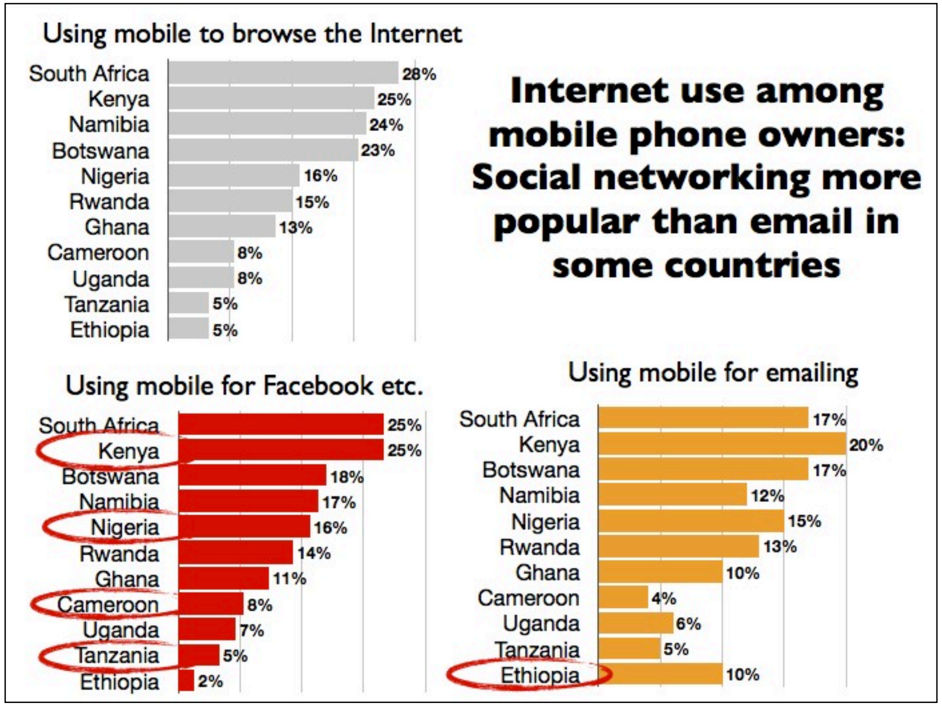
2007/8
2011/12
Ethiopia 1% 3%
Tanzania 2% 4%
Rwanda 2% 6%
Uganda 2% 8%
Ghana 6% 13%
Cameroon 13% 14%
Namibia 9% 16%
Nigeria 18%
Kenya 15% 26%
Botswana 6% 29%
South Africa 15% 34%
Internet use (15+) more than doubled within 4 years



Where the Internet was used in past 12 months
Mobile phone
Work
Place of education
Internet cafe
Cameroon 30% 10% 20% 80%
Ghana 61% 35% 51% 85%
Botswana 64% 51% 32% 58%
South Africa 71% 36% 21% 33%
Rwanda 71% 52% 31% 50%
Tanzania 75% 45% 24% 63%
Nigeria 75% 29% 20% 45%
Kenya 78% 31% 39% 72%
Ethiopia 81% 17% 21% 42%
Uganda 81% 55% 51% 74%
Namibia 87% 48% 36% 23%

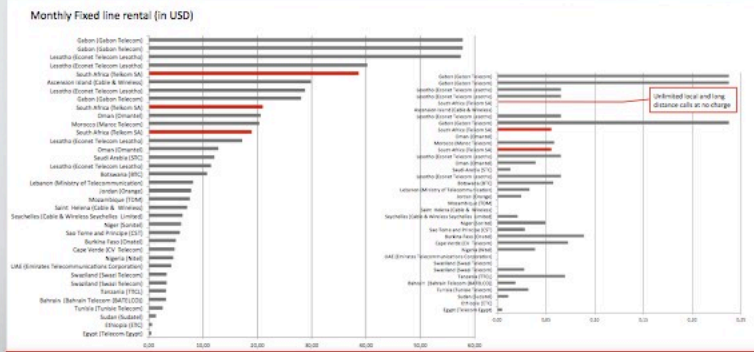


Where was the Internet used first?
Computer
Mobile phone
Cameroon 82,1% 17,9%
Rwanda 70,8% 29,2%
Botswana 70,6% 29,4%
Ghana 70,5% 29,5%
Kenya 68,9% 31,1%
South Africa 65,1% 34,9%
Namibia 50,1% 49,9%
Tanzania 45,8% 54,2%
Nigeria 45,2% 54,8%
Ethiopia 33,3% 66,7%
Uganda 28,2% 71,8%

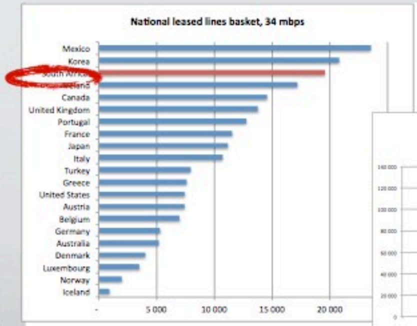


Using mobile to browse the Internet
South Africa 28%
Kenya 25%
Namibia 24%
Botswana 23%
Nigeria 16%
Rwanda 15%
Ghana 13%
Cameroon 8%
Uganda 8%
Tanzania 5%
Ethiopia 5%
Internet use among mobile phone owners: Social networking more popular than email in some countries
Using mobile for Facebook etc.
South Africa 25%
Kenya 25%
Botswana 18%
Namibia 17%
Nigeria 16%
Rwanda 14%
Ghana 11%
Cameroon 8%
Uganda 7%
Tanzania 5%
Ethiopia 2%
Using mobile for emailing
South Africa 17%
Kenya 20%
Botswana 17%
Namibia 12%
Nigeria 15%
Rwanda 13%
Ghana 10%
Cameroon 4%
Uganda 6%
Tanzania 5%
Ethiopia 10%

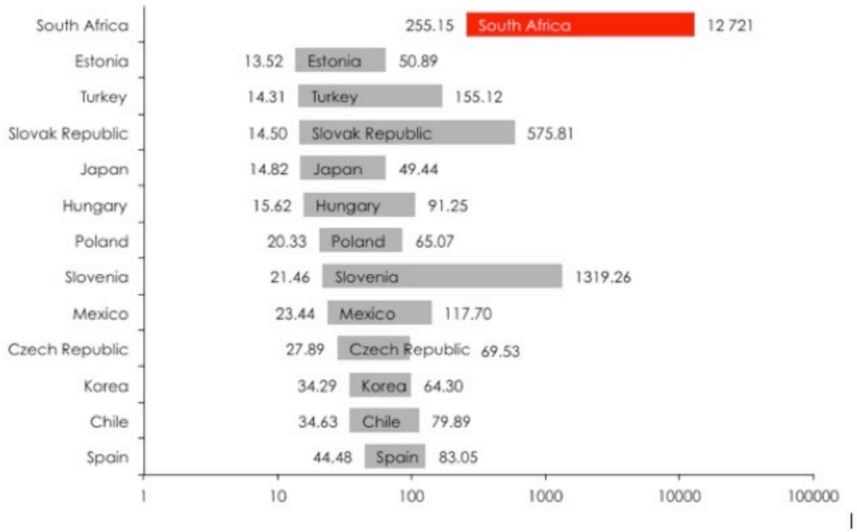
Fixed line prices Africa



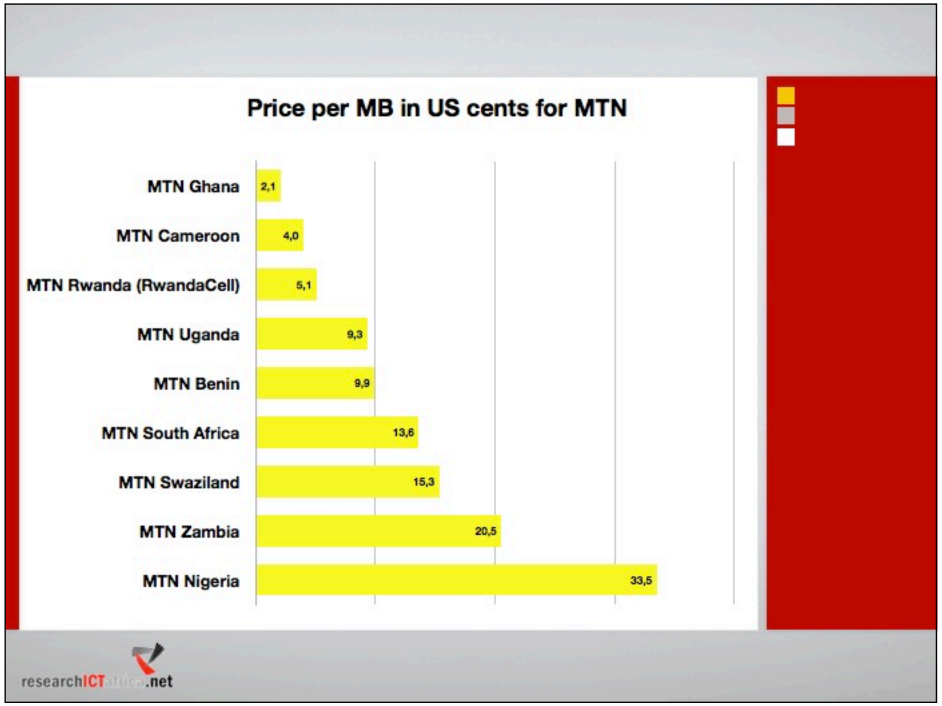
Leased lines



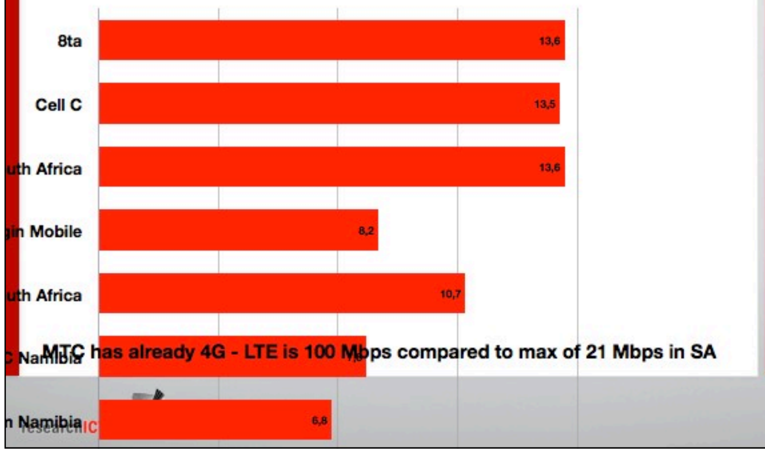
Broadband Pricing



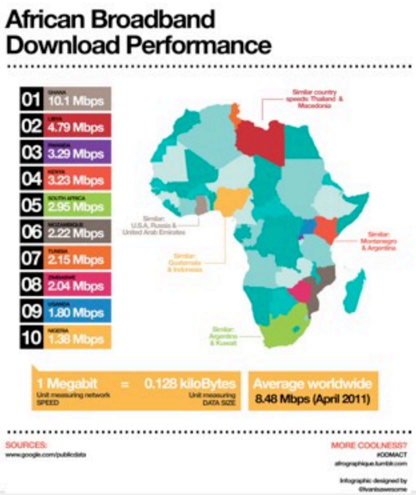
Comparison OECD/SA Broadband subscription price ranges, Sept. 2010 (SA July 2011), all platforms, logarithmic scale, including line charge (or 3G modem), USD PPP



Price per MB in US cents for SA and Namibia



MTC has already 4G - LTE is 100 Mbps compared to max of 21 Mbps in SA



Interconnection

Termination = Monopoly

- Monopolies require price regulation
- Termination rates at cost of efficient operator
  - Provide incentive to invest in new technologies to reduce costs
  - Promote competition and economic efficiency
  - Promote universal service through low retail prices

Dominant operators often defend high MTRs and argue that if lowered:

- Retail prices will increase
- There will be fewer subscribers
- In particular the poor will be cut off
- Operators will invest less
- Retrench

Waterbed Effects

MTR not a price but a rate

Wholesale Prices

- Contractually fixed
- Often do not change for 10 years and only through regulatory intervention

Retail Prices

- Many products
- Prices vary product by product and change frequently
  - On-net, off-net fixed
  - peak, off-peak, off-off peak
  - SMS, MMS, Data
  - Prepaid, post paid

MTRs are wholesale costs and wholesale revenue at the same time

- Who benefits from termination rate reductions depends on many factors
  - Generally net-payer pay less and net-receiver receive less
  - However, net-receivers may also receive more as shown for Vodacom South Africa

$$Net_{termination} = MTR * (Q_{incoming} - Q_{outgoing})$$

Revenue Replacement

- Dominant operators claim that due to lower termination revenues they have to:
  - Increase retail prices
  - Retrench staff
  - Invest less

Revenue Replacement a suitable business strategy?

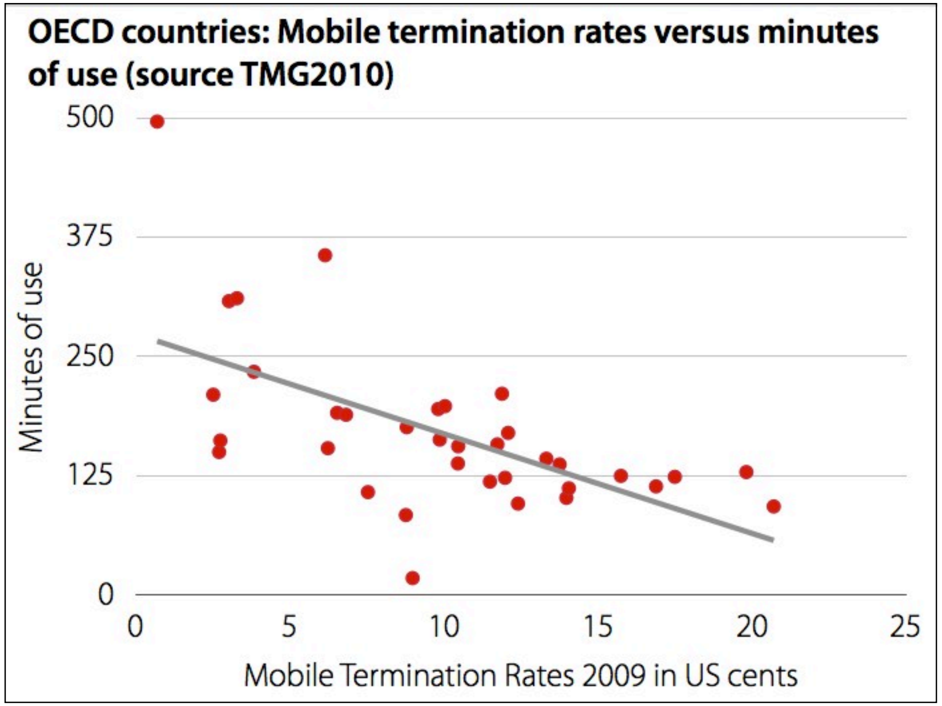
- Businesses are run based on profits, ie revenues - cost, not just revenues
  - If operators could increase prices without losing customers or traffic...
  - If profits could be increased by increasing prices...
  - Why have operators not done so already?

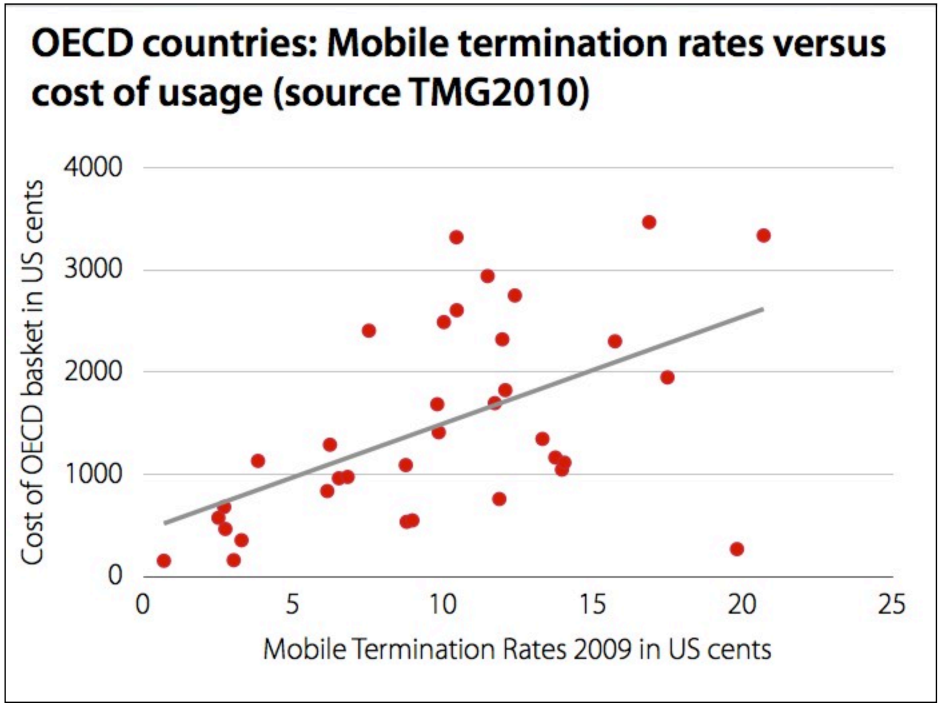
Price interdependence has to work both ways

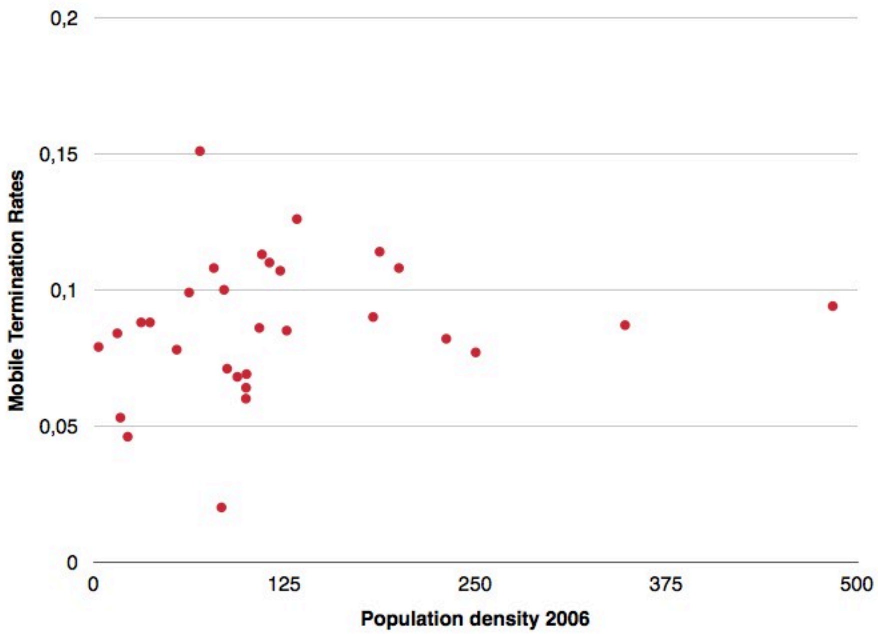
- If two-sided then one should be able to observe increases in termination rates when retail prices decrease
- If lower termination rates lead to higher retail prices, why has no one suggest to increase the arbitrarily set terminations rates
- MTRs of US 5$ leading to free calling and data?

Operators have a choice to pass on MTR reductions

- MTR reductions can be passed on to subscribers = lower off-net prices
- Or operator makes more money for each outgoing minute: Off-net/MTR margin wider
- Retail prices are complex and diverse and pricing strategies are driven by user profiles and market niches, not by revenue replacement


OECD countries: Mobile termination rates versus minutes of use (source TMG2010)
500
375
250
125
0
Minutes of use
0
5
10
15
20
25
Mobile Termination Rates 2009 in US cents


OECD countries: Mobile termination rates versus cost of usage (source TMG2010)
4000
3000
2000
1000
0
Cost of OECD basket in US cents
0
5
10
15
20
25
Mobile Termination Rates 2009 in US cents



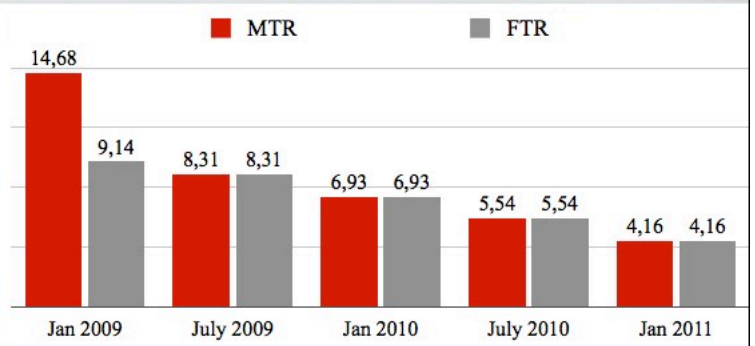
"The complexity and difference in the way that operators charge fees makes it difficult to draw a link between rates charged and prices paid by users for voice calls in different countries. But cutting rates to zero would strengthen competition in voice and other services.

It could also speed up the introduction of innovative new VoIP services and encourage providers to offer a range of tariff models to meet the needs of their users, free from prices reflecting monopoly power on the networks of others."

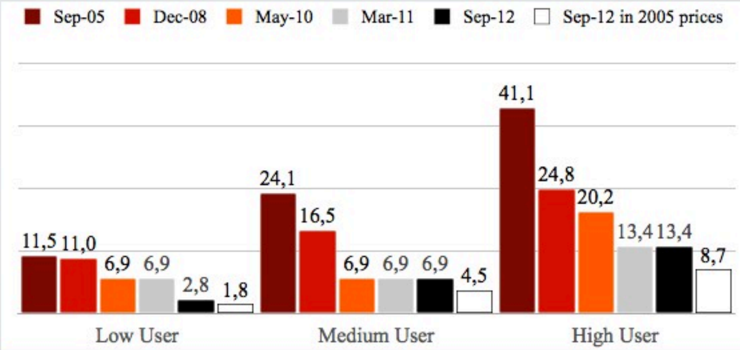
OECD (2012), "Developments in Mobile Termination", OECD Digital Economy Papers, No. 193, OECD Publishing.

Case of Namibia

Mobile and Fixed Termination rates in Namibia



Cheapest product available for Low user OECD basket of incumbent (MTC) in Namibia



Performance of incumbent mobile operator in Namibia: MTC

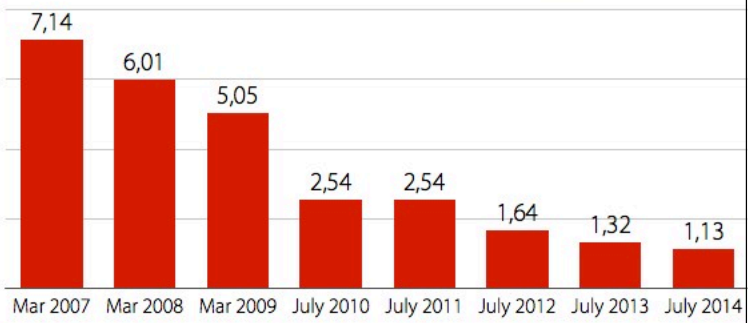
		2005	2006	2007	2008	2009	2010	2011
Active SIM cards in 1000		404	556	744	1 009	1 284	1 535	1 855
EBITDA Margin		61%	60,2%	52,2%	50,9%	53,8%	55,8%	53,2%
Net profit after tax N$ million	N$ million	293	337	340	358	388	397	319
	US$ million	41	47	47	50	54	55	44
Dividend	N$ million	110	80	245	221	370	384	364
	US$ million	15	11	34	31	51	53	50
Dividend as % of after tax profit		37,5%	23,7%	72,1%	61,7%	95,4%	96,7%	114,2%

Impact of Termination rate reduction in Namibia

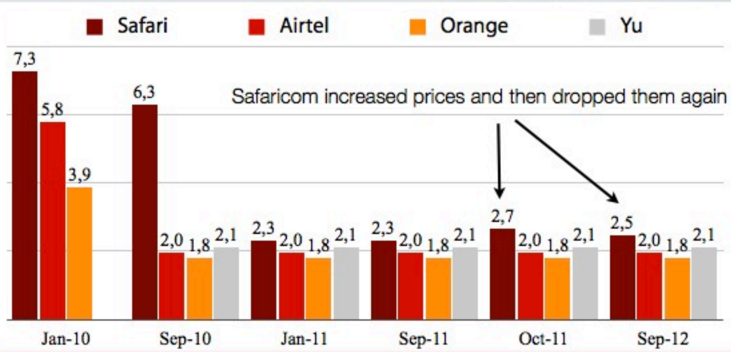
- No waterbed effect
- Dominant mobile operator
  - More subscribers
  - EBITDA margin 50+%
  - 3rd cheapest dominant operator in Africa

Case Study Kenya

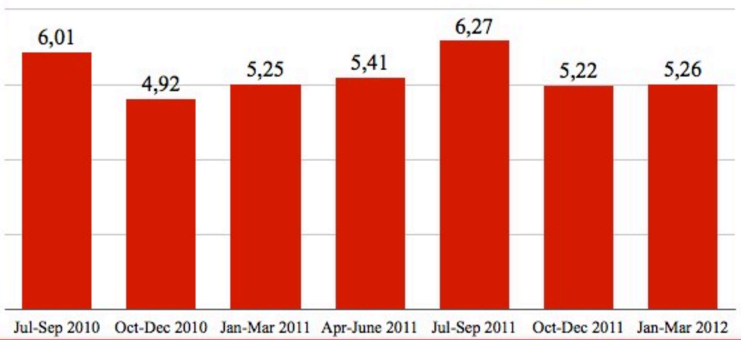
MTR US cents



Monthly cost of OECD Low User basket in US cents, based average exchange rate for 2011 based on OECD 2006 Definition



Safaricom's voice traffic in billion minutes



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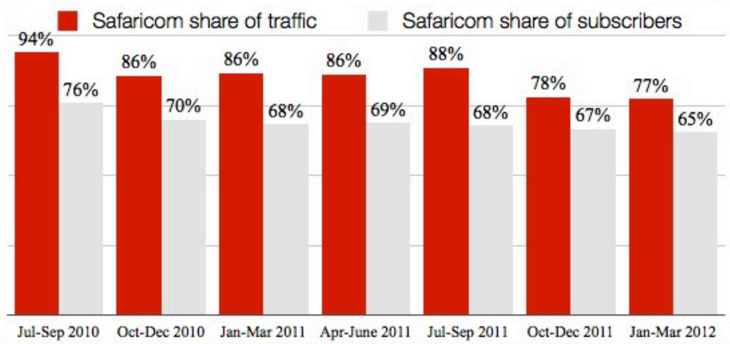
Safaricom's traffic and subscriber market shares



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Safaricom's key performance indicators for financial years ending in March

		2007	2008	2009	2010	2011	2012
Revenue	Ksh billion	47	61	70	84	95	107
	USD million	542	701	805	959	1 083	1 222
After-tax profit	Ksh billion	12	14	11	15	13	13
	USD million	137	158	120	173	150	144
Dividend paid	Ksh billion	3	2	4	8	8	8,8
	USD million	34	23	46	91	91	101
Subscribers in million		6,10	10,23	13,36	15,79	17,18	19,1
EBITDA Margin		51,7%	45,9%	39,6%	43,6%	37,7%	35%
Base stations			1558	1899	2162	2501	2690
Voice Average Revenue per User (ARPU)	Ksh				356	294	303
	USD				4,07	3,36	3,46
Average minutes of use (MoU)					60,6	96	116
Average implied price per minute (ARPU / Average MoU)	Ksh				5,87	3,06	2,61
	US cents				6,71	3,50	2,98

Source: Safaricom annual reports
Average exchange rate for 2011 used for conversion

Impact of Termination rate reduction in Kenya

- The reaction to the termination rate reduction was immediate, leaving no doubt about the causal relationship
- Retail prices dropped by 60%, immediately the day after reduction was announced - Opposite effect to the waterbed effect!
- 9.5% more subscribers in last quarter or 2010 quarter
- Safaricom is a good example for what happens if a dominant operator does not respond to competitive pressure or tries to increase price after cutting them
- In both instance Safaricom lost market share and traffic to other operators

Case Study South Africa

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Mobile Termination Reductions and Glide Path in South African

	Peak	Off Peak	Comment
Since 2001	125c	89c	
March 2010	89c	77c	political intervention
March 2011	73c	65c	Gazette No. 33698, 29 October 2010
March 2012	56c	52c	
March 2013	40c	40c	

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15 April 2010

MTN, Vodacom to lose billions over new termination rates

Apr 15, 2010 10:31 PM | By ZWELI MOKGATA

The Independent Communications Authority of South Africa surprised mobile operators yesterday when it announced that it would be dropping mobile termination rates to 40 cents by 2012.

Loosing Billions

17 May 2010

Rate cuts cost Vodacom R200m

By Candice Jones and Nicola Mawson
Johannesburg, 17 May 2010

Read in this story ▾ Hammered revenues ▾ Pressure will increase ▾ Other ways ▾ More concerns

Correction

Vodacom has pointed out that the R200 million drop in interconnect rates took place during the previous year, and not during the month of March as reported yesterday.
The mistake arose during the presentation yesterday when interpreting

Over the month of March, Vodacom listed losses of R200 million to interconnect rate cuts, and is concerned that further rate cuts would hack its revenue growth to single digits.

Speaking at the investor presentation for its first annual results set since it listed, Vodacom CFO Rob Schuter said net interconnect revenue is down from R2 billion to R1.75 billion, a massive 10% loss in the month since the first rate cut was implemented.

10% loss or 10% less revenue? There is a big difference

Rate cuts knock Vodacom

22 July 2010

By Leigh-Ann Francis
Johannesburg, 22 Jul 2010

Read in this story Temporary reprieve Get creative

Interconnect revenue declined by 18.3% during the last quarter, says Vodacom CEO Pieter Uys.

Lower mobile termination rates have cost Vodacom close to R400 million in revenue during the last quarter, effectively slowing the operator's service revenue growth rate by 3.8%.

Speaking this morning at Vodacom's quarterly results, CEO Pieter Uys noted that service revenue was up 4.4%, but if the negative impact of lower mobile termination rates was removed, it would have been up 8.2%.

Uys highlighted that the operator saw an overall 18.3% decline in interconnect revenue during the reporting period.

Earlier this year, pressure from the Independent Communications Authority of SA (ICASA) resulted in Vodacom, MTN and Cell C dropping interconnect rates to 89c per minute, from R1.25.

With operators still reeling from the effects of the first cut, ICASA had hoped to implement draft regulations for a further rate reduction this year, to 65c per minute, with the objective of reaching an interconnect rate of 40c, by July 2012.

In May, Uys warned that if ICASA persists with the current draft, Vodacom could face seriously slowed revenue growth in the low single digits (below 5%).

400 million less revenue in one quarter

1 March 2011

No winners from interconnect cuts

By Leigh-Ann Francis
Johannesburg, 1 Mar 2011

Read in this story Huge losses Still overpriced In the future

The second interconnect rate cut still sees no real benefit for consumers.

As revenue losses resulting from lower interconnect rates are likely to soon run into billions of rands, local telecoms operators have resorted to various cost-cutting strategies, including staff retrenchments, to offset the impact.

Huge losses

On the back of the first cut, Vodacom reported a loss of R800 million in revenue, in the first half of its financial year.

Vodacom CFO Robert Shuter says the biggest effect of interconnect cuts was seen in the first half of 2010, which was when the biggest drop was made. However, Vodacom expects to see revenue drop by between R800 million and R900 million a year, until the final rate of 40c a minute is in place in 2013.

Staff retrenchment to offset impact
Vodacom: R800 million loss in revenue

17 May 2011

Two more years of interconnect pain

By Nicola Mawson, ITWeb deputy news editor.
Johannesburg, 17 May 2011

Read in this story ▾ Billions lost ▾ Not alone ▾ Lagged benefit

Lower interconnect rates will continue to hurt SA's telecoms sector for at least another two years until the end of the glide path is reached, wiping billions off their revenue lines.

However, consumers won't immediately benefit from the lower rates as telcos face two more years of pain until March 2013 and aren't anticipated to be able to claw back the lost revenue.

Billions lost

Vodacom, SA's largest mobile operator, lost R1.5 billion in revenue in the year to March, which resulted in a net interconnect loss of R500 million, says CFO Rob Shuter.

Vodacom:
R1.5 billion loss in revenue
R500 million net interconnect loss

17 May 2011

Two more years of interconnect pain

Not alone

MTN, SA's second largest mobile operator, has also lost revenue due to lower rates. In its full year results to December, it said lower mobile termination rates cost R2.5 billion in revenue, but also lowered outgoing expenses and aided margin growth as more traffic moved on-net.

Group interconnect dropped from R19.5 billion a year ago to R17 billion, but the margin improved as MTN also paid out less. In 2009, the group paid out R14.1 billion, which slowed to R11.5 billion at the end of last year. MTN is affected by regulated termination rates in SA and Nigeria.

Telkom saw R640 million, out of total voice revenue of R6.9 billion, wiped off its revenue line in the six months to September.

Interconnect revenue dropped 37.4%, to R912 million, in the half-year, as subscribers moved away from using landlines to call mobile and international numbers. The fixed-line operator says interconnection revenue will be negatively affected by fixed termination cuts.

MTN: ZAR 2.5 billion lost in revenues
Telkom interconnect revenue dropped 37.4%

Lower interconnect rates mean higher retail prices: Cell C CEO

By Rudolph Muller | 28 March 2012

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Lower mobile termination rates (MTR) in South Africa have not resulted in lower cellphone call rates to consumers. However, this is not surprising when looking at international trends, explains new Cell C CEO, Alan Knott-Craig.

Speaking in an interview on Radio 702, Knott-Craig said that lower mobile termination rates typically results in higher retail rates, and not lower mobile call rates like the Department of Communications (DoC) and the Independent Communications Authority of South Africa (ICASA) envisaged.

Knott-Craig pointed to recently-released mobile termination rate research, conducted in numerous international countries, which showed that a reduction in interconnect rates (MTR) resulted in slightly higher retail rates. "I know that it is counter intuitive, but it is what happens," said Knott-Craig.

28 March 2012

"I know that it is counter intuitive, but it is what happens," said Knott-Craig.

RESEARCH ICT AFRICA POLICY BRIEF NO. 1

Africa Prepaid Mobile Price Index 2012: South Africa

Among 46 African countries studied, South Africa ranks poorly for prepaid mobile telephony affordability. Ranked 32nd out of 46 African states, South Africa is now far behind countries where the regulator, unlike in South Africa, has enabled competition by enforcing cost-based mobile termination rates. The resulting competition has in many cases driven down prices for consumers. Not long ago, South Africa and Namibia shared the same mobile termination rates and had similar end-user prices. Today, Namibia enjoys amongst the cheapest mobile prepaid prices in Africa, as a result of the slashing of its termination rates to close-to-cost, which pressured the incumbents into real pricing.

RIA Policy Brief No 1 **March 2012**

SA ranks 32nd
South Africa places 32nd in affordability, out of the 46 countries for which prepaid mobile pricing data are available on African websites. Kenya, Mauritius, Egypt and Namibia were found to be among the most affordable.

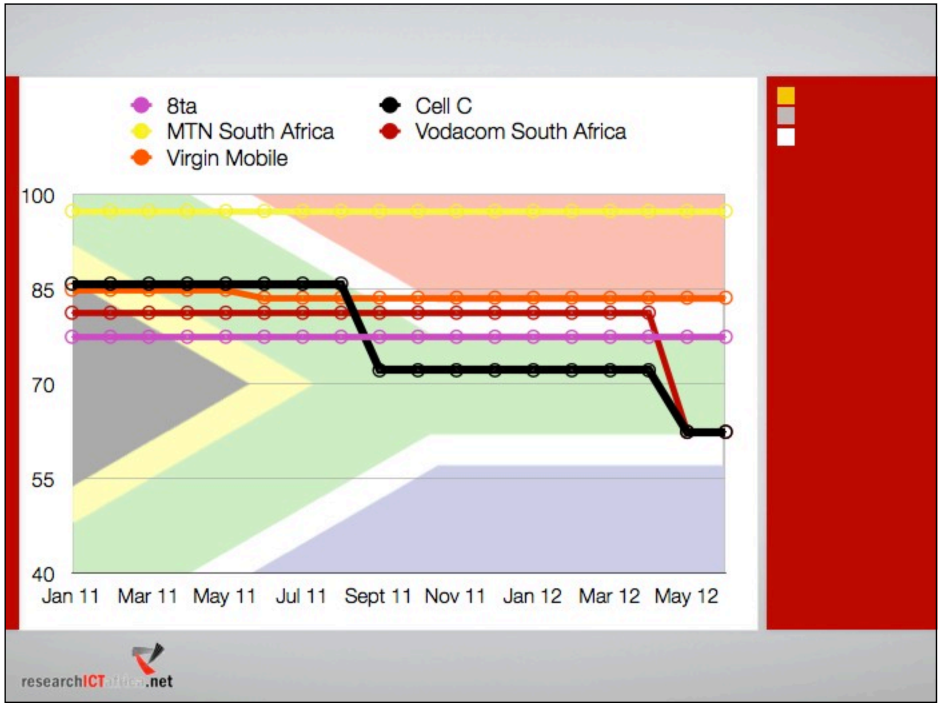
Neighbouring countries several times cheaper
South African prepaid mobile pricing is three times more expensive than in Namibia.

Lack of pass-through of price reductions to end-users
In South Africa, even the modest reductions imposed on termination rates have generally not been passed on to end-users.

Cell C and 8ta
Two relatively late market entrants, Cell C and the most recent entrant 8ta, have attempted to introduce cheaper mobile prepaid products, but these products have not forced down the general price level.

SA operators do not compete for price
The dominant mobile operators, Vodacom and MTN, have been able to withstand the pricing pressure from price cuts by later entrants, and all operator's prices have settled around the levels set by the dominant operators.

Country Name	January 2012 OECD Low User Basket costs in USD (FX= average 2010)				% cheaper than dominant
	Cheapest product from Dominant Operator		Cheapest product in country		
	Rank	US$	Rank	US$	
Mauritius	1	2,39	5	2,39	Dominant is cheapest
Ethiopia	2	2,61	7	2,61	na
Namibia	3	2,74	8	2,74	Dominant is cheapest
Kenya	4	2,85	1	1,90	33,4%
Egypt	5	2,91	9	2,91	Dominant is cheapest
Sudan	6	3,53	6	2,46	30,5%
Ghana	7	3,87	11	3,28	15,1%
Libya	8	3,90	14	3,90	Dominant is cheapest
Rwanda	9	4,28	3	2,16	49,4%
Guinea	10	4,62	2	1,93	58,1%
Sierra Leone	11	5,04	13	3,88	23,1%
Uganda	12	5,51	10	2,94	46,6%
Congo Brazaville	13	5,63	17	5,63	Dominant is cheapest
Tanzania	14	5,82	12	3,75	35,7%
Algeria	15	6,21	4	2,28	63,3%
Tunisia	16	7,24	18	6,46	10,9%
Senegal	17	8,11	24	8,11	Dominant is cheapest
Botswana	18	8,16	20	7,66	6,0%
Sao Tome &Principe	19	8,21	25	8,21	Dominant is cheapest
Nigeria	20	8,40	16	5,22	37,8%
Madagascar	21	8,45	27	8,45	Dominant is cheapest
Mali	22	8,78	29	8,78	Dominant is cheapest
Burkina Faso	23	8,88	28	8,53	4,0%
Benin	24	9,10	22	7,92	13,0%
Mozambique	25	10,00	33	10,00	Dominant is cheapest
Chad	26	10,14	34	10,14	Dominant is cheapest
D.R. Congo	27	10,37	19	7,62	26,5%
Côte d'Ivoire	28	10,41	36	10,41	Dominant is cheapest
Cameroon	29	10,44	35	10,28	1,5%
South Africa	30	11,07	32	9,83	11,2%
Togo	31	11,18	38	11,18	Dominant is cheapest



Telkom Fixed-line operating revenues and expenses in ZAR million (Telkom 2011, Telkom 2012, FY ending March)		2011	2012	Change
Interconnection Revenues	Total Revenues	1 679	1 757	78
	Mobile Domestic	498	375	-123
	Mobile International	186	630	444
	Fixed	328	262	-66
	International	667	490	-177
Interconnection Expenses	Total Expenditure	5 193	4 839	-354
	Mobile network operators	3 704	3 218	-486
	Fixed	404	306	-98
	International network operators	792	1 029	237
Interconnection Loss Total		-3 514	-3 082	432
Interconnection Loss Mobile only		-3 206	-2 843	363

Interconnect revenue up, expenses down, net improved by ZAR432 million

Telkom past on MTR cuts 100% to customers (as did Neotel)

Group income statement

Vodacom

R million	FY 2012	FY 2011	% change
Service revenue	**58 245**	**54 052**	**7.8**
Revenue	**66 929**	**61 197**	**9.4**
EBITDA	**22 763**	**20 594**	**10.5**
Operating profit before impairment losses	**16 816**	**15 204**	**10.6**
Impairment losses	(199)	(1 508)	(86.8)
Operating profit after impairment losses	**16 617**	**13 696**	**21.3**
Net finance charges	(684)	(1 058)	(35.3)
Profit before tax	**15 933**	**12 638**	**26.1**
Taxation	(5 730)	(4 659)	23.0
Net profit	**10 203**	**7 979**	**27.9**
Attributable to:			
Equity shareholders	10 156	8 245	23.2
Non-controlling interests	47	(266)	117.7
HEPS (cents)	**709**	**656**	**8.1**
Weighted average shares in issue (million)	**1 463**	**1 468**	**(0.3)**

16 Annual results: Vodacom Group Limited 31 March 2012

vodacom

Revenue up 7.8%, profits up 27.9%

Impact of mobile termination rates in South Africa

Vodacom

- **MTR rates changed from 1 March 2012**
  - Peak dropped from R0.73 to R0.56
- **MTR impact for the year**
  - R1 142 million in revenue
  - R392 million in EBITDA
- **Future MTR cuts**
  - March 2013: Peak/Off-peak – R0.40
- **Asymmetry for qualifying operators**
  - March 2012: 15% higher
  - March 2013: 10% higher

Interconnect

R million	FY 2012	FY 2011	% change
Interconnect revenue	6 062	6 755	(10.3)
% service revenue	12.5	14.6	
Interconnect cost	4 923	5 682	(13.4)
Net interconnect revenue	1 139	1 073	6.2
% of EBITDA	**5.4**	**5.5**	

Incoming interconnect minutes

Millions of minutes	FY 2012	FY 2011	% change
Mobile	5 727	5 548	3.2
Fixed line	2 484	2 254	10.2

10.2% increase in traffic from Telkom due to pass through of MTR cuts

Interconnect revenue down 10.3%, expenses down 13.4%, net interconnect profit up 6.2% in South Africa, additional ZAR 66 million

Profit analysis	**2011 Rm**	2010 Rm	% change
Airtime and subscription	**20 106**	19 297	4,2
Interconnect	**5 924**	6 568	(9,8)
Data	**4 646**	3 638	27,7
SMS	**2 641**	2 490	6,1
Mobile handsets and accessories	**4 548**	3 130	45,3
Other	**732**	700	4,6
Total revenue	**38 597**	35 822	7,7
Direct and network operating costs	**2 767**	2 569	(7,7)
Costs of handsets and other accessories	**6 066**	4 677	(29,7)
Interconnect and roaming	**5 183**	5 483	5,5
Employee benefits	**2 099**	1 767	(18,8)
Selling, distribution and marketing	**7 147**	6 794	(5,2)
Other expenses	**1 744**	2 345	25,6
Total operating costs	**25 006**	23 634	(5,8)
EBITDA	**13 591**	12 187	(11,5)
EBITDA margin (%)	**35,2**	34,0	,2 pct points
Capex	**4 105**	3 908	5,0

MTN South Africa

Revenue up 7.7%

EBITDA margin up by 1.2%

CAPEX up 5%

MTN South Africa: ZAR million

Financial year ending December

	2010	2011	change
Revenue	6 568	5 924	-644
Expense: interconnection and roaming	5 483	5 183	-300
Net Interconnect	1 085	741	-344

- Still a net receiver of ZAR 741 million net
- Overall higher profits in 2011 compared to 2010

Vodacom: R66 million more profit after cuts, net profit from termination R1.14 billion

MTN: net profit from termination: R741 million

No increase in prices, no less investment, no retrenchment of staff ?

researchICTafrica.net

But small termination rate reductions, still far from the cost of efficient operator mean South Africa not seen same dramatic price decreases as Namibia and Kenya

Table 4: Mobile termination rates in RIA Countries - January 2012 update						
	Mobile termination rate				Comments	Sources
	Currency specified by regulation		US $ FX average 2011	US cents		
Kenya	1,44	Kenya Shilling	87,54	1,6	1 July 2012: 1.15 and 1 July 2013: 0.99	CCK (2010)
Ghana	0,05	Cedi	1,53	3,3	NCA set glide path to 4.50 Ghana pesewa in 2013 and 4 pesewa for 2014 SMS on all mobile networks 0.7 from 2012, then 0.6 and 0.5 in 2013 and 2014	www.nca.org.gh/73/34/News.html?item=233
Namibia	0,3	NAD	7,22	4,2	Since January 2011	NCC (2009a)
Zambia	0,05	US$	1,00	5,0		ZICTA (2010)
Nigeria	8,2	NGA	154,16	5,3	for existing operators	NCC (2009b)
Uganda	131	Uganda Shilling	2 494,36	5,3		http://www.independent.co.ug/ugandatalks/2011/11/ucc-to-review-interconnection-rates/
Rwanda	35	Rwanda Franc	590,28	5,9	RWF 35 to RWF 33 in January 2012, RWF 28 in January 2013 and RWF 22 in January 2014	RURA (http://www.telecompaper.com/news/rwanda-to-cut-interconnection-rates-further)
Botswana	0,40	Pula	6,72	6,0	glide path to 0.3 Pula by 2014	BTA 2011
South Africa	0,54	ZAR	7,22	7,5	March 2013: 40 cents	ICASA (2010)
exchange rate based on average exchange rate for 2011 from Oanda.com						

Termination Rate - Too Low

- Below cost recovery of terminating network
- Arbitrage traffic routing may result in undesirable economic outcomes (France: Bill and Keep)
- However: Internet - zero termination rates, based on peering agreements

Conclusion

- Traffic flows are complex and who benefits from termination rate cuts depends on business strategies and the competitive interactions of all operators
- Cost based termination rates lead to more and fairer competition an thus more subscribers, traffic, investment and a bigger pie of revenues to be shared among operators
- Quick and steep glide path to lower MTRs to cost of an efficient operator

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