

What we do

Our chairman's view

Who we are

How we performed

How we run our business

# Feel the energy. **You can.**

Group chief operating officer's report *continued*

## Middle East and North Africa region



MTN's Middle East and North Africa (MENA) region is made up of MTN Irancell, MTN Syria, MTN Sudan, MTN Yemen, MTN Afghanistan, MTN Cyprus and MTN International Carrier Services. The region is the fastest growing of MTN's three operating regions, led by the two-year-old operation in Iran. MENA users represent 29% of Group subscribers and 23% of the Group's proportionate subscribers. The regional office is in Dubai.



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## Group chief operating officer's report *continued*

### Middle East and North Africa regional overview

#### Middle East and North Africa regional contribution to Group total

	Population (million)	Subscribers (000)	Revenue (Rm)	EBITDA (Rm)	Capex (Rm)
<b>Total</b>	<b>186,7</b>	<b>26 346</b>	<b>17 215</b>	<b>4 654</b>	<b>5 772</b>
<b>% of Group total</b>	<b>36%</b>	<b>29%</b>	<b>17%</b>	<b>11%</b>	<b>21%</b>

Country contributions to MENA region total

#### Subscriber contribution

%



Iran	61%
Syria	13%
Sudan	10%
Afghanistan	8%
Yemen	7%
Cyprus	1%

#### Capex



Iran	47%
Syria	18%
Sudan	16%
Rest of region	19%

## Performance

Most MTN operations in the MENA region performed well in 2008, with subscriber numbers accelerating 88% to more than 26,3 million at end-December 2008 driven mainly by Iran (details of which appear in the separate Iran report on page 59). This growth was underscored by improved infrastructure roll out in various markets. Our operation in Sudan (details of which appear in the separate Sudan report on page 65) disappointed, mainly as a result of the disconnection of unregistered subscribers, as required by the regulator.

Mobile penetration increased, but is still between 21% and 23% in Sudan, Yemen and Afghanistan, which highlights the considerable opportunity that still exists for growth. Average revenue per user (ARPU) across MENA declined, except in Cyprus, where blended ARPU increased to USD44 a month from USD39 in 2007 mainly due to the proportion of postpaid subscribers with higher ARPU's increasing from 27% to 35%. This market is at 90% penetration so ARPU stability is more expected. The increase was primarily due to the business acquiring more postpaid subscribers at higher ARPUs. Competition is expected to increase as new licences are planned for Iran and Syria.

We rolled out various initiatives to create synergies between all operating companies, by streamlining procedures, particularly in human resources. Group events, such as *Yello Stars* and the Group Leadership Conference helped enhance the feeling of belonging and team spirit.

We are pleased to report successful capex deployment across MENA. We started sharing infrastructure with some of our competitors in 2008, and aim to increase this during the year ahead, with its favourable effect on our environmental footprint and costs. MTN Syria (details of which appear in the separate Syria report on page 62) replaced its core infrastructure during the year with new generation technology.

Product and service delivery were a major focus area, with MENA operations working towards revamping MTN's value proposition to customers. This included preparations for Mobile Money, dynamic tariffing, seamless roaming, customer segmentation and enhanced sales and distribution.

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## Group chief operating officer's report *continued*

### Middle East and North Africa *continued*/MTN Irancell review

MTN Afghanistan gained the number two position in the market mainly as a result of aggressive roll out of the network and following the re-branding of operations in May. These significant achievements are notwithstanding the numerous challenges faced, among them, significant competition, security concerns, lack of basic infrastructure, a geographically difficult environment and periodically severe weather conditions. Border closures from time to time also delayed the delivery of materials, while recruiting sufficient skilled local staff remains a challenge.

MTN Yemen maintained its market leadership throughout the year, with 38% market share. The launch of the "talk free after the third minute" offer proved to be particularly successful in Yemen, although the market responded well to most of our offerings. The employees of MTN Yemen won the Group's joint first prize, with MTN Côte d'Ivoire, of the "21 days of Yello Care Challenge", with the greatest staff participation in volunteering time and energies to support worthy projects in the community.

During the year MTN disposed of 49% of MTN Cyprus, selling a stake to prominent Cypriot trading company, Amaracos, who has a further option for 1%. At the same time, MTN Cyprus acquired 100% of fixed-line operator and internet service provider, OTEnet, as well as retail chain, Infotel. These transactions provide the operation with significant local

know-how, as well as distribution support, and enable MTN Cyprus to offer comprehensive solutions for mobile, fixed and broadband communications increasing its market share to a more healthy 19%.

#### Outlook

In a challenging environment of ever-increasing competition, often-uncertain politics and evolving regulations, MTN's operations in the MENA region will continue to strive to grow subscribers by rolling out new infrastructure, particularly in rural areas, and introducing new products and services. The Group has authorised an increase in capital expenditure to R6,7 billion in the region in 2009, although this reflects only our proportionate share of MTN Irancell's capex.

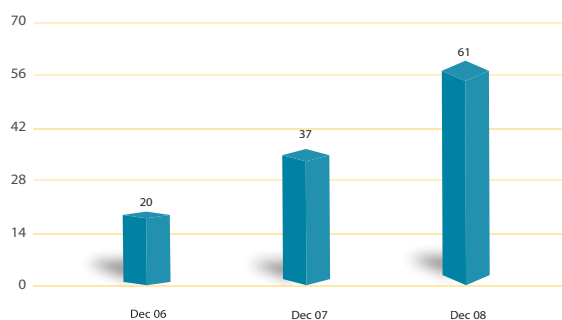
We will capitalise on the Group's sponsorship of the 2010 FIFA World Cup South Africa™ to further build our brand, while revamping our value proposition to customers and sharing learning across operating units.

We will continue working to improve sales and distribution, and structure the retail network so as to limit churn and reward good distributors. Among a number of new products we plan to launch in the MENA region in 2009 are Mobile Money, MTN Zone dynamic tariffing and seamless roaming.

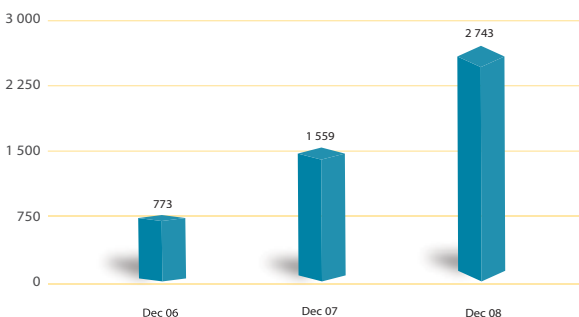


Launched October 2006, market share 37%, population 71,9 million, forecast market size in 2013 – 53 million, shareholding 49%.

### Mobile penetration – Iran (%)



### Capex – Iran (R million)



### Overview

In its second full year of operations, MTN Irancell moved significantly beyond a start-up project, taking more than half of all net additions in the market. This brought total subscriber numbers to 16,04 million, up from six million – the largest annual increase in subscribers of any MTN operation, ever – and bolstered MTN Irancell's market share to 37%, from 23% a year earlier.

Subscriber acquisition was driven by strong brand image, successful seasonal promotional campaigns and new products and services.

Average revenue per user declined by USD1 to USD9. This is due to the sharp increase in the number of subscribers, which now includes many more lower-income customers, as well as the depreciation of the rial against the dollar. Almost 98% of our users are prepaid, while the rest are on postpaid plans, a significant change from two years ago when the market was almost completely postpaid.

### Market environment

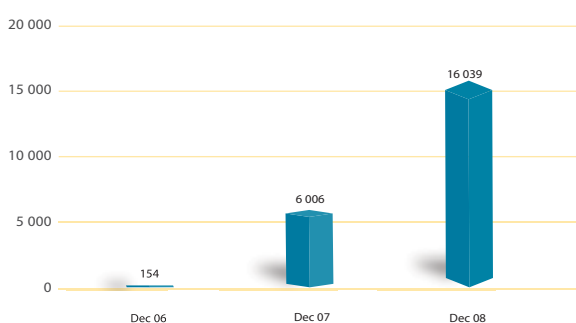
A steep fall in the price of oil – Iran's key export – led to a drop in the value of the rial against the dollar and also stoked inflation, which at one stage reached more than 23% in the year. Other reasons for the inflationary environment were Iran's expansionary monetary policy, fuel rationing and the lifting of some government subsidies on general consumer goods.

## Group chief operating officer's report *continued*

### MTN Irancell review *continued*

#### Subscribers – Iran

(000)



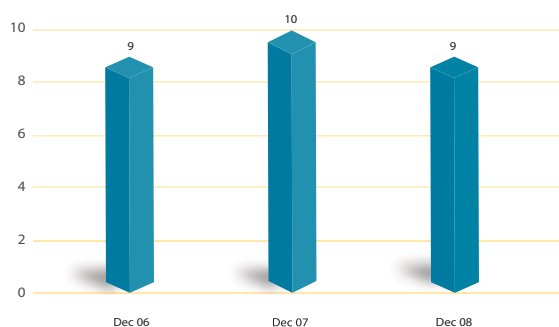
Strong rises in price levels typically put pressure on disposable incomes, which impacts spending patterns, although this has not been evident as yet.

#### Infrastructure

MTN Irancell invested R2,7 billion (49%) in capital expenditure (from R1,6 billion – 49% – the year before) to improve the coverage, capacity and quality of the MTN Irancell network. By the end of 2008, the operation had added 1 529 base transceiver stations to the network, bringing the total rolled out so far to 3 532. We increased our network's coverage of the population to 62% at December 2008, from 48% a year earlier.

#### ARPU – Iran

(USD)



Gross connection greatly improved to minimise the impact of churn by rolling out more sites in cities where demand was high as well as establishing a network footprint in new cities. We have faced challenges in acquiring sites in some of the larger cities, including Esfahan and Tehran in particular. By the end of the year, MTN Irancell covered 699 cities in the country, up 465 during the year. Another four base station controllers and eight switches were commissioned during the year, bringing the cumulative total since inception to 67 and 16 respectively.

#### Products and services

The Iranian market is very receptive to innovations in mobile telephony, and to capitalise on this, MTN Irancell had a strong focus on marketing during the year, particularly offers targeted at the large youth segment.

Our main promotional activity was the “Buy One, Get One Free” campaign, driven largely by market research, which helped boost brand awareness and lifted connection rates to an average of more than 31 000 a day for the year.

Competitive pricing of SIM packs, which lowered upfront ownership costs, combined with attractive basic and promotional tariff plans, contributed to subscriber growth. New segmented tariff plans, tailored to subscriber usage patterns, were also well received.

Vitrin, MTN Irancell’s content portal, was launched at the start of summer as an innovative entertainment product. In an effort to improve the customer experience, MTN Irancell launched three new service centres during the year.

### Distribution

MTN Irancell introduced a value-based channel strategy in the year, providing distributors with a greater incentive to sell MTN packages. MTN Irancell now has 11 established distributors with 5 980 registered dealers and approximately 64 000 points of sale nationally. We also set up distribution through three banks with more than 4 000 ATMs selling ‘logical PINs’ as well as two banks selling prepaid airtime over the Internet.

An efficient and cost-effective supply chain of warehouses ensured that the right products, such as SIM and recharge cards, were available on demand, even though sales during the year exceeded forecasts. MTN Irancell more than doubled the capacity

of the local production of recharge cards (and plans to increase this further); started the local production of SIM cards; and signed up two new local SIM kit-packaging suppliers, increasing the number of local suppliers, as well as local content.

### People

To meet the needs of our rapidly expanding customer base and network, MTN Irancell doubled the number of people employed during the year, although many were previously contractors working in a temporary capacity. MTN’s priority is to attract, recruit and retain people with the relevant skills and experience. We are also working on a customer-centric culture programme to ensure excellent customer service.

### Regulatory environment

Many regulations in Iran are still being developed and there is no overarching telecoms legislation or industry-specific regulations on issues such as interconnection and infrastructure sharing. During the year MTN Irancell continued to work on negotiations with the Telecommunication Company of Iran (TCI) for an interconnect agreement.

One of the main regulatory priorities for MTN Irancell is the registration of users’ personal details, as required by law. We have equipped nearly 3 000 dealers with the means needed to register subscribers.

During the year, MTN Irancell was awarded a WiMax licence as well as spectrum, and will commence WiMax services in

## Group chief operating officer's report *continued*

### MTN Irancell *continued*/MTN Syria *review*

2009. We also received an ISP licence from the regulator and plan to roll out ISP services during the course of 2009. Iran recently named the preferred bidder for a third mobile operator licence; however, it is not clear when the new entrant will start operating.

#### Outlook

In the year ahead we will continue to work hard towards achieving critical mass and to firmly establish MTN Irancell's position in the market against an entrenched competitor as well as the expected entry of a third operator.

Despite what we expect to be still-high inflation, we see strong potential for growth in Iran, particularly in the more rural areas, where we intend to further extend our network. Our estimate of the addressable market in five years is 53 million subscribers.

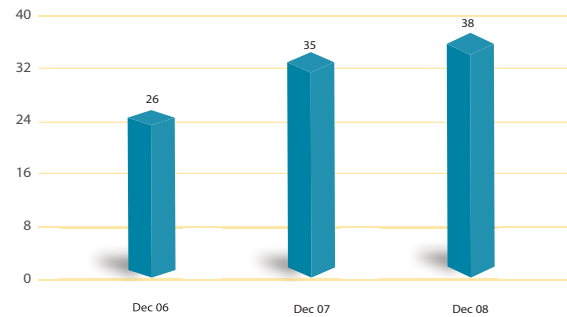
MTN Irancell is also looking to penetrate the corporate segment and to add total of around six million new customers to our network in 2009. We plan to achieve this through the launch of a series of innovations to leverage our technological leadership and stimulate usage. Improvements to customer service, through segmentation, are a priority and we plan to develop offerings that attract and retain users in the various market segments.



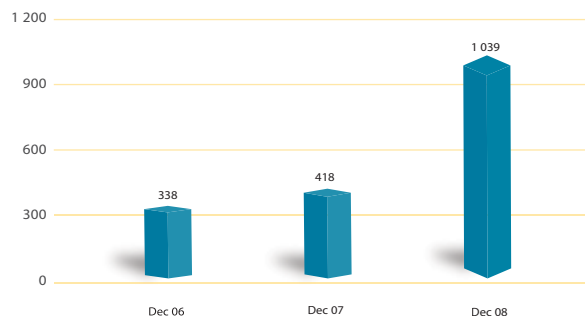
MTN Syria

Launched June 2002, market share 46%, population 20,4 million, forecast market size in 2013 – 13 million, shareholding 75%.

#### Mobile penetration – Syria (%)

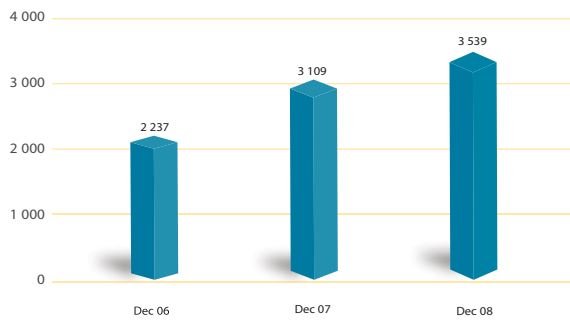


#### Capex – Syria (R million)



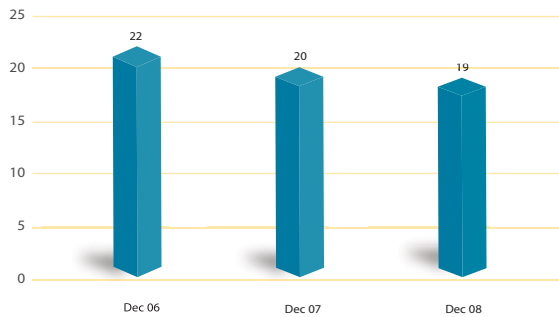
## Subscribers – Syria

(000)



## ARPU – Syria

(USD)



## Overview

MTN Syria increased its subscriber base by a moderate 14% to 3,5 million in a year in which we replaced the core infrastructure with new-generation technology. The increase in user numbers was supported by a number of initiatives, including a reduction of prepaid tariffs during the last quarter of 2007; the extension of the validity periods for various airtime packages; good management of churn and various promotional offers to the lower end of the market.

The telecoms market in Syria is a managed one, where the regulator plays a significant role in market activities.

The increasing trend by customers to move to prepaid from postpaid contracts resulted in a drop in postpaid's share of total subscribers to just under 16% from more than 18% a year earlier. Blended average revenue per user declined USD1 to USD19 as more subscribers in the lower-income segments joined the network.

## Market environment

The Syrian economy experienced high inflation during the year, which had a negative impact on the purchasing power of the lower-income users who make up about half of the MTN Syria subscriber base. Delays in deliveries of network equipment, mainly a result of the process required to ensure compliance with the US embargo on the country, affected roll out and hence network performance in the early part of the year.

## Group chief operating officer's report *continued*

### MTN Syria review *continued*/MTN Sudan review

#### Infrastructure

Network roll out gained momentum in the second half of the financial year and by year-end, MTN Syria's legacy technology had been replaced with a network based on the latest technology, providing a solid basis for growth. We migrated from a network based on time division multiplexing (TDM) to an Internet Protocol backbone for the core network around four major cities. We rolled out 596 base transceiver stations in the year, bringing the total to 2 995. This included an acceleration of the rollout of our 3G network, with 145 3G base transceiver stations constructed during the year. Total capital expenditure more than doubled to over R1 billion in 2008.

#### Products and services

Voice remains the dominant application in Syria, with demand for advanced data services still limited due to low Internet penetration. Despite this, and with an eye to the future, MTN Syria acquired an ISP licence during the year, introduced enriched data offers and paved the way for full 3G services after running a 3G trial project for the previous 18 months.

GPRS tariffs were sharply reduced during the year, while promotions for SMS flat rates and various innovative services targeting the youth were launched. We upgraded the billing system to improve its efficiency and increase customer loyalty

and also overhauled our customer contact centres to improve customer service, enhance our ability to handle incoming call traffic, increase productivity and reduce costs.

#### Distribution

Improved distribution remained a focus. We brought 10 new franchise customer service centres into operation in geographically remote areas. MTN Syria also revised commission schemes and introduced electronic prepaid vouchers to the market, reaching a 38% penetration rate by the end of December 2008.

#### People

Acknowledging the key competitive advantage that comes from our people, MTN Syria continued to invest in employee training during the year. More than four-fifths of all our employees attended at least one training course aimed at building competencies and capabilities. We also put in place a clearly defined succession plan, identifying key leadership staff.

#### Regulatory environment

MTN Syria has a Build, Operate and Transfer (BOT) contract to run its mobile business. We continue to engage with the Syrian telecoms authorities to convert the BOT contract into a regular mobile operator licence.

Due to promulgation of certain laws and regulations in 2008, MTN Syria has been working to adjust its company by-laws and board of directors in order to comply with all the new laws and conditions.

As the Syrian financial markets have only recently started liberalising, foreign exchange legislation to allow for the purchase of foreign currency is therefore still limited, a situation acknowledged by the Syrian authorities with whom we continue to engage.

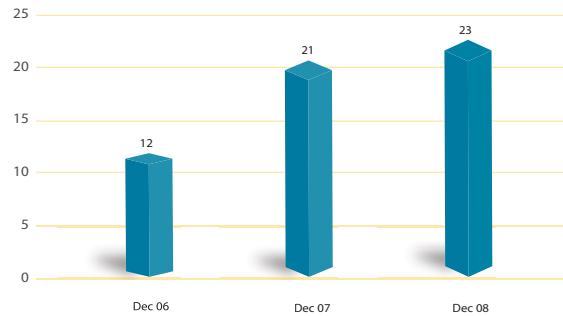
**Outlook**

Mobile penetration in Syria is around 38%, providing MTN Syria with more opportunity to grow in a country of some 20 million people. We recently raised our forecast for the potential mobile market size to 13 million in five years' time from a previous forecast of almost 12 million. Changes in the regulatory environment are expected to further drive penetration in the years ahead. MTN Syria expects to add some 400 000 new subscribers in 2009 and increase data's contribution to revenue due to the expected launch of commercial 3G services in Syria.

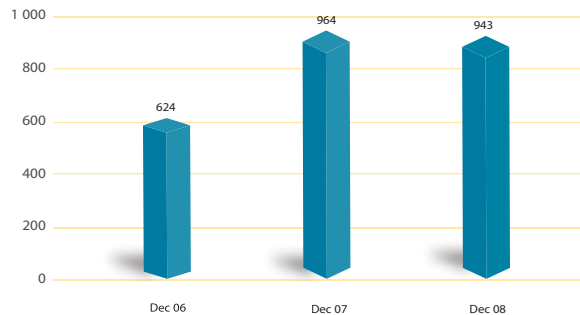


Launched September 2005, market share 28%, population 38,4 million, forecast market size in 2013 – 19 million, shareholding 85%.

**Mobile penetration – Sudan (%)**



**Capex – Sudan (R million)**

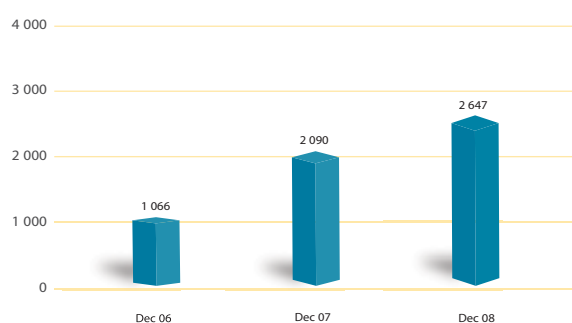


## Group chief operating officer's report *continued*

### MTN Sudan review *continued*

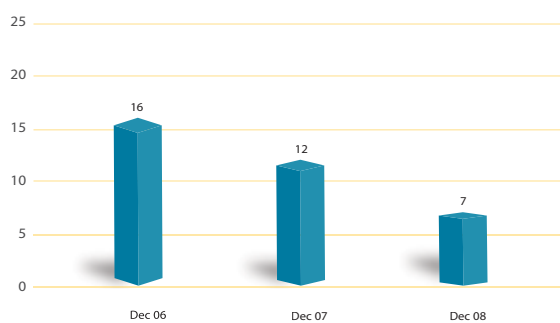
#### Subscribers – Sudan

(000)



#### ARPU – Sudan

(USD)



#### Overview

It was a difficult year for MTN Sudan in 2008, mainly as a result of the regulator's directive to disconnect more than 1.1 million prepaid subscribers who had not registered their personal details and exacerbated by internal operational challenges in an environment of strong competition. Blended average revenue per user declined to USD7 in December 2008 from USD12 at the beginning of the year because of lower outgoing minutes of use. Subscriber net additions during the year dropped to 557,000 from 1,024,000 in 2007.

On a positive note, however, we noted significant improvements in the final quarter, with an increased number of subscribers, net additions and revenue. A new chief executive was appointed in October and further senior management changes occurred in the first quarter of 2009. Towards the end of the year, we regained market share to 28%. However, our share of revenue still has to be improved in line with subscriber share.

#### Market environment

Political instability continues to be a challenge in Sudan; poverty is widespread and per capita income is low. However, with its significant oil resources, the economic potential of Africa's largest country is considerable. Linked to this is the opportunity for growth in the telecoms sector, where mobile penetration increased to just 23% in 2008 from 21% a year earlier. However, competition among the three main mobile operators in a country of around 38 million people is fierce due to the handset subsidisation and low tariffs of the CDMA operator.

## Infrastructure

The roll out of new infrastructure continued during the year, particularly in southern Sudan. 424 base transceiver stations were added to the network, bringing the total to 1 621. MTN Sudan's network now covers 45,3% of the population, up from 42,8% at the end of 2007.

In November, MTN Sudan put a new intelligent network platform into service, and also worked on implementing a swap of vendor for the core network. This enables the operation to offer the best technologies to its customers (like MTN Zone) as well as allowing it to benefit from working on the same platform as other MTN operations.

## Products and services

To boost acquisitions and utilisation during the year, MTN Sudan launched a series of marketing activities, including focusing on cities outside the capital with low commercial coverage where we launched the *Yellow Storm* campaign of special offers. Towards year-end we introduced "*the 50% extra credit*" campaign as well as a promotion to encourage international calls by giving away four free international minutes for every four international minutes used. With the start up of the new intelligent network platform, we prepared to launch dynamic tariffing with MTN Zone.

## Distribution

MTN Sudan's distributors have more than 8 500 points of sale in the country. We have commenced work on revamping our sales and distribution channels, with opportunities identified beyond greater Khartoum, in southern Sudan and across rural

areas. A key objective for 2009 is to increase our distribution footprint significantly.

## People

MTN Sudan implemented a new staff development and succession plan during the year to attract and retain key talent, and also revised remuneration to be in line with the market. MTN Sudan has a crisis management plan in place to ensure the safety and security of our personnel in the current unstable political environment.

## Regulatory environment

Regulation of the telecoms sector in Sudan is still evolving and is possibly not always adhered to equally by all operators. During the year we resolved an interconnect dispute with a competitor and continued to work closely with the regulator on what we believe to be anti-competitive pricing by other operators of international calls to other Arab countries.

## Outlook

We expect the size of the Sudanese telecoms market to grow significantly in the next five years, to around 19 million from the current 8,9 million. This will be driven by higher uptake in areas outside the capital, Khartoum, where MTN Sudan continues to roll-out infrastructure. We intend to grow our share of mobile revenue by growing our subscriber base. We also plan to launch 3G services shortly after our trial phase comes to an end. In February 2009 we inaugurated a new mobile switching centre in southern Sudan, underscoring our commitment to extend network coverage all over this region.

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