

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*

## **South and East Africa region**



MTN's South and East Africa (SEA) region encompasses six countries: South Africa, Uganda, Botswana, Rwanda, Swaziland and Zambia. The MTN SEA regional office is in Johannesburg, which is also home to the main elements of the MTN Group head office and the place it is listed.



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### South and East Africa regional overview

#### South and East Africa regional contribution to Group total

	Population (million)	Subscribers (000)	Revenue (Rm)	EBITDA (Rm)	Capex (Rm)
<b>Total</b>	<b>104,5</b>	<b>24 032</b>	<b>37 483</b>	<b>12 878</b>	<b>7 350</b>
<b>% of Group total</b>	<b>20%</b>	<b>27%</b>	<b>37%</b>	<b>30%</b>	<b>26%</b>

Country contributions to SEA region total

#### Subscriber contribution



■ South Africa	71%
■ Uganda	15%
■ Botswana	4%
■ Rwanda	5%
■ Zambia	3%
■ Swaziland	2%

#### Capex



■ South Africa	66%
■ Rest of region	34%

## Performance

The highlight of 2008 for the SEA region was the increase in the customer base – we boosted total subscriber numbers by almost a quarter to 24,03 million. The growth was led by Zambia (where net additions were up more than 470%), Rwanda, Uganda and Swaziland. In line with increased penetration in all markets, average revenue per user (ARPU) declined in all SEA countries, except in Zambia, where it increased by USD1 to USD11.

In 2008, MTN Uganda, MTN Rwanda and MTN Swaziland celebrated 10-year anniversaries. These were the first countries of the 20 outside South Africa to which MTN had expanded. The hard work over the past decade has led to remarkable results – a tribute to the people of these operations who have established the foundation for even greater success in the next decade.

MTN stepped up capital expenditure sharply in 2008, with total annual capital expenditure for the region doubling to R7,35 billion, most of which was spent on the network in South Africa. Other countries with significant capital expenditure, in pursuit of MTN's strategy to continue to provide network excellence and to expand our network and support data growth, were Uganda, Rwanda, Zambia and Swaziland.

MTN Uganda's capital expenditure nearly tripled during the year, enabling it to construct 104 base transceiver stations, bringing the total in place to 573. Driven by a high level of

competitor promotional activity and the prevalence of multiple SIM card ownership, churn remained a challenge despite MTN Uganda having the lowest churn rate in that market.

The launch of MTN Zone in the year made a huge impact and enabled MTN Uganda to grow its subscriber base by 49%. However, market share decreased to 52% from 56% as a new entrant joined the market, bringing to four the number of operational GSM licensed operators in Uganda.

MTN Rwanda completed the roll out of its core 3G network in the year and continued to work to expand its distribution footprint. We nearly doubled our capital expenditure in the year, deploying 316 base transceiver stations (BTS), 230 site upgrades and an upgrade of the national transmission backbone. A third operator is expected to be launched in Rwanda in the third quarter of 2009.

MTN Zambia performed well in the year, lifting subscriber numbers by more than 160% to reach 693 369 and increasing market share to more than 25% from 17,2%. The favourable results were due to better pricing plans, product distribution and availability and significant improvements to the network, where we rolled out 235 BTS. MTN Zambia acquired 40% of net additions in the market during the year.

MTN remained the exclusive operator in Swaziland, recording 138 748 net connections, and bringing the active subscriber base to 518 988. MTN Swaziland introduced our lowest-priced handset to date, supporting greater usage. The launch of

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

### South and East Africa regional overview *continued*/MTN South Africa review

MTN Zone, piloted first in Swaziland, proved very successful and resulted in significant uptake. In November MTN Swaziland received its renewed licence which is valid for another 10 years.

Mascom Botswana introduced the fastest mobile Internet access in Botswana in the year, through the launch of its 3.5G network around the capital Gaborone. Competition intensified with the launch of a third mobile operator and mobile penetration reached 97%. As a result of this increasing market maturity, Mascom implemented key retention strategies in the year.

#### Outlook

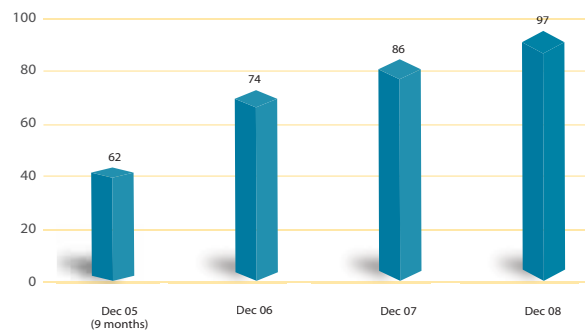
Many markets in the region are greatly dependent on commodities. In a climate of slowing economic activity, in the year ahead all SEA businesses will focus on improving operational efficiencies, extending network coverage, service innovation and customer care and retention. Competition is expected to increase as more entrants join the market, specifically in Uganda and Swaziland. Self-provisioning and the sharing of transmission infrastructure, in South Africa in particular, will remain a focus in our efforts to cut costs as well as our businesses' impact on the environment. The availability of power in many markets, and Uganda in particular, remains a challenge, as extensive use of generators puts pressure on network operating costs. As such, the implementation of hybrid power solutions has been prioritised.



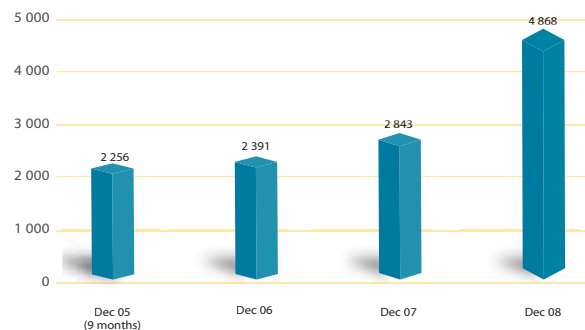
#### MTN South Africa

Launched June 1994, market share 36%, population 49 million, forecast market size in 2013 – 64 million, shareholding 100%.

#### Mobile penetration – South Africa (%)

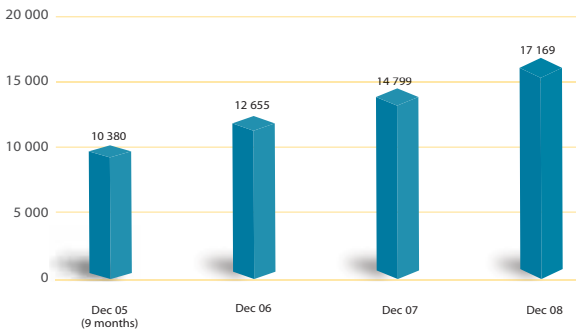


#### Capex – South Africa (R million)



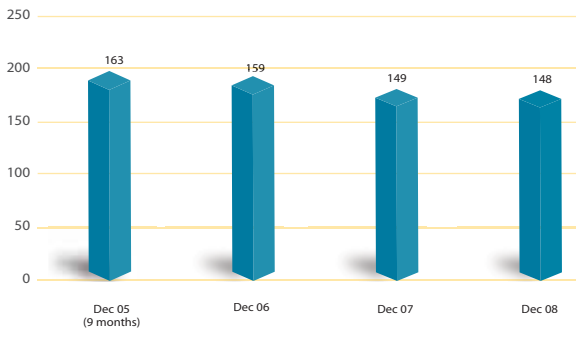
## Subscribers – South Africa

(000)



## ARPU (blended) – South Africa

(Rand)



## Overview

MTN South Africa, the Group's original and flagship operation, performed well in a challenging economic environment, marked by an increase in interest rates to five-year peaks and the fastest rate of inflation in 16 years. Competition in this maturing market, where mobile penetration is around 97%, remained robust. Despite this, MTN South Africa lifted subscriber numbers 16% to 17,17 million, maintained market share at 36% and reported blended average revenue per user (ARPU) of R148, down just one rand on the 2007 figure. This performance was mainly the result of some key product innovations, as well as important enhancements to the network and distribution in the year.

In executing our strategy, we secured numerous acquisitions, including that of an internet service provider or ISP (in line with our convergence goals) and various retail outlets (to fulfil our integrated distribution objectives).

The MTN South Africa brand grew from strength to strength, breaking into the top 10 of the *Ipsos Markinor Sunday Times Top Brands* survey for the first time as well as moving up in the overall *Ask Afrika Orange Index* service excellence survey.

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

### MTN South Africa review *continued*

MTN South Africa was again rated number one in the Ask Afrika Orange telecoms sector for customer service. We earned a number of accolades for our advertisements, including bronze awards at Cannes and the Clios in New York for the "clap" advertisement. These honours confirm the value of our brand and give us a solid platform on which to build the 2010 FIFA World Cup South Africa™ campaign, the "we can't wait" phase of which we launched in March 2009.

Capital expenditure was a major focus of the year, with more than R4,9 billion invested during the period, from R2,8 billion a year earlier. Without sacrificing the quality of our network or that of customer care, cost control remained central to our endeavours. An example of where we were able to reduce costs was in relying less on contractors, including call centre agents, by recruiting these skills directly.

During the year we successfully completed the restructuring of our organisational design, to simplify management processes, increase the business focus and quicken our decision-making.

#### Market environment

Economic growth slowed during the year as interest rates peaked and high rates of inflation hurt consumer confidence and resulted in more cautious spending. Bad debts increased as the high cost of credit ate into disposable incomes. The rand lost ground against the dollar to average 8,13 in 2008 from 7,04 a year earlier.

#### Infrastructure

The key objectives for our network are to improve its capacity, quality and coverage; introduce alternative transmission capabilities through self-provisioning; modernise the network and make it more efficient; support and maintain our infrastructure; and stimulate and support the development and launch of new products.

We changed the core infrastructure, replacing 98% of the monolithic network, moving from classic transmission (using microwave or time-division multiplexing) to Internet Protocol fibre-based transmission. This should ultimately lead to increased capacity, better quality of service and lower costs to customers.

We are pleased to report a significant improvement in the capacity of our South African network during the year, increasing population and geographic coverage and enhancing our data capabilities. We built 483 new 2G base transceiver stations (BTS) and 419 new 3G BTS, thus bringing the total to 7 718 BTS. Considerable progress was also made in providing additional capacity to both the circuit switch (voice) and packet switch (data) core network.

In pursuit of our transmission self-provisioning strategy, we commenced the roll out of our fibre-optic metropolitan network in the high-traffic zone of Gauteng. This deployment, which will significantly enhance our capacity, is expected to result in some operating cost savings over a decade.

Infrastructure sharing remained a focus, and during the year we negotiated the building with two other operators of a 5 000 km national fibre-optic network to enhance network coverage and quality. Work on the project, with planned completion by 2011 and an estimated cost of R1,5 – R2,0 billion, has already commenced. Currently we are sharing around one third of our BTS sites in South Africa – a figure we expect to increase in the years ahead.

### Products and services

Product innovation was a central theme for MTN South Africa during the year as we worked hard to create products relevant to South Africans from all walks of life. In February we launched MTN Zone, a dynamic tariffing product, to our prepaid customers, an exciting offering with discounts of up to 95% on local calls. At year-end we had more than 6,5 million MTN Zone customers in the country, boosting our market share in this important segment. To counter churn, a new SIM swap process was introduced, allowing prepaid customers to retain their old, but active, numbers.

In September we launched MTN AnyTime to postpaid customers, attracting some 259 000 subscribers. This is a high-value proposition which creates simplicity as well as value through per-second billing, increased carry-over of airtime,

inclusive SMS packages and standard charges across networks. A simpler international roaming proposition was introduced, aimed at making rates more transparent. In our drive to reward customers for their tenure, expenditure and product choices, we established the *Smile* loyalty programme.

In the business market, we introduced a proposition for small and medium enterprises (SMEs) and set up an SME sales channel. Through our recent purchase of ISP Verizon South Africa we have secured nearly a quarter of the South African corporate data market and we will continue to enhance the MTN value proposition to business and corporate clients under the MTN Business banner. MTN Business integrates Verizon with Network Solutions, our original ISP.

### Distribution

In working towards our goal of more effective direct distribution of our products, as well as an enhanced customer experience, during the year MTN South Africa increased branded distribution presence. To further improve the efficiency of the distribution channel, we purchased the remaining shares of retailer Cell Place and concluded the purchase in January 2009 of the remaining stake in i-Talk. We also purchased two dealers – Cellphonics and Cellphone Select – in a move to further improve service to customers.

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

### MTN South Africa review *continued*

#### People

The passion and commitment of the employees of MTN South Africa remain a central competitive advantage to our business. Despite the recent significant reorganisation of the structure of business, our annual culture survey (in which participation was 85%) produced very encouraging results, showing that better communication and interaction with staff is paying off.

During the year we met our employment equity targets at management level, making a number of key appointments in this regard. A shortage of skilled resources – particularly in engineering – remains a challenge, and one that we are addressing through targeted skills and leadership development, which will in turn be aided by the establishment of the MTN Academy.

Recognising that broad-based black economic empowerment is a business imperative in South Africa, we have identified enterprise development and procurement as key aspects in which to invest. During the year we spent R5,3 billion with black-owned businesses, up from R2,1 billion the previous year. Further details of our BEE initiatives can be found in the Group sustainability section of this report on page 74.

#### Regulatory environment

The South African ICT regulatory environment continues to evolve, with numerous regulations under consideration or issued during 2008, including implementation of provisions of the Electronic Communications Act. MTN South Africa maintains a positive and pro-active relationship with the industry regulator, ICASA, and other bodies involved in crafting legislation. Key recent developments in the regulatory environment include:

- MTN South Africa's mobile cellular telecommunications service licence, which expired in January 2009, has been converted into an electronic communications network services licence and an electronic communications service licence. However, certain issues with regard to the technical aspects of the licences still need to be resolved. We are also awaiting publication of details of frequency licences and of licence fee regulations.
- The Regulation of Interception and Provision of Communications-related Information Act Amendment Bill, which requires that mobile operators establish a thorough register of all subscriber details, was published in January 2009. The date on which this legislation will take effect is still to be determined.

- MTN South Africa expects the Competition Tribunal hearing on the Company's long-standing community service interconnect dispute with a competitor to take place later in 2009.
- MTN South Africa is awaiting publication by the regulator of the final interconnection regime and facilities-leasing guidelines and also finalisation of the policy framework required for access to the long-term evolution spectrum required for 3G evolution.
- In January 2009 MTN South Africa obtained unconditional approval from the Competition Tribunal to close two transactions – the purchase of Verizon Business South Africa and that of the remaining shares in i-Talk.

To meet this projected demand we will continue to focus on network expansion, optimisation and evolution and have earmarked a further capital expenditure increase of around two-thirds in 2009, with more site sharing and a strong emphasis on skills development. Customer-driven delivery will remain our target and we will continue to re-engineer our distribution channel and leverage the pipeline of new products established in the year. With the integration of Verizon Business South Africa and MTN Network Solutions to form MTN Business, we are well positioned to make significant inroads into the business-to-business data market.

### Outlook

Although South Africa is a reasonably mature mobile market, we remain optimistic of further growth in the years ahead, and have increased our forecast market size in 2013 to nearly 64 million. We base this on the growing trend for subscribers to use multiple SIM cards (eg, one for business, one for personal use and one for data); an increase in immigration to the country; a higher uptake by youth; and expanded demand for telemetry.