

Group president and CEO's report

MTN's strategic agenda is clear: it aims to be the leader in telecommunications in emerging markets. This strategy is built on three pillars – consolidation and diversification; leveraging MTN's footprint and intellectual capacity; and convergence and operational evolution.



Phuthuma Nhleko

Group president and CEO

Harnessing the benefits of MTN's scale

At no time is a clear strategic vision more necessary than in an environment of uncertainty. The global economic crisis has tested the mettle of organisations the world over and exposed the robustness – or otherwise – of their business models. While the MTN Group did not escape its share of challenges in 2009, including greater competition, more demanding regulatory requirements and slowing economies, it was another year of a strong operational performance across the Middle East and Africa.

The Group performed well for the year under review. MTN Group revenue increased by 9,2% to R111,9 billion and earnings before interest, tax, depreciation and amortisation (EBITDA) by 6,7% to R46,1 billion for the year ended 31 December 2009. With 70% of the Group's earnings sourced outside South Africa the adverse moves in the currencies of MTN's major markets compared to the currency in which it reports its results – the rand – had a substantial negative impact on the Group's financial results.

To illustrate this, had there been no movement in currency rates during the year, reported revenue would have been 11 percentage points higher and EBITDA 12 percentage points above that reported. Higher regulatory fees in Syria and various challenges in South Africa put pressure on the Group's EBITDA margin, resulting in a reading of 41,1% in 2009 from 42,1% in 2008. Adjusted headline earnings per share decreased by 16,6% to 754,3 cents, and excluding the impact of the functional currency losses, increased by 8,5% to 878,9 cents.

In the year, the Group continued to execute on major infrastructure roll out projects, with annual investment in infrastructure and systems peaking at more than R31,2 billion and substantially enhancing the quality of the network. This facilitated growth of 28% in subscriber numbers to more than 116 million people in 21 countries. MTN maintained or grew its market share in all but one of these jurisdictions.

Average revenue per user (ARPU) per month declined across most operations, in line with greater mobile penetration and to a lesser extent by the deterioration in the various economies. This was anticipated. As markets evolve, ARPUs typically drop as more people at the lower end of the income spectrum are able to own a mobile. Notwithstanding the increase in penetration, the absolute level across many of the Group's operations remains low and MTN believes there is still significant growth to be had across its footprint. The demographics of the markets also support this, as MTN is primarily present in countries where population growth rates are still high. Reputable industry research puts the size of the untapped potential mobile subscriber market on the African continent alone at around 500 million people – almost five times MTN's current subscriber base.

While working to reduce capital and operational costs, the Group also continues to find new ways to augment growth in revenues and offer customers more features. Data, money transfers and value-added services are fundamental to this.

Strategic agenda

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Consolidation and diversification

MTN believes that consolidation in the sector will continue. Increasingly, in the face of growing competition, achieving better economies of scale and spreading earnings and risks over more markets will determine the success and sustainability of mobile communication operations. In an attempt to achieve this, the Group continued to assess a number of opportunities to expand its operations and diversify its earnings base. In 2009, MTN was in discussions considering an opportunity with an Indian operator, which we were unable to conclude to both parties' satisfaction.

This does not deter MTN from its long-term strategic objective. However, there is no obligation, or pressure from any quarter, to do a deal and MTN will not rush into any transaction without thoroughly evaluating it and ensuring that it is a good fit and is in the interest of shareholders. MTN continues to work to identify transactions that are meaningful either strategically or from a size perspective and we continue to believe the current economic environment presents a number of opportunities in emerging markets that could add value to the Group. MTN is the largest primary listing on the JSE. Its comparatively low level of gearing enables the Group to consider potential acquisitions with confidence regarding its ability to finance such transactions.

Leveraging MTN's footprint and intellectual capacity

In its 15 years of operations, MTN has established a truly global brand, whose leadership is best displayed through the exclusive global mobile sponsorship of the 2010 FIFA World Cup South Africa™. MTN's strategy is to leverage the brand and already widespread presence to achieve sustained growth and more operational efficiencies. In his report on page 26, the chief operating officer details Group initiatives to standardise equipment and processes, and simplify and centralise functions. Among these are successful efforts to leverage the Group's scale to secure more competitive pricing from vendors, the number of which MTN continues to rationalise without sacrificing competition. Another important objective is the standardisation of IT architecture and we are pleased to report encouraging progress in this regard.

The record capital investment made during 2009 to enhance network capabilities has given the Group the headroom it required and a step change in capability, quality and capacity.

MTN expects that 2009 will represent the peak in capex funding, which has built up steadily since the Group's inception in 1994. In the year ahead, MTN intends to continue to pursue opportunities to unlock value from its infrastructure assets, realising liquidity and improving competitiveness through further reducing capital and operational expenditure.

Over the years, MTN has built up a strong core of valuable skills, experience and passion in its team of staff. This intellectual capacity, too, can be leveraged to achieve even greater things. In 2009, a number of new appointments of senior management were made, further deepening the Group's leadership set. Many managers in the field moved from one operation to another, facilitating increased knowledge share and skills transfer across the business and providing staff with attractive and meaningful opportunities for growth within emerging markets. Over time, this should further bolster our ability to attract and retain the best skill and capability across our footprint.

In recent years, the MTN staff complement has begun to reflect the internationalisation of the Company, showing more diversity in culture, language and ways of doing business and bringing the Group significant benefits. At MTN we recognise that our success is attributable to the depth and quality of our employees. Initiatives such as a strategic talent investment board and the MTN Academy are aimed at addressing the leadership capability and capacity needs of the organisation.

Convergence and operational evolution

While demand for voice services has been the driver for MTN's growth to date, increasingly mobile operators will be required to provide seamless internet-based connectivity and services. Anticipating this rapidly approaching new era, MTN has over recent years hastened the groundwork by making numerous investments. These include: investing considerable sums to upgrade the GSM network to one based on internet protocol; securing WiMax licences and starting to establish services using this technology; rolling out the most modern fibre transmission facilities; securing significant bandwidth on high-capacity submarine cables; purchasing 3G licences and ISPs; and establishing its own ISPs.

In South Africa, in 2009, MTN successfully integrated Verizon South Africa into MTN Business, which it will use as a springboard into the rest of the continent and – in time – offer managed solutions. This represents a boost in revenue from fixed data (however this is currently referred to as "other revenue" in MTN accounts). In addition, increased take-up of mobile data offerings in South Africa underpinned data's contribution to overall Group revenues in 2009.

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To support the convergence of technologies, MTN has also worked to evolve its product offering. It launched MTN Mobile Money, first in Uganda and then in Ghana. This innovative, useful and affordable tool with which to transfer money, offers customers convenience and creates "stickiness", which in turn helps limit customer churn. To date it has also been launched in South Africa, Rwanda, Côte d'Ivoire, Benin and Yemen. Its success in Uganda, where it had more than 500 000 users at the end of December 2009, is a good indicator of the scale of opportunity ahead.

To address the growing demand for content, in October 2009 MTN entered a strategic partnership with India-based software and managed services provider IMI mobile. Through this alliance, MTN's markets will gain access to a repository of globally popular content through enhanced delivery platforms. The content will include music, sports, games, entertainment, news and much more. It will also enable MTN to launch new income-generating voice and data services. MTN has already introduced a number of exciting products and services on its portal and on www.mtnfootball.com.

The evolution of the business model is envisaged to take coverage infrastructure from a fully owned network basis to an outsource-based or infrastructure sharing model. While in November 2009, MTN acquired a 20% investment in Belgacom International Carrier Services (BICS) mainly in exchange for the

assets of MTN International Carrier Services. This will provide the Group with another important avenue to carry international voice and data traffic and lead to a reduction in costs as well as an improvement in the service quality. MTN continues to invest in the various undersea cable opportunities to further support its strategy.

Prospects

Competition across our footprint is likely to continue to increase, which with regulatory pressures will make 2010 a challenging one. MTN believes it is well positioned for the period ahead.

In line with its strategy, MTN also continues to work to identify transactions that will reduce concentration risk and further improve its ability to leverage economies of scale. These opportunities have historically been difficult to close but this does not make their rationale any less compelling.

After achieving record infrastructure roll out in 2009, MTN expects capital expenditure to slow. There will be continued investment in fibre and cable to service its evolving voice and data requirements and MTN is still pursuing opportunities for infrastructure sharing.

Within a dynamic environment, MTN will continue to optimise efficiencies and improve processes and systems to strive for sustained or improved profitability.

In South Africa, MTN is still committed to the implementation of its BEE transaction.

At the recent Mobile World Congress in Barcelona, signs of the increased momentum towards real convergence were everywhere. Smartphones, including the popular BlackBerry®, together with a range of other products are clearly increasingly important. This exciting new phase in mobile telephony is really about enabling other sectors to function more efficiently and effectively and MTN believes that the industry in Africa is going to take the lead. In pursuit of this the Group recently appointed a dedicated innovation project leader who is investigating a potential project with a number of other mobile communications firms.

MTN has ambitious goals and significant opportunities. With careful planning and wise decision-making, the Group can continue to achieve good growth. In 2010, MTN expects to add 20 million subscribers to its customer base. In the first three months of the year, the Group went some way to achieving this by signing up 7,5 million customers.

Closing and appreciation

To a large extent, this performance, and that of 2009, is thanks to the incredible energy and commitment displayed by MTN employees. I applaud them for the zeal with which they live MTN's shared values of leadership, integrity, innovation, relationships and

a "Can Do" attitude. I would also like to thank our customers and the communities in which we operate for constantly demanding the best value proposition in the market from MTN and for the enthusiasm they display in adopting our innovations. A note of thanks is also due to our suppliers, as well as to the regulators with whom we engage. We look forward to working together to facilitate further growth in this dynamic industry in the years ahead.

Phuthuma Nhleko

Group president and CEO

March 2010

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Business review

Operational review

Sustainability review