

Group chief operating officer's report

In more than half of the 21 countries in which MTN operates, mobile penetration remained below 50% of the population in 2009, indicative of the continued opportunity for growth in the years ahead.



Sifiso Dabengwa
Group chief operating officer

Sustaining the success of operations

The success of MTN Group's operations in 2009 was characterised by a reliable network, a compelling brand with attractive value propositions and extensive and efficient distribution. All these factors were underpinned by teams of inspired and motivated people.

Management believes 2009 was the Group's peak capital expenditure year and is pleased to report major successes – from an execution perspective – in its ability to extend the network. As an example, the roll out of an average 100 – 150 base transceiver stations a month was easily attained in the bigger markets.

This strong momentum rapidly improved the capacity of the various networks and ensured that MTN's offering was superior to that of its competitors in most countries. In turn, it enabled more than 25 million new subscribers to join MTN, expanding the Group's overall representation in the market. This encouraging picture was during a period of increased competition, including price-based promotions, and as customer affordability in a more depressed economic environment became increasingly important.

In more than half of the 21 countries in which MTN operates, mobile penetration remained below 50% of the population in 2009, indicative of the continued opportunity for growth in the years ahead.

With mounting competition and heightened demands from regulators, sustaining the success of MTN Group's operations now lies, to a large extent, in achieving greater cost efficiencies and economies of scale. In this pursuit, MTN continues to hone various programmes to achieve excellence in the way operations are run and Group-wide functions are managed. The adoption and development of international best practice in all that MTN does as well as advancing the Group's work to optimise skills are also central to MTN. It is gratifying to note good progress in this regard in 2009.

The Group continued to post gains in its drive to standardise and centralise many functions, making processes streamlined, consistent and well understood across the organisation, and at the same time contributing to cost cutting. These efforts also directly and positively influenced the experience of customers dealing with MTN.

So far, the focus of the operational efficiency drive has been on big impact areas like the procurement and standardisation of network and information technology equipment, consulting services and software development. MTN is pleased to report that thanks to the centralised Group procurement function, the cost of electronic equipment for the network has dropped by close to 50% in the past three years.

This initiative, as well as the standardisation of IT infrastructure, continues. So, too, does the implementation of best practice guidelines throughout the Group. In 2009, such guidelines were applied in relation to functions such as site build, network management, the deployment of radio access networks and electromagnetic field safety toolkits. Pilots of activity-based costing were launched in Nigeria, Iran and Syria in an effort to ensure understanding and management of costs.

Infrastructure sharing remained a priority. In every MTN market there is an element of this, with the extent depending on – for example – the age of the network in a particular country. Not only does the Group reduce its capital and operational costs by owning or using infrastructure and transmission in partnership with competitors (or specialised infrastructure firms), it also reduces its impact on the environment.

Group chief operating officer's report *continued*

Related to infrastructure sharing is the contracting out of the management of certain physical assets. In some countries – Iran is one example – MTN already outsources the ownership and management of infrastructure. The Group considers this desirable, as it allows for a better depth of skills, as well as economies of scale, and fits in with MTN's endeavours to reduce costs and optimise its assets.

Among the so-called green aspects of sharing network facilities are the Group's renewable energy efforts. As mentioned by the chairman in his statement (on page 6), MTN is running a number of pilot stations to test the feasibility of alternative power supplies to provide energy for base stations and other facilities. The new generation network, installed virtually throughout MTN operations, is also already considerably more energy efficient than its predecessor.

The distribution framework continued to evolve in the year, widening the footprint in which MTN products are available and increasingly involving third parties, to whom the Group endeavours to structure the best trade partner proposition. With a strong focus on specific, localised geographic areas, MTN products are easily accessible to existing customers, as well as to potential subscribers.

Given that ultimately the customer experience determines the Group's success, MTN recently undertook an exercise to find out just what makes its customers tick, in a survey that included interviewing 25 000 people across its footprint. This showed that even with the diverse social, religious, racial and cultural groups in the 21 markets, the needs of six broad segments are largely similar. The findings mean that

through its customer segmentation model, MTN is now able to market its products and services in a more effective and consistent manner across its operations, greatly assisting business planning and in line with its standardisation initiatives.

Aiming to deliver on the brand promise, MTN launched a number of products to enhance the value proposition to customers in 2009. MTN Zone, the dynamic tariffing tool first introduced in some countries in 2008, was rolled out to many other markets in the year. This helps the Group manage network capacity use by offering discounted rates when network utilisation is low and so support use during these off-peak times. By offering affordable pricing to customers, it encourages more subscribers to sign up for MTN services, keeps them loyal and limits churn.

The Group is also pleased with the initial response in select markets to the launch of MTN MobileMoney – a simple, secure and convenient way to send money, buy airtime and pay bills. The extension of seamless roaming, known as MTN One World, to more markets is also encouraging. This innovation allows customers to make and receive calls across the MTN footprint at local rates and without having to buy a new SIM card.

MTN launched a number of promotions linked to the Group's sponsorship of the 2010 FIFA World Cup South Africa™ in 2009. These were particularly popular in jurisdictions such as Cameroon, Nigeria, Ghana, Côte d'Ivoire and South Africa where the national football team will participate in the event. And although the real revenue benefits will not be realised immediately, MTN believes its exclusive global mobile sponsorship is a real differentiator, bolstering the brand.

Since the acquisition of a number of internet service providers in the past two to three years, MTN has been putting in place the infrastructure – such as WiMax – needed to optimise the functioning of these ISPs. The Group has also continued to invest in fibre roll out in a number of countries, as well as in various new undersea cables, which will provide it with the capacity to offer faster broadband speeds at a lower cost. Among the most important submarine cable investments are those in EASSy (Eastern Africa Submarine Cable System), WACS (West Africa Cable System) and EIG (Europe India Gateway), which are expected to come online from around mid-2010 to 2011. MTN Group also acquired capacity in SAT3/WASC/SAFE and TEAMS (The East Africa Marine System), which are already operational. The investment in the cables will ensure the Group operations are able to provide high quality data and voice into the future. Finally, the roll out of 3G networks, mainly in urban areas and in larger, more mature operations, is providing not only data capability but also much needed voice capacity.

All MTN's endeavours are supported and driven by the expertise, energy and enthusiasm of its people – its key competitive advantage. In its second year of operation, the MTN Academy stepped up the training of MTN employees everywhere, bolstering the Group's skills sets and focusing on developing people locally. This is particularly important given the increased competition for talent across the MTN footprint, and the heightened challenge of finding the right calibre of employees in certain countries. There were numerous management changes in 2009, most of which were the appointment of MTN staff to other operations within the Group. Employee empowerment with regards to standard processes and procedures also fits in with efforts to drive economies of scale Group-wide.

In the pages that follow, the vice presidents of MTN's three operating regions give overviews for each of their regions, as well as detailed reports on the performance of the five largest operations in MTN's universe.



Sifiso Dabengwa
Group chief operating officer
March 2010