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# Public hearings on cost to communicate

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Cell C CEO

# THE CELL C DELEGATION

## SHAREHOLDER REPRESENTATIVES

General Lehlohonolo Moloji

Mr Yusuf Mahomed

## EXECUTIVE MANAGEMENT

Alan Knott-Craig  
Chief Executive Officer

Graham Mackinnon  
Chief Legal Officer

Robert Pasley  
Chief Strategy Officer

Mothibi Ramusi  
Executive : Regulatory Affairs

Joshua Moela  
Executive : Government Relations

Kevin Schmidt  
Executive: Office of CEO



# PRE-1994 TELECOMMUNICATIONS

- Telkom
- Fewer than 4 million fixed line customers
  - carrying 70% of Africa's traffic
- C450 mobile network
  - 15,000 customers
- Cost of mobile phone = R15,000
- Limited metro coverage



# 1994 – THE BIRTH OF THE MOBILE INDUSTRY IN SA

- Mandate and objectives:
  - Penetration
    - Subscriber Growth
  - Coverage
    - Infrastructure investment
  - Competition
- Barriers to Entry:
  - Physical distribution
  - Credit vetting (advent of prepaid)
  - Handset prices (R2,000+ which is R6,000+ in today's prices)
  - Coverage footprint



## 2012 – WHERE ARE WE NOW?

- Penetration
  - 88.9% of South African households possess a mobile handset
- Widespread infrastructure and access
  - >99% population coverage
- Affordable handsets
  - less than \$US10
- Extended distribution footprint
- Four mobile players, two fixed
  - **BUT** cost to communicate remains high

Source: Stats SA – Census 2011



# THE ROLE OF THE 3<sup>RD</sup> AND 4<sup>TH</sup> OPERATORS

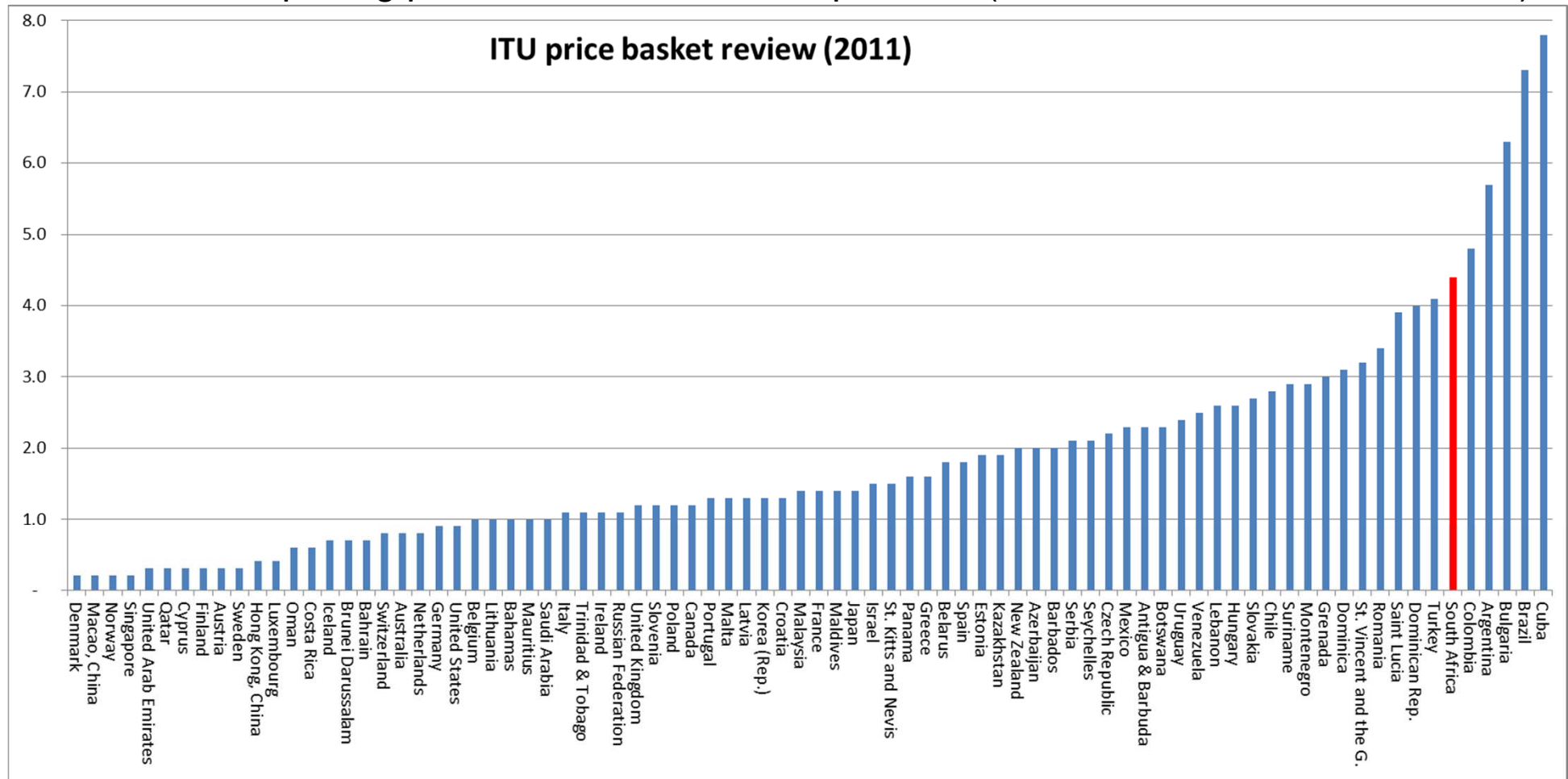
- Bring down cost of communications
- Requires sustainable business model
- Requires meaningful market power / market share
- Substantial barriers to competition from incumbents:
  - Dominant infrastructure base
  - Dominant distribution base
  - Ability to out spend on branding and marketing
  - High MTRs puts effective floor under retail competition
  - On-net call pricing routinely offered below MTR



# SA COST TO COMMUNICATE (2012 ITU REPORT)

The cause of this has been a lack of real retail price competition

- due to lack of pricing power from the smaller operators (+/- 10% revenue market share)



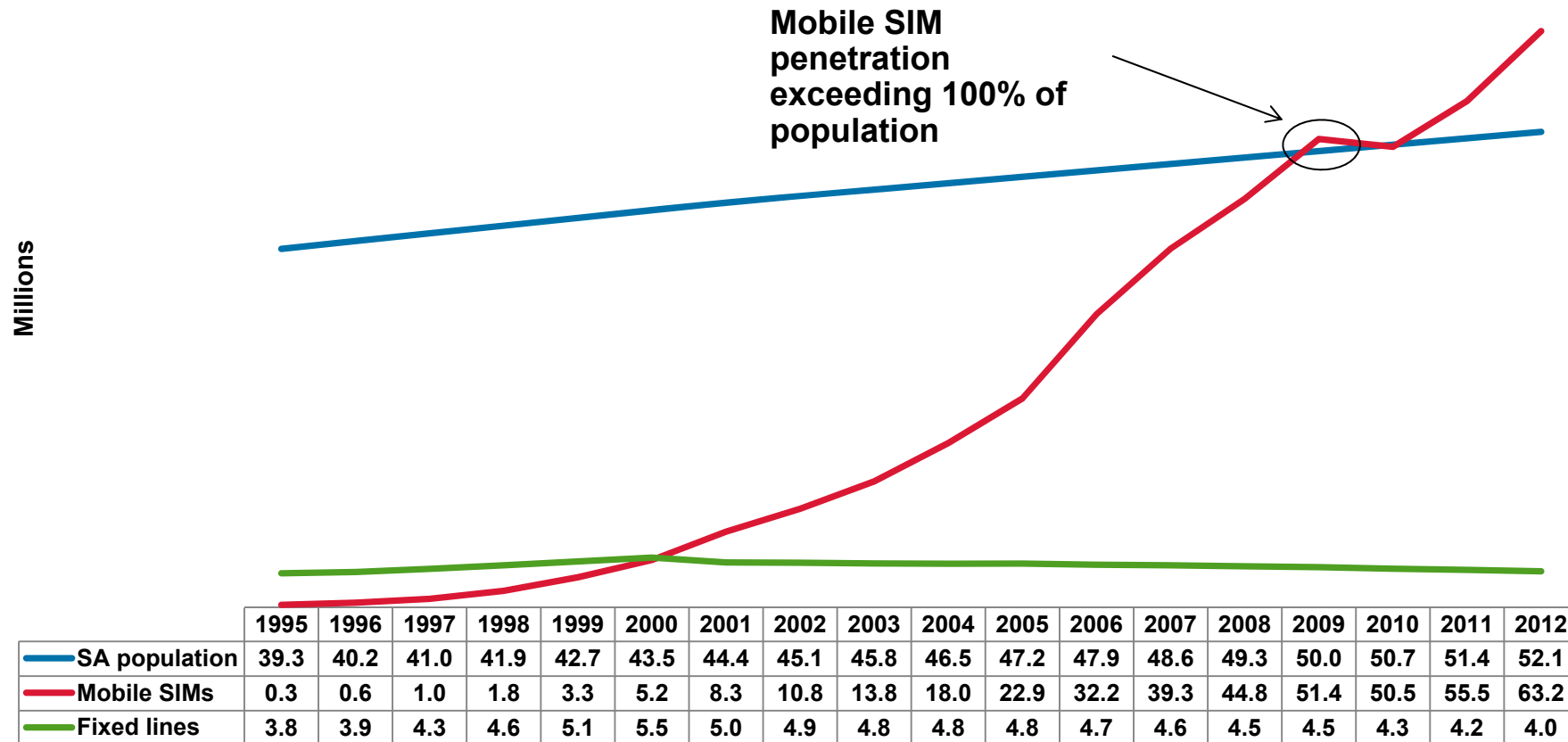
Source: ITU 2012 – Measuring the Information Society (SA 77 out of 82)  
All countries with GNI > USD5,000 per capita



# TELECOMMUNICATIONS MARKET

From launch in 1994 the mobile operators grew rapidly, SIM penetration exceeding 100% by late-2008

## SA Telecoms Customer Growth



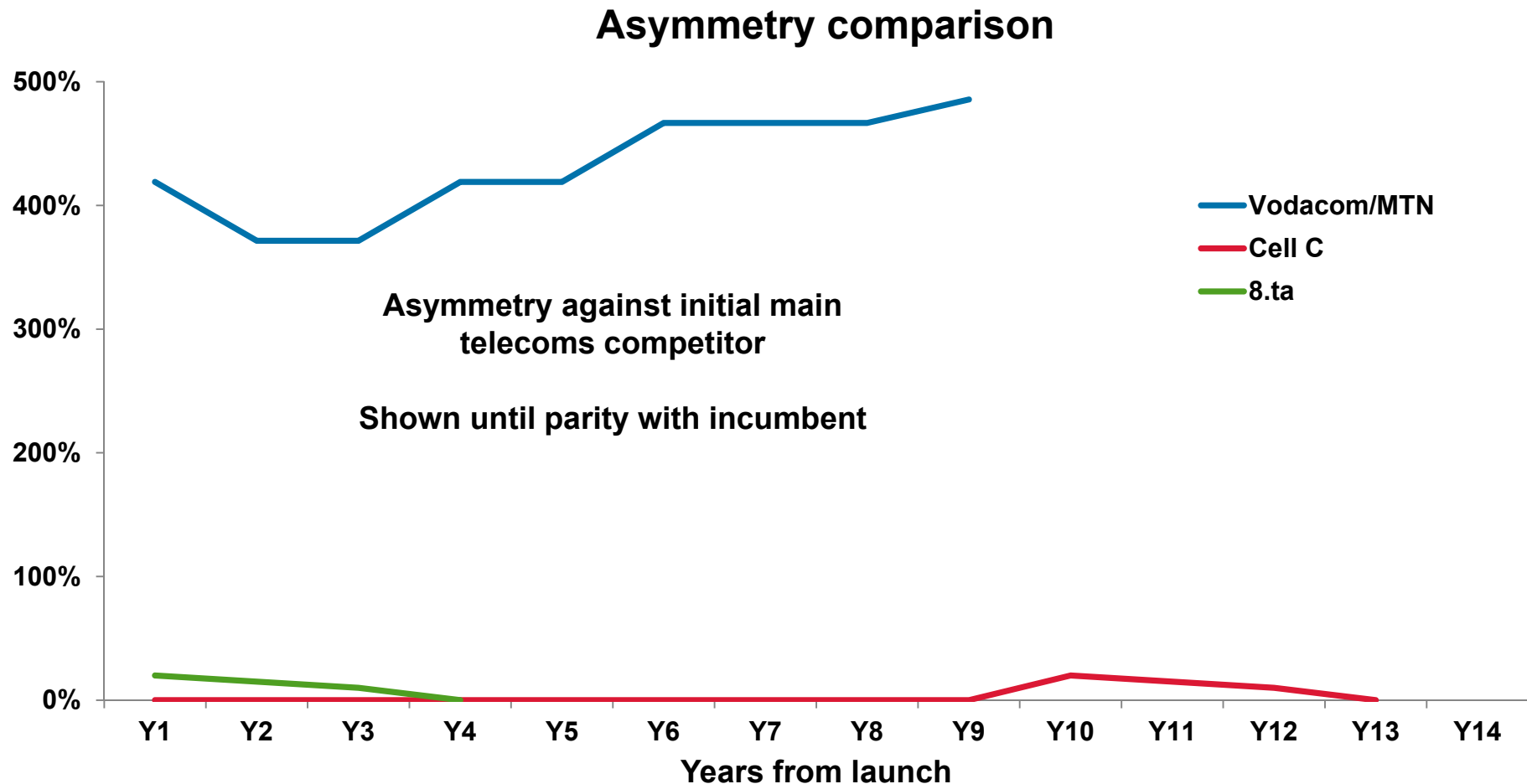
Source: Stats SA, Operator reports





# ASYMMETRY COMPARISON

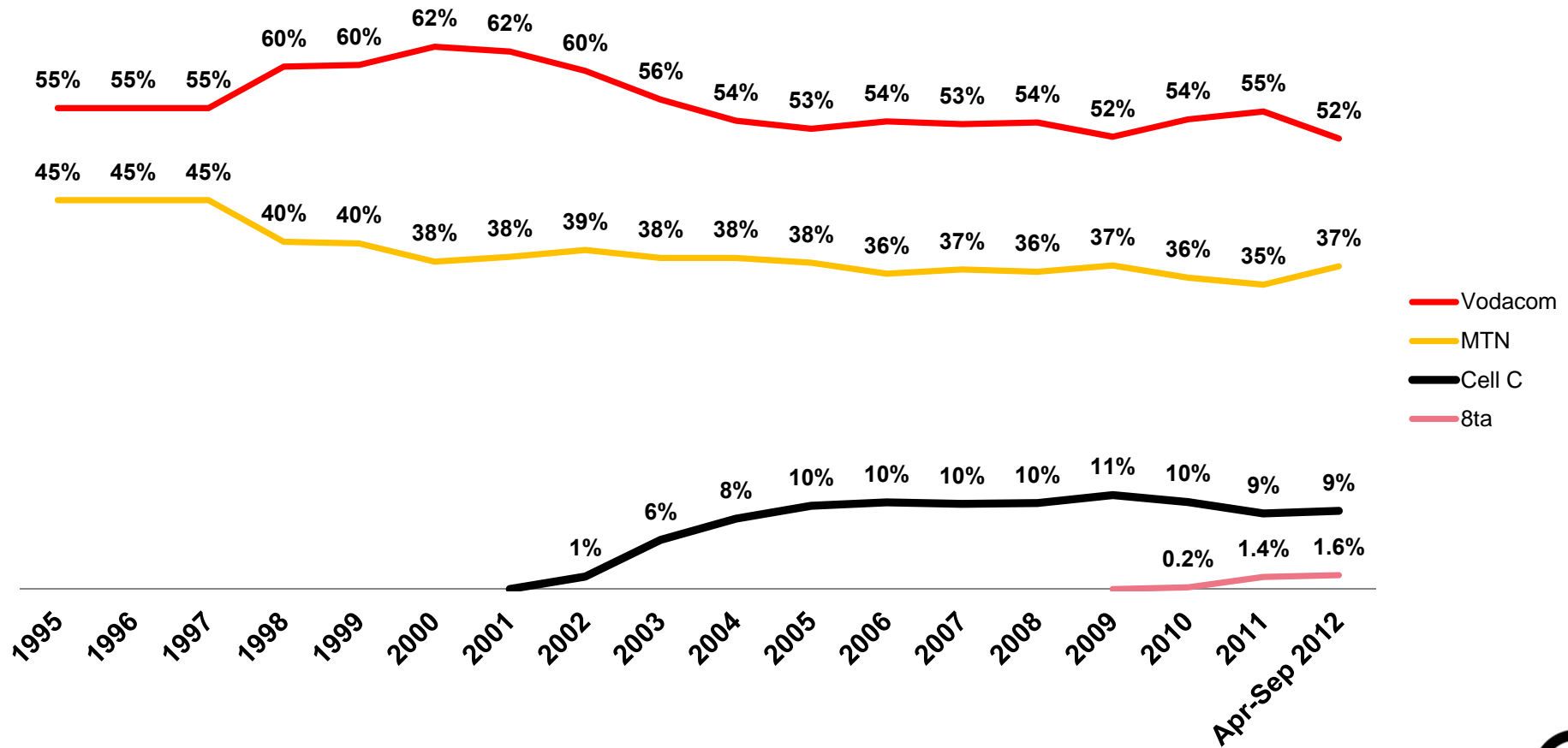
The asymmetry Cell C and 8.ta have had is relatively insignificant when compared to the asymmetry afforded to the incumbents, Vodacom and MTN



# SA MOBILE REVENUE MARKET SHARE

Since launch the (new) challenger mobile operators have struggled to gain any scale against the incumbents

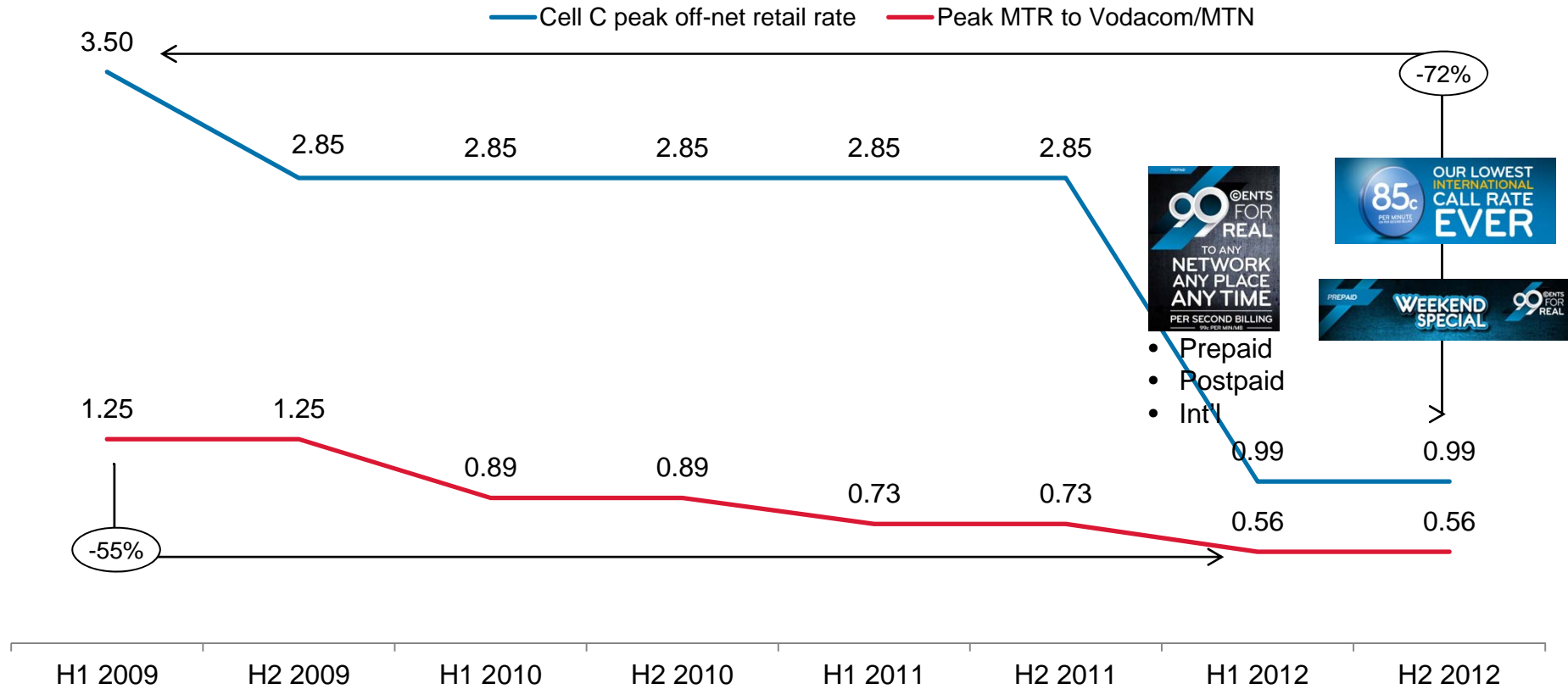
Revenue Market Share (%)



# SA COST TO COMMUNICATE

Cell C, however, has reduced significantly voice and data prices in South Africa

**Cell C prepaid peak off-net retail rate vs. peak MTR to Vodacom/MTN (ZAR)**



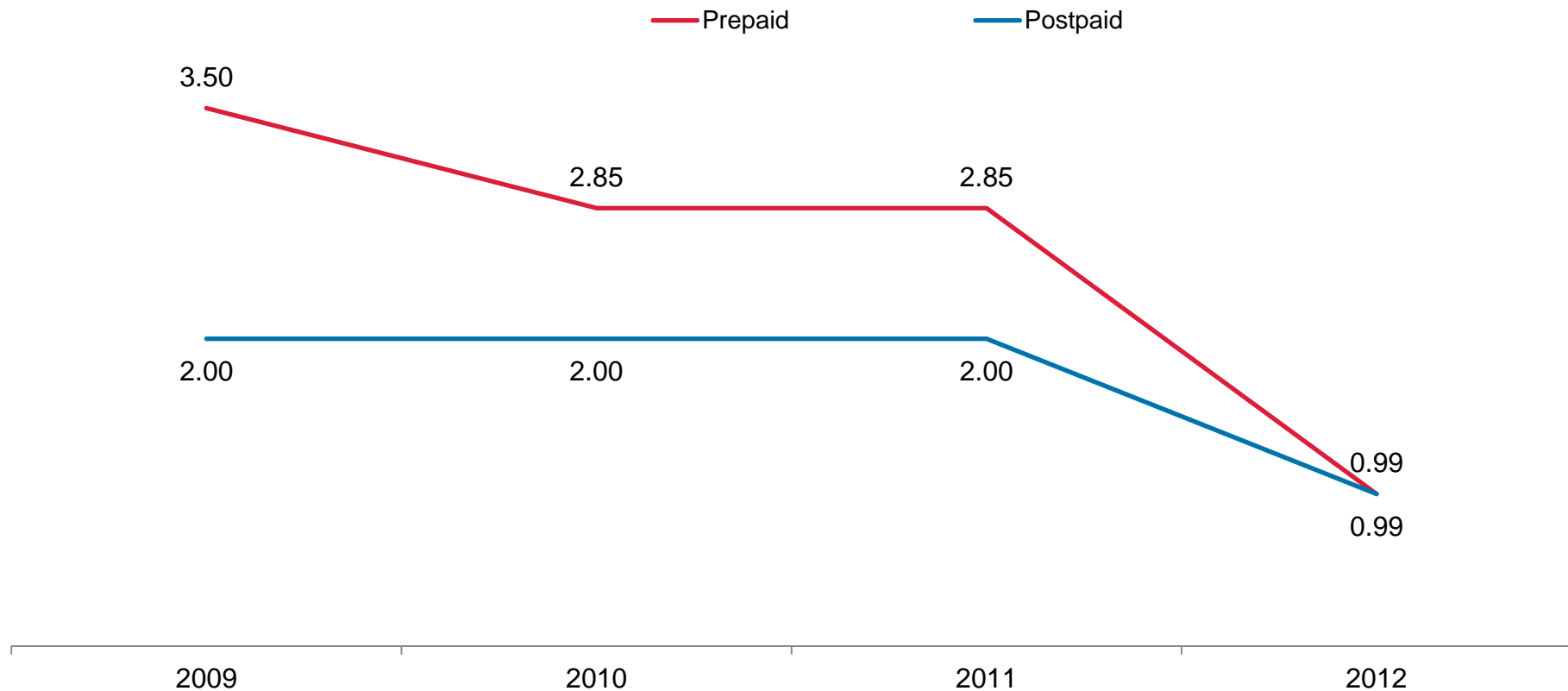
Note: Based on the lowest priced per second billing prepaid tariff



# SA COST TO COMMUNICATE

Cell C's prepaid and postpaid rates have converged

**Cell C prepaid vs. postpaid peak off-net retail rate**  
(ZAR)



Note: Based on the lowest priced per second billing tariffs

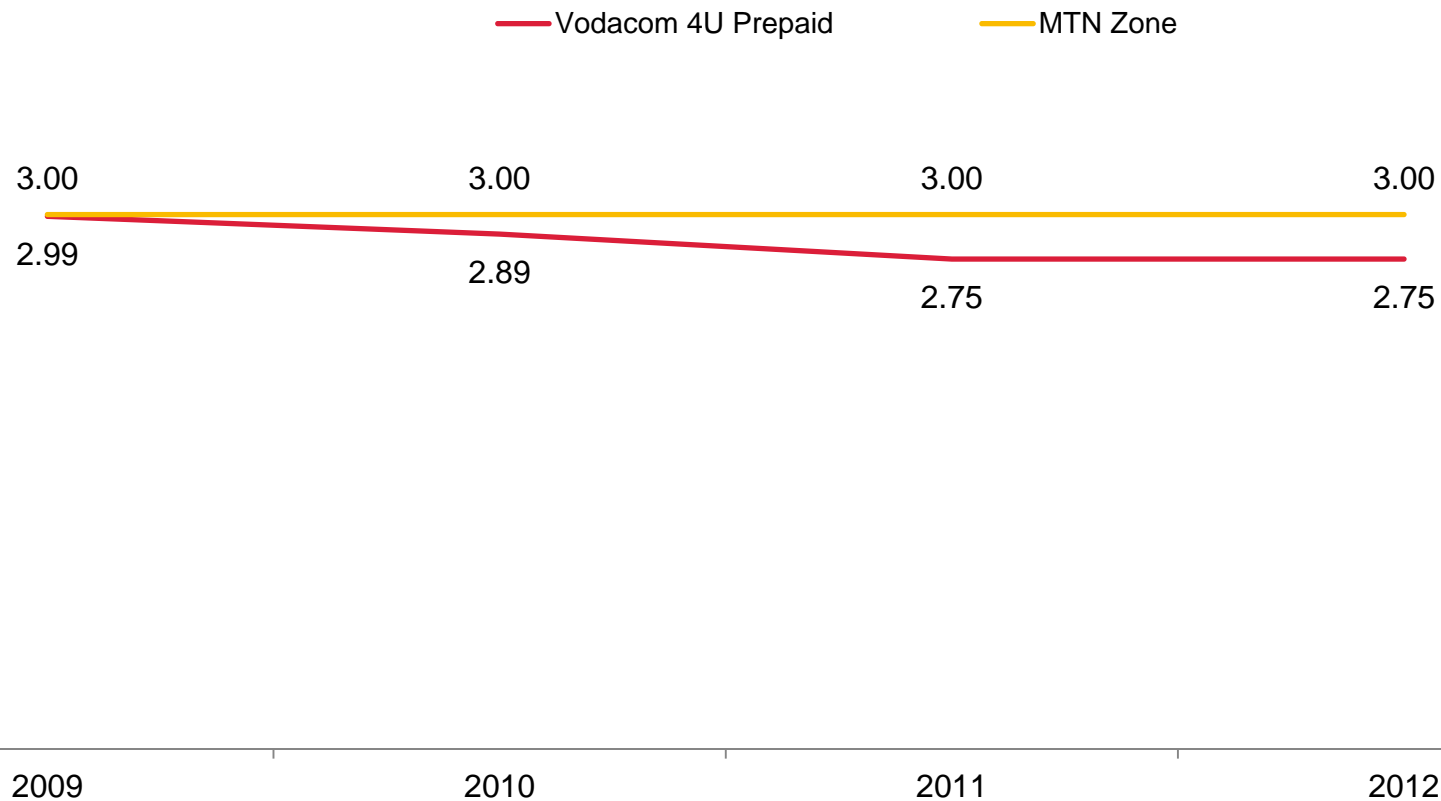


# SA COST TO COMMUNICATE

Vodacom's and MTN's prepaid peak rates have remained almost flat, highlighting the lack of market power the challenger networks have had

## Vodacom and MTN prepaid peak off-net retail rates

(ZAR)



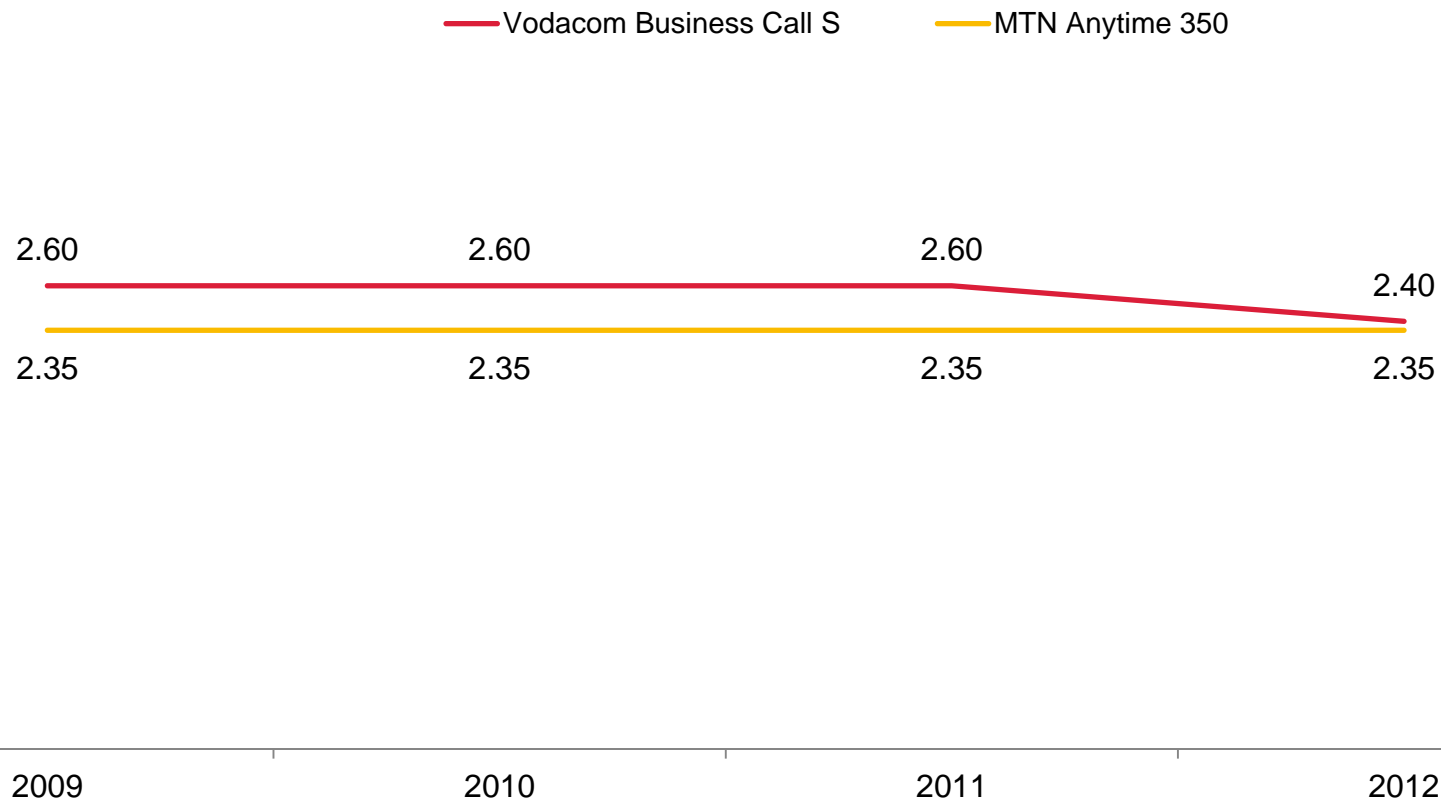
Source: Operator price plans with per second billing



# SA COST TO COMMUNICATE

Vodacom's and MTN's postpaid prices have hardly moved at all either

## Vodacom and MTN postpaid peak off-net retail rates (ZAR)

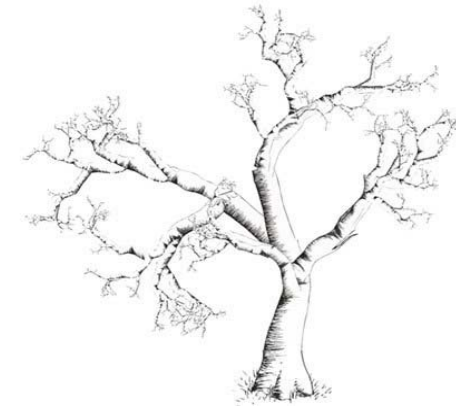


Source: Operator price plans with per second billing



# ZONE TARIFFS

Do selected, special discounts represent real reductions in cost to communicate?



Under here you may get a discount but only if the time is right

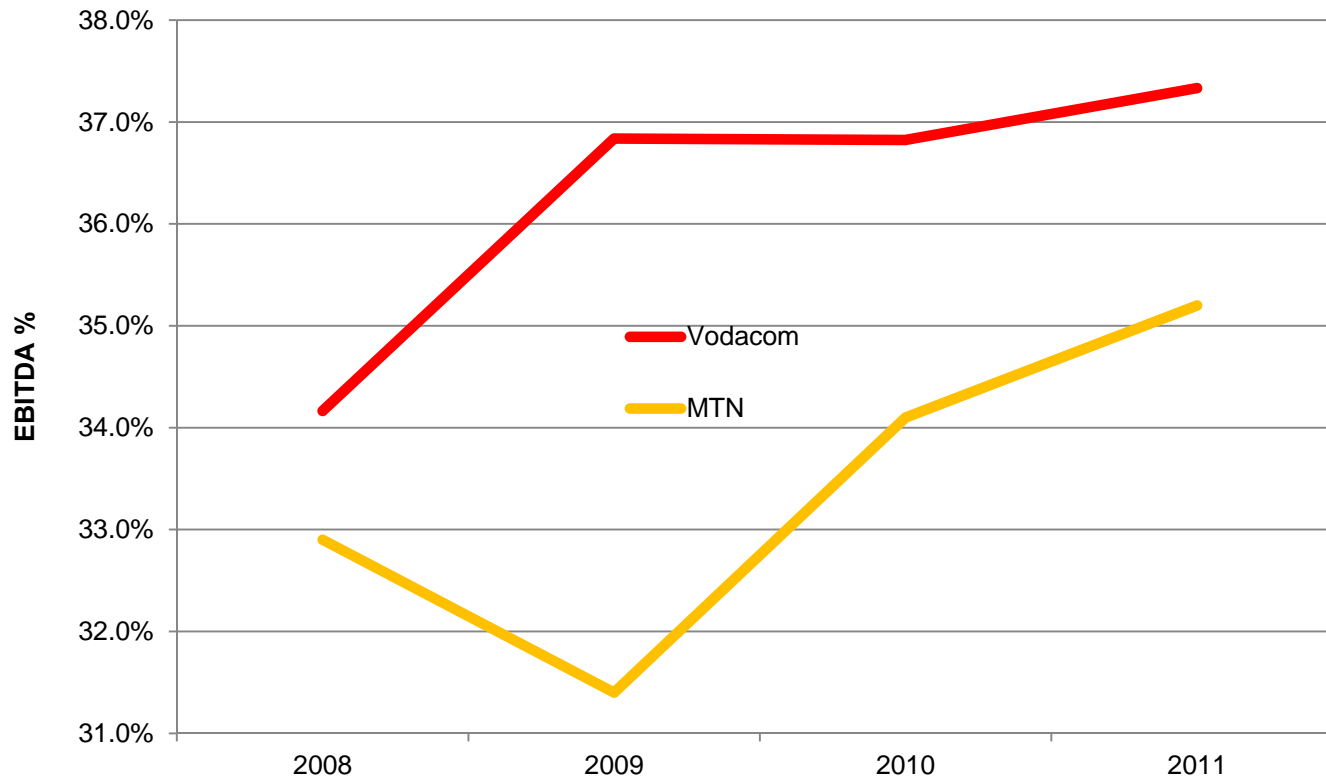
*Base tariff is R3.00*  
*The discounted rate for MTN to MTN is R2.50*  
*The discount you get will depend on your location and the time of the day*

Source: MTN.co.za



# IMPACT OF MTR REDUCTIONS ON THE INCUMBENTS

Both Vodacom and MTN EBITDA margins have improved significantly since the MTR reductions



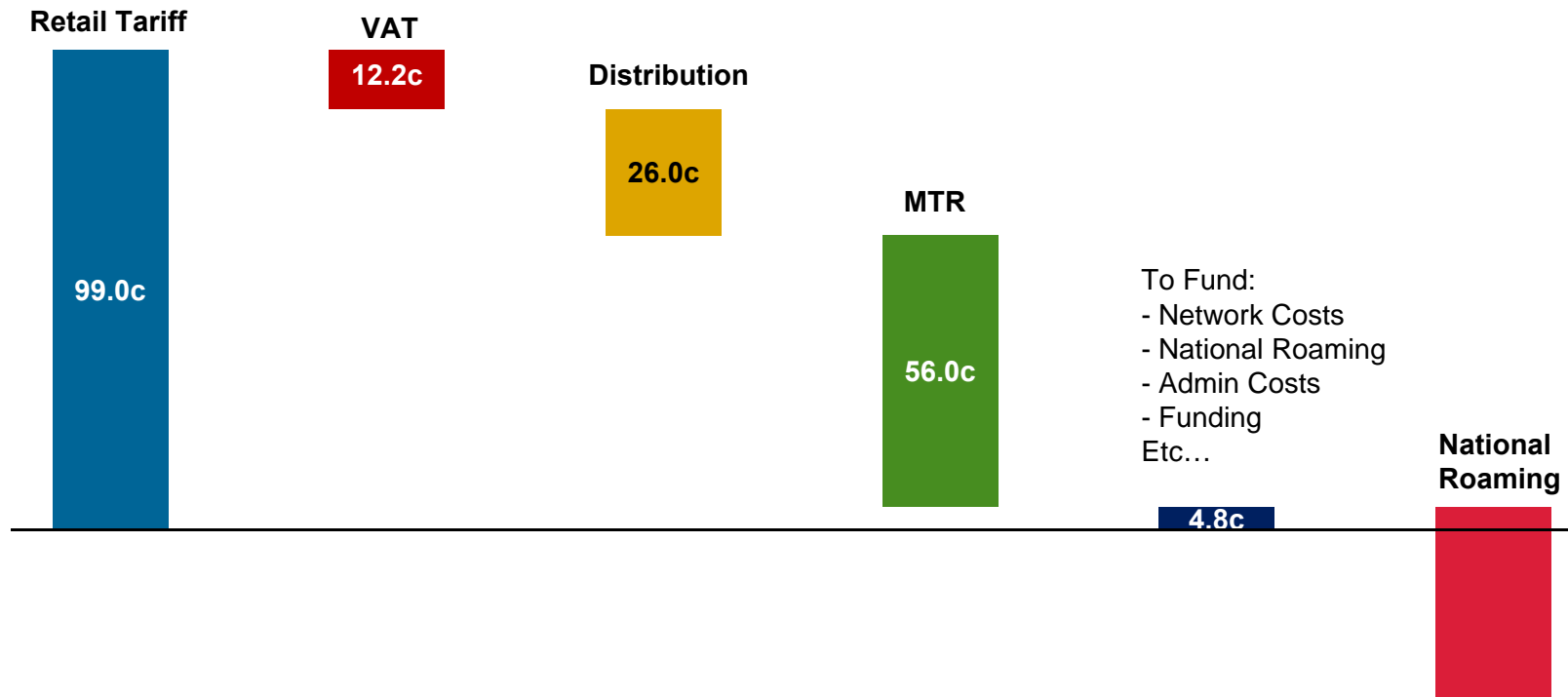
Source: Operator reports:  
MTN calendar years,  
Vodacom to March of following year





# THE SCOPE FOR FURTHER PRICE REDUCTIONS

Example: Peak Off-Net Call



*Cell C's current pricing is not sustainable unless:*

- 1. MTRs are reduced significantly*
- 2. Smaller operators / new entrants get a significant and sustained MTR asymmetry*

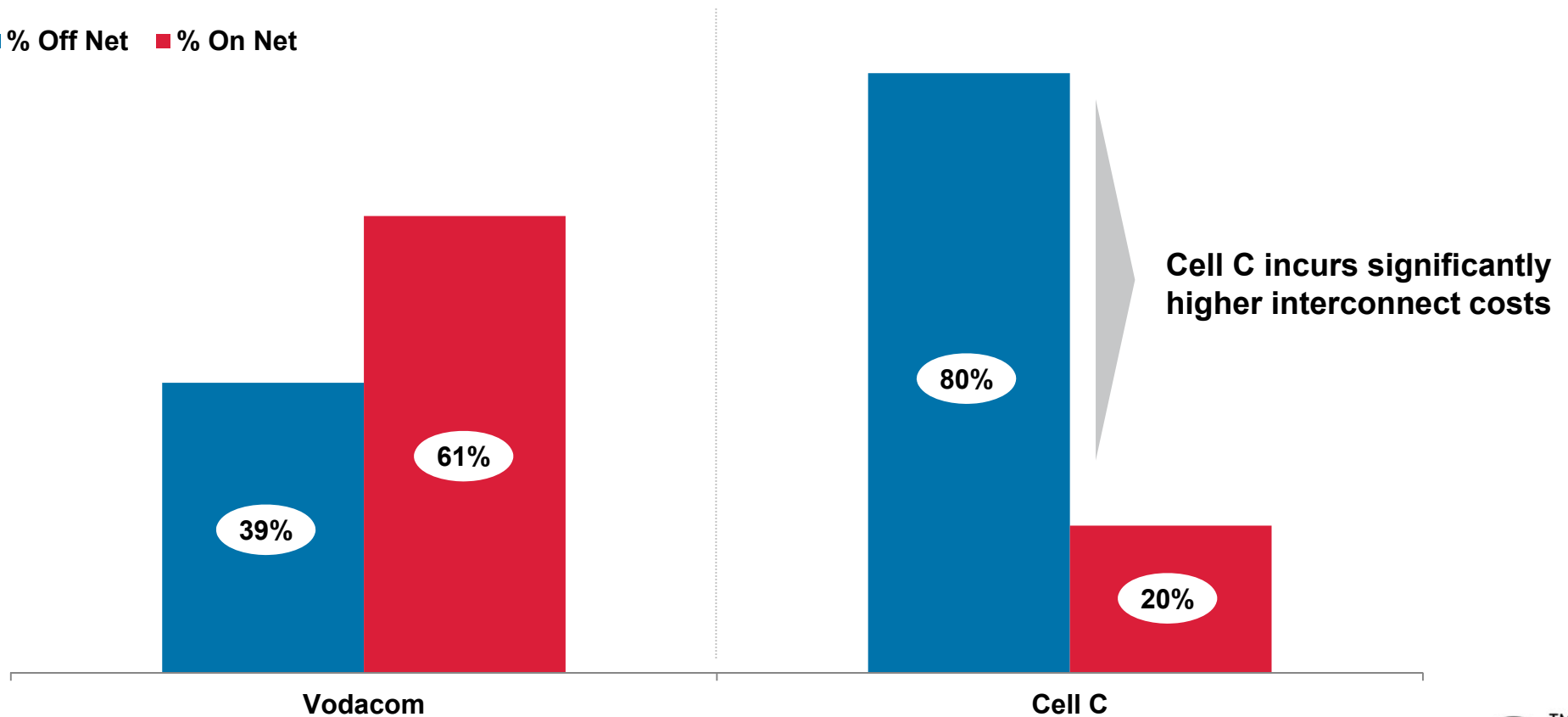


# RELATIVE SIGNIFICANCE OF OFF-NET

The significance of off-net traffic is disproportionately greater for the smaller operators / new entrants than for the incumbents

## Originating Off Net and On Net traffic by operator

■ % Off Net ■ % On Net



Source: Cell C market estimates



# IMPACT OF MTR REDUCTIONS ON THE SMALL OPERATORS

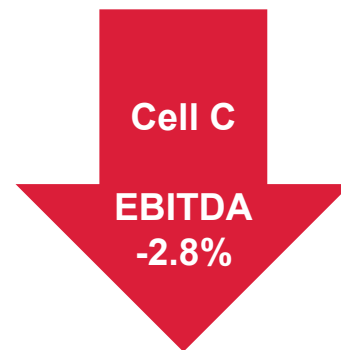
The small operators need low MTRs to compete...

BUT lower MTRs mean lower revenue and further reduced margins

Small operators, with lower quality base, are generally net receivers of traffic

Without asymmetry:

If MTR → zero:



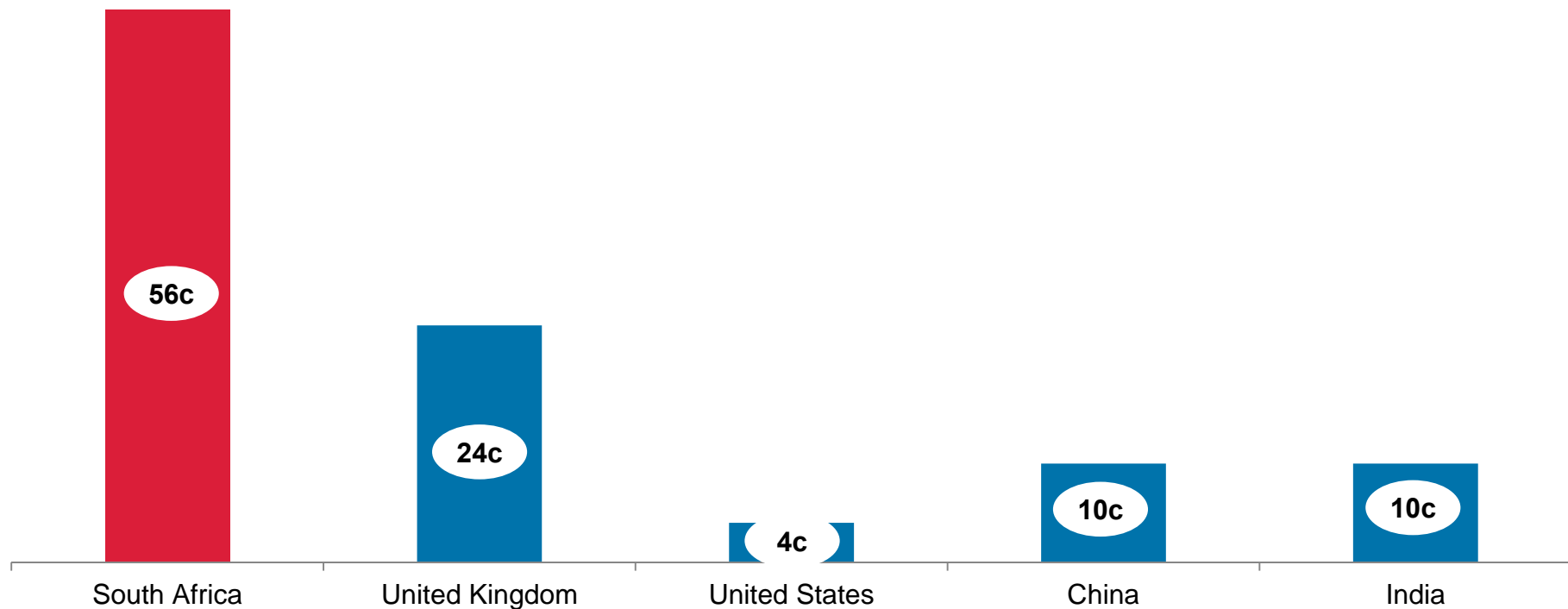
*Although the small operators need low MTRs, this change, in itself, may destroy them.*



# LOCAL VS. INTERNATIONAL TERMINATION RATES

It is often more expensive to terminate a call locally than internationally

## International mobile termination rates



# IMPACT OF MTR ASYMMETRY ON CELL C

While asymmetric MTRs have helped Cell C to significantly lower mobile prices, the impact on the incumbent operators has been negligible

**Impact of 20% asymmetry on operators' EBITDA margin in 2011**

Cell C



Vodacom



MTN

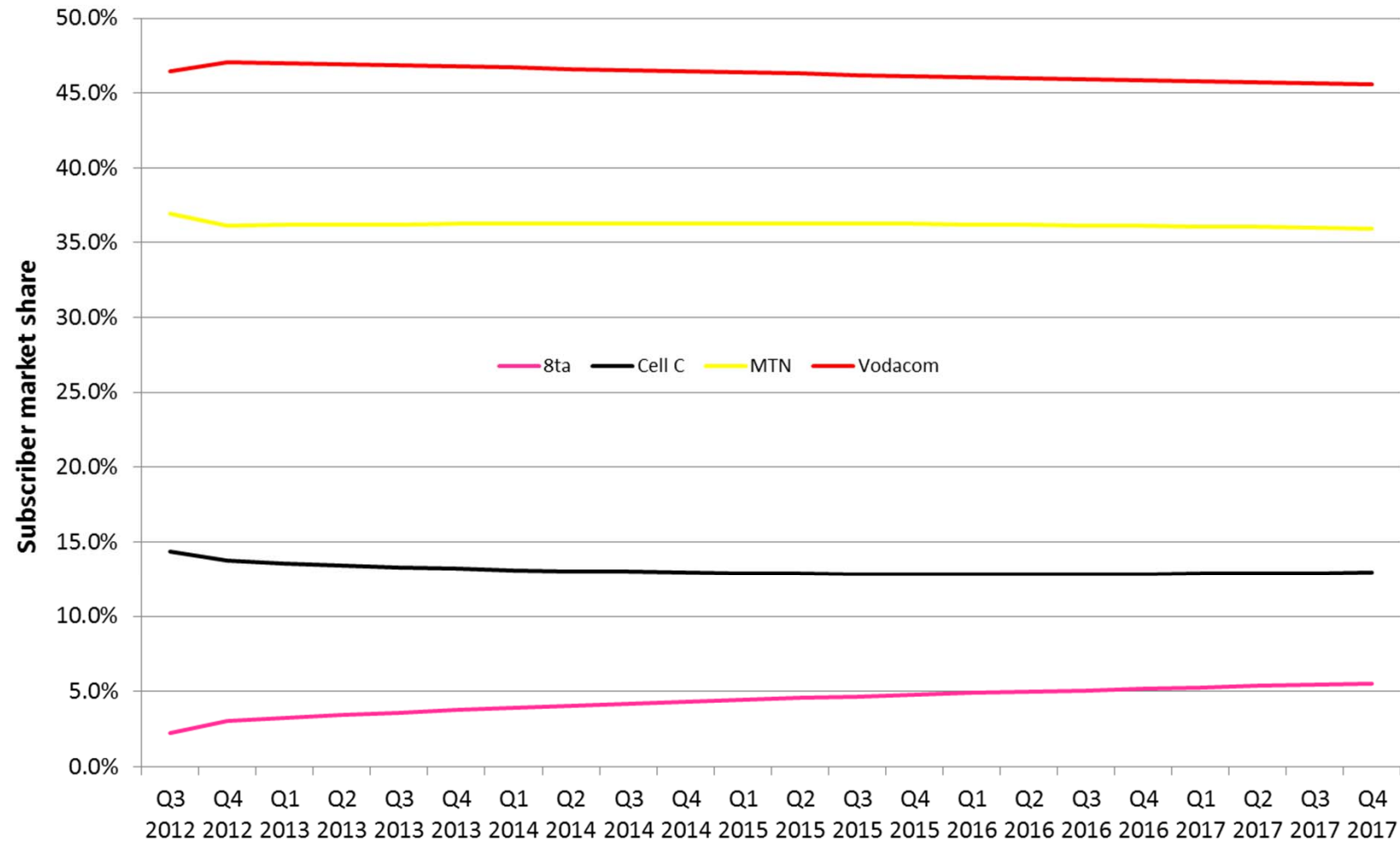


*There is still plenty of room for a higher and sustained MTR asymmetry.*



# SA MOBILE SUBSCRIBER MARKET SHARE FORECAST

Do market analysts foresee significant change to current market dynamics?



Source: Wireless Intelligence (GSM Media LLC)



# IMPACT OF EARLIER MTR ASYMMETRY ON INCUMBENTS

400%+ asymmetry greatly assisted the current incumbents to achieve scale

**Example: Vodacom for year ended March 2000**

***This was the point at which mobile lines overtook fixed lines – the impact of asymmetry in the 6-years prior to this was EVEN MORE MATERIAL***

**Vodacom EBITDA%**

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Of Vodacom reported 36.3% EBITDA, 20.8% was due to asymmetry.

Without asymmetry, Vodacom EBITDA would have been 15.5%

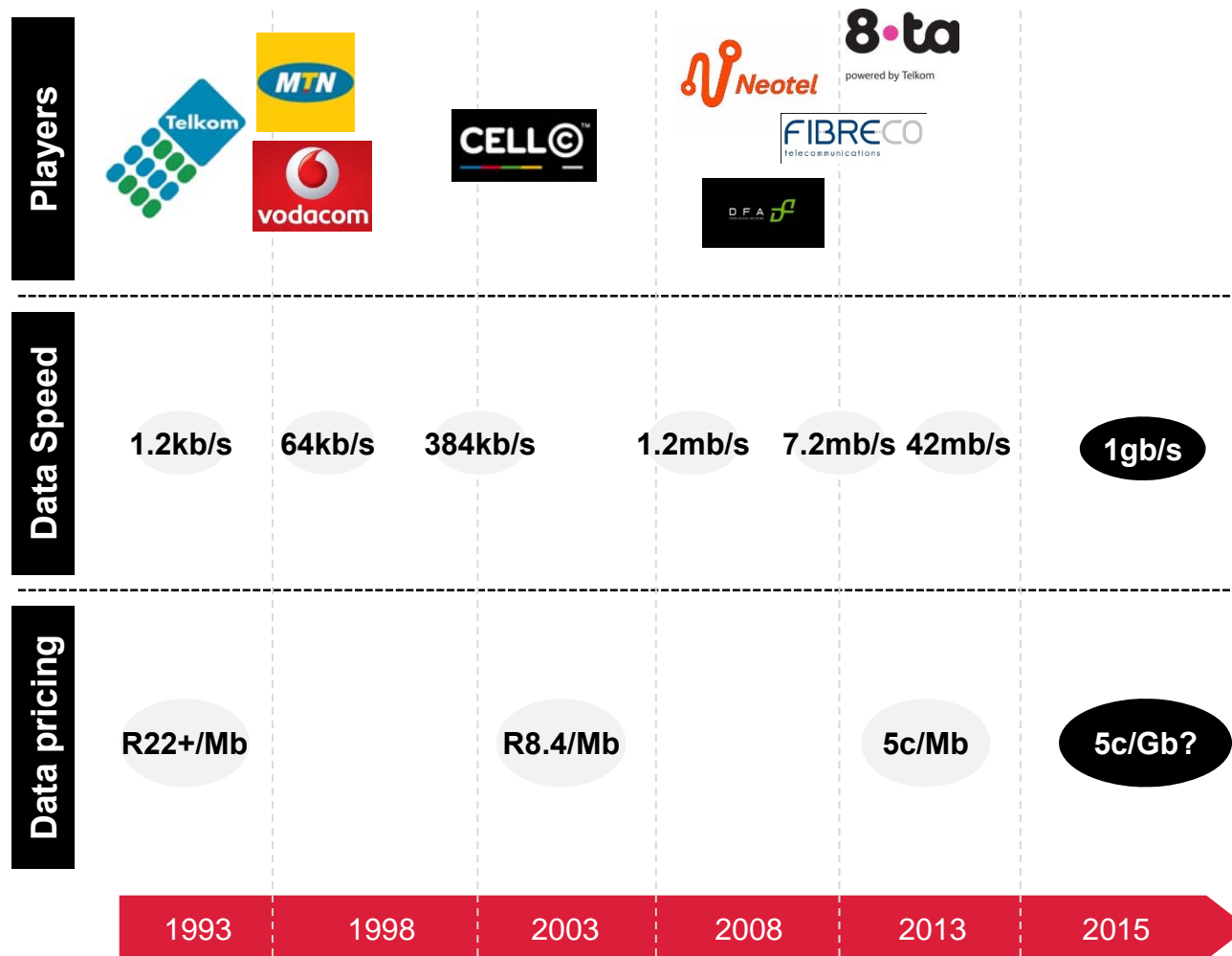
*Similar levels of sustained asymmetry could profoundly change the market*

Source: Telkom SA prospectus



# NEXT-GENERATION BROADBAND NETWORK

Nation-wide deployment of LTE will not be achievable with infrastructure competition



- LTE being deployed when 3G coverage is in infancy:
  - Less than 85% population
  - Less than 10% geographic
- LTE Advanced will follow rapidly
- SA needs LTE (and LTE Advance) but also ubiquitous coverage
- Not achievable with:
  - Infrastructure competition
  - Fragmented spectrum allocations





# THE SOLUTION

Competition essential to bring prices down  
 - A supportive regulatory environment is required

Solution	Target	Objective
<ul style="list-style-type: none"> <li>Significant further MTR reductions</li> </ul>	<ul style="list-style-type: none"> <li><b>15 cents</b></li> </ul>	<ul style="list-style-type: none"> <li>To lower industry cost base</li> <li>To encourage increased operator-to-operator traffic</li> <li>To enable lower retail tariffs</li> </ul>
<ul style="list-style-type: none"> <li>Significant and sustained MTR asymmetry</li> </ul>	<ul style="list-style-type: none"> <li><b>4:1 ratio for smaller operators / new entrants</b></li> </ul>	<ul style="list-style-type: none"> <li>To support the financial viability of challenger networks</li> <li>To enable effective and sustained retail price competition</li> </ul>
<ul style="list-style-type: none"> <li>Regulation to prohibit on-net / off-net price discrimination (“flat rates”)</li> </ul>		<ul style="list-style-type: none"> <li>To prevent pass through of asymmetry to customers</li> <li>To reduce barriers to subscriber acquisition by smaller operators</li> </ul>
<ul style="list-style-type: none"> <li>The National Broadband Network company</li> </ul>		<ul style="list-style-type: none"> <li>Privately managed with public / private funding model</li> <li>Competition in retail market</li> <li>Wholesale pricing set by ICASA</li> </ul>



Thank you!

