

Doing Business in Nigeria – The MTN Way



everywhere you go

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Overview of Key Issues



- The Nigerian Market — The growth potential
- The Nigerian Telecoms Industry – Major players
- The Nigerian GSM sector – The success story
- The realities of investing in Nigeria
 - Infrastructure Needs
 - Profitability \neq Return on Investment
- Key challenges to Investment
- NEEDS – The role of the Joint Economic Development Framework
- MTN FOUNDATION — ‘Doing Business With Heart’

The Nigerian Market – the Growth Potential



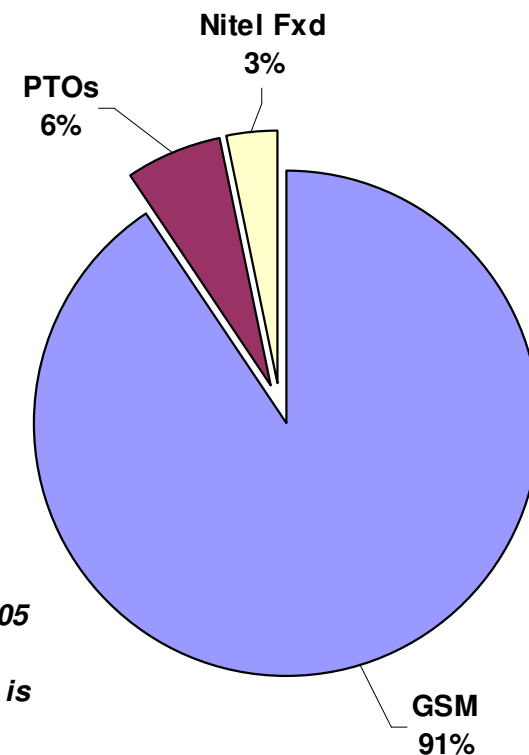
- Nigeria is one of the fastest growing telecom markets in Africa attributable to pent-up demand – recorded an increase in subscribers of 155% in 12 months to end 2004
- Nigeria is the 3rd largest telecoms market in Africa in service revenue terms, and the largest in capital expenditure terms
- GSM is the main driver of market growth: 12m+ subscribers in 4 years from August 2001 to date. Tele-density is approximately 7% (est. at end of 2004) from 0.4% in 1999 - just 5 years ago

The Nigerian Telecoms Industry



- **Active Operators:**

- 2 national carriers – NITEL & Globacom
- 4 mobile operators have a 91% stake in the Nigerian telecoms market; MTN, V-Mobile, Glo-Mobile & MTel
- 109 Fixed National / Regional / Community / local exchange operators licensed – only 17 in operation
- Long Distance Operations: NEPSKOM licence revoked, MTS & 3 other new licensees yet to commence operations
- 35 ISPs & more operators, basic licences e.g. GMPCS



Notes:
i) Figures as at end January 2005
ii) Total Market is about 10m

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The Nigerian GSM Sector - The Success Story



- The sector has defied market forecasts to hit approximately 10.2 million subscriber base before end of 2004 , from 4million subscribers 12 months earlier. This represents an annual growth rate of over 150%
- GSM licence obligations for network spread has led to an even spread of mobile telecom services – a presence in all 36 States of the Federation and 6 geo-political zones
- Teledensity still remains low with room for rapid network expansion and build-out of national backbone infrastructure to support telecom growth
- Potential market is large but difficult to gauge due to huge informal sector - addressable market estimated at over 27 million subscribers in a population of 136 million (est.)

The Realities of Investing in Nigeria



- GSM Operators have had to establish **3 separate networks instead of 1** :

Core telecoms network, Transmission & Power Supply

This is due to the infrastructure and operational shortcomings of the Nigerian environment:

- This has exponentially increased the level of capital investment required to commence & sustain operations compared to other countries & regions :
 - **CAPEX** - building transmission capacity & infrastructure – MTN's YelloBahn currently spans 4,500 kilometres and traverses over 10,000 cities, villages and communities; deployment of optic fibre, substantial duties and imports.
 - **OPEX** (*specific to Nigeria*) – power generation, ICT skills importation, transportation, marketing.

Infrastructure Needs – High Pressure on Cash Flow



- To provide Nigeria with a world-class telecom infrastructure to meet demand, an estimated US\$9-10 billion investment injection in the next 10 years will be required by GSM Operators for CAPEX. This is a direct consequence of the challenges faced doing business in Nigeria.
- GSM operators must have a long term investment horizon given high upfront investment will require sometime to realize their full returns.

Profitability \neq Return on Investment.



- The demand in Nigeria has far outstripped initial projections, requiring more investment.
- GSM industry is highly capital intensive & requires long term investment horizon before full return realized.
- At present all profits made by MTN are reinvested to fund extensive capital investment programme.
- Third party funding required over and above shareholder funds & reinvested profits.
- First dividend payments by MTN Nigeria to its shareholders are only expected 6 years after initial investment.

Key Challenges



- Infrastructure**
- Limited incumbent interconnectivity & transmission infrastructure places increased burden of developing national transmission capacity on GSM Operators
 - Intermittent power supply - additional cost of alternative power supply.
 - Partly immature supporting local manufacturing infrastructure/industry
 - More reliance on imports & time consuming custom processes eg 3 weeks to clear consignments, & 2 weeks average lead-time to process shipments
 - Limited rail & road transport infrastructure & integrated distribution networks, but fairly well developed domestic air cargo.
- Taxes, Duties & levies**
- Multiple taxation system – federal, state & local government levels e.g. environmental levies/fees
 - High import duties on essential equipment

NEEDS JEDF- The GSM Private-Public Initiative



- MTN identifies with Federal Government objectives under NEEDS (National Economic Empowerment and Development Strategy) to make Nigeria a preferred investment destination for telecommunications
- Relies on genuine peer review mechanisms between Industry and public sectors & effective private-public partnerships
- The study reviews the impact of the advent of GSM telephony on the Nigerian market providing statistical data generated from the operations of the 4 DML licensees and the impact on the macro-economic, operating and regulatory environment.
- With other GSM operators, MTN has come up with the JEDF (Joint Economic Development Strategy Framework) which uses NEEDS strategies to identify the 7 critical areas where growth in the GSM sub-sector is being seriously challenged and proposes solutions highlighting the respective roles of Government and Mobile Operators

NEEDS JEDF – The 7 Goals



- **The 7 economic goals identified in the JEDF are:**
 - *Provide adequate power supply to the sector*
 - *Eradicate time consuming customs clearance processes*
 - *Eliminate incidence of Multiple Taxation & Regulation*
 - *Create and Implement Fiscal & Financial Incentives*
 - *Provide appropriate Infrastructure Support*
 - *Active promotion of Local Industry / Training (skills)*
 - *Create a Certain and Effective Regulatory Framework*

Critical issues



- Appropriate concessions/incentives to active operators to sustain the pace of telecom growth in the form of tax incentives, duty waivers, pioneer status. Example, ECOWAS Initiative, Indian experience
- Industry reform – power sector, harmonised taxation regime & a composite competition framework
- A continuing stable and enabling regulatory environment.

MTNF - Corporate Social Responsibility



- Key focus areas: Health, Education & Economic Empowerment
- Current projects include:
 - SchoolsConnect Project – 21 computers each to selected schools
 - HIV/AIDS Awareness, counselling and treatment, donations of equipment to People Living with HIV/AIDS
 - Empowerment of rural women through micro-credit schemes in specified communities & donation of provisions to the physically disabled; low-cost housing
- A core commitment to local content in developing local expertise & procuring supplies locally



THANK YOU FOR LISTENING