



MTN Group Limited
Trading update for the period ended 30th September
2012
DATE: 25/10/2012





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<p>Operator</p>	<p>Good day and welcome to the MTN Group Q3 trading update. All participants are now in listen-only mode and there will be an opportunity for you to ask questions after today's presentation. If you should need any assistance during the conference then please signal an operator by pressing star and then zero. Please also note that this conference is being recorded. I would now like to hand the conference over to Nik Kershaw. Please go ahead, sir.</p>
<p>Nik Kershaw</p>	<p>Good afternoon for those of you who have joined and thanks for joining us for our third quarter update. With us today we've got Sifiso Dabengwa, group CEO, Nazir Patel, group CFO, Karel Pienaar, CEO for South Africa and Brett Goschen, the CEO for Nigeria. Everybody would have already seen our update released on SENS earlier today. Sifiso will give you a very brief summary and then we will proceed straight to questions and answers. Over to Sifiso.</p>
<p>Sifiso Dabengwa</p>	<p>Good afternoon, ladies and gentlemen, and thank you for joining us this afternoon. I am pleased to update you on MTN's Q3 trading performance for the period ended 30th September 2012. MTN delivered a satisfactory set of results for the quarter ended 30th September 2012, increasing its subscriber numbers by 3.8% to 182.7 million.</p> <p>The group's performance was underpinned by solid operational management and the rollout of appealing value propositions despite aggressive pricing competition, regulatory and economic challenges across the different markets in which the group operates. This solid operational performance over the past quarter has enabled MTN to increase guidance for net additions for 2012 from 21.25 million to 23.7 million subscribers.</p> <p>MTN has continued to implement all its strategic pillars of improving shareholder returns, developing existing and new revenue streams, optimising costs and improving customer experience. Most relevant during the quarter was the execution of competitive products and services in response to aggressive price declines in some of the key markets and continued focus on data growth and improved network rollout.</p> <p>Looking forward to the balance of the year acceleration of our network expansion will be a key priority across the group as network quality remains a key enabler for our business.</p> <p>Moving on to the operational performance of some of the key markets. MTN South Africa has continued to deliver strong performance following on the momentum recorded at our interim results. The business increased its subscriber base by 4.1% for the quarter. This was mainly due to good performance in the prepaid segment which grew its base 4.2%. The post-paid segment also performed well due to the continued success of hybrid offerings.</p> <p>Although MTN Nigeria faced a number of challenges during the year it showed a healthy improvement in subscribers, increasing its subscriber base by 5.7% for the quarter. This was largely driven by successful competitive offerings in the market.</p>



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Operator	<p>Although we have seen an encouraging increase in minutes of use the promotional activities have placed significant pressure on the network. This is currently being addressed through a comprehensive network rollout programme.</p> <p>MTN IranCell performed well for the quarter despite an increasingly challenging political and economic environment. The company increased its subscriber base by 2.8%. This was attributable to attractive value propositions and good network quality. As many of you are already aware, there was a substantial depreciation in the Rial against the US Dollar which will impact the translation of Q4 earnings, and full year earnings will be impacted by the translation of the balance sheet at the closing rate.</p> <p>We have revised our net additions guidance taking into cognisance the changes in the various markets. We now expect to close the year with 23.7 million net additions. We now hand over to the moderator to take any questions.</p> <p>Thank you very much, sir. Ladies and gentlemen, at this time if you would like to ask a question please press star and then one on your touchtone phone. If you then decide to withdraw your question please press star and then two. Our first question comes from Jean Charles Lemardeley of JP Morgan. Please go ahead.</p>
Jean Charles Lemardeley	<p>Hello. My question is about Nigeria. You provide the traffic in September being very strong, 24%. Can you maybe just add how the saving of revenues throughout the quarter. In September were you close to the exit level from the end of the second quarter in June? Had you recovered pretty much entirely? Could you give us an indication of October? You're now almost done with October. Have you seen continued traffic growth in October? And what has happened on tariffs? Is there stability now in tariff levels? My last question would be on the congestion. How confident are you in your ability to deal with the congestion issue, given the operational difficulties as far as rolling out network in Nigeria?</p>
Sifiso Dabengwa	<p>Brett will be able to respond to that.</p>
Brett Goschen	<p>Okay. First of all, October has been continuing in a pretty similar way to August and September on run rate in terms of net additions. I'm not sure what you mean by the exit from June.</p>
Jean Charles Lemardeley	<p>Service revenues, sorry. They declined in August I guess, followed by some rebound in September. I was just wondering how September compares to June, for instance.</p>
Brett Goschen	<p>The market really had a lot of freebies from May. Up to 20% bonus on recharge was introduced in the month. MTN pretty much followed suit in the second half of June. In July we also adjusted further, and then in August we launched our new propositions with the lower effective tariff and also lowered the tariff in our existing value propositions. So we had a continual price decline across the quarter, but really the largest price declines happened in the month of September with the biggest increase in minutes of use. The minutes of use increased 24% on billable minutes of use on a price decline of around 21%. But that's all billable. The big change really that has happened in the market towards the end of August is the recharge bonuses that were</p>



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	<p>replaced by a usage bonus. They get a bonus dependant on meeting their targets. Then the recharge bonus effective dropped away. So with the change effective August – Airtel and MTN end of August and then Glo followed suit in September – we had a large increase in promotional or freebie minutes particularly in the month of September. So if you take the increase in freebies and minutes there is a big jump from previous months to the September month. We gave a guidance of 24% on the billable, but if you include freebies the total minutes of use increased by over 50% in the month of September to the previous few months.</p> <p>On congestion our network is stretched to the limit. In the month of September we had virtually no headroom in our network. So we did experience quite significant congestion in a number of areas in the country which obviously affected the ability to grow minutes in those regions. But we are under pressure for network quality.</p>
<p>Jean Charles Lemardeley</p>	<p>Sorry, just to rephrase the question differently, what is the trend month by month on revenues right now? Are those revenues stable or are they declining and then recovering?</p>
<p>Brett Goschen</p>	<p>If you look at what we said in our update elasticity for the month of September was one. Airtime revenues, which obviously declined in the month of August because of the tariff cuts we implemented, revenues were basically flat through the month of September. Things bottomed out in August and we expect to see a steady month to month increase on airtime over the next two months. So we do think things have bottomed out in this quarter. In September we also had a number of our sites together with other operators... In the north part of the country all the telcos' sites were attacked, and that also impacted on September's revenues for the month.</p>
<p>Operator</p>	<p>Our next question comes from JP Davids of Barclays. Please go ahead.</p>
<p>JP Davids</p>	<p>Hi guys. Just a couple of quick follow-ups on Nigeria. The first one is, are you taking any steps to accelerate the network deployment and what sort of capacity can you add every month? And then the other follow-up is, where are effective tariffs now for MTN on the market? Then just a quick final question. Any update on the buyback would be appreciated. Thank you.</p>
<p>Nik Kershaw</p>	<p>Let me deal with the buybacks first. We're not going to give interim comments on the buybacks. We will only announce it the next time we announce it in detail and that will be at our full year results.</p>
<p>Brett Goschen</p>	<p>Where we are with tariff, basically September was a promotional month for us. So we pretty much are on par with the market from an effective tariff perspective. In the month previous to that we were running at a premium. Probably the gap to market is declining every month, but certainly in September including the freebies we were pretty much on par with market. On the network rollout we're still going according to plan. We're rolling out as much as we are capable of every month. And certainly the last quarter was a very good month for us from a capex utilisation point of view. Certainly the run rate for capex on the ground is a lot higher than the first half of the year. It is picking up quite nicely.</p>



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Operator	Our next question comes from Edward Hill-Wood of Morgan Stanley. Please go ahead.
Edward Hill-Wood	Good afternoon everybody. Firstly, just on Nigeria again. Given the changes in tariffs in September and August could you give me an update if there has been any noticeable change in the on-net, off-net traffic mix into October? I think it has started to settle down. And secondly, on Nigeria as well. Any update on the potential or likely introduction of additional regulation regarding mobile termination rates, any update you can give us there? And secondly, just more broadly, yesterday you were cited as having expressed an interest in Maroc Telecom. I am just wondering whether or not there is any comment you want to make about that.
Brett Goschen	Okay. When we lowered our tariff a large part of the promotional minutes we have been running are on-net promotions. So with the much lower off-net rate we've seen an increase in our off-net traffic. But because of the promotional minutes on on-net our on-net minutes have increased at a higher percentage than the off-net. And then from an incoming traffic perspective we've seen a decline in traffic coming in from other networks. That's largely because we are much more competitive with our offerings. People are using MTN SIMs to call MTN as opposed to other networks. So the on-net percentage for the year to date is 84% and the rest off-net. So you can see the on-net percentage has increased slightly.
Nik Kershaw	Just to quickly comment on your last question, we don't talk about specific corporate actions. So we're not going to give any details on that. I think suffice to say that every deal that gets [unclear] across Africa and the Middle East bankers come and discuss with us, and we obviously look at and evaluate all the deals. But we don't give any specific comment on any particular deal.
Brett Goschen	And then also mobile termination rates. The regulator has indicated he was looking at a decline. The current process we're in is all the operators and the regulator are currently building up a model that the NCC use as a guideline for setting the mobile termination rate. But I think with the recent reductions in market prices and the quality of service concerned we think he will be... It's hard to predict rainfall. It depends on the results of the model. But there is no enthusiasm about significantly reducing those mobile termination rates.
Edward Hill-Wood	On the calculation of mobile termination rates in terms of the cost study do you know what type of cost system they are using? Is it one which is equivalent to European standards or generic standards in some other countries in Africa?
Brett Goschen	I think it is a pretty standard incremental costing model that they use.
Edward Hill-Wood	Thank you very much.
Operator	Our next question comes from Chris Grundberg of UBS. Please go ahead.
Chris Grundberg	Thanks very much. Just a couple of quick ones. You touched on the progress you're having with the Nigerian capex rollout. Can you give some extra colour there in terms



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	<p>of your latest expectation for your HEPS for the year and any extra colour on what your expectations are for FY13, if those have changed, will also be helpful. And also on Iran, I don't know if you can give us any updates on any progress you're making in discussions with the authorities around repatriating any cash there. Any extra thoughts would be very helpful. Thank you.</p>
Brett Goschen	<p>I think with the capex for the year we're still on track with our guidance that has been previously given. We have been gaining momentum all the time, and that will continue into 2013.</p>
Nik Kershaw	<p>Chris, I think the last time we said to the market we expect capex numbers for next year to be similar to what they are this year. We are currently in the process of reviewing budgets. We will give a little bit more detail obviously at our full year numbers.</p>
Chris Grundberg	<p>And on Iran?</p>
Nik Kershaw	<p>On Iran there are no changes since the last time we discussed that.</p>
Chris Grundberg	<p>Thanks very much.</p>
Operator	<p>Our next question comes from David Lerche of Avior Research. Please go ahead.</p>
David Lerche	<p>Good day, gentlemen. The first question is for Brett. Brett, have you actually introduced the MTN Zone there? And if so, can you give us an indication of where it is happening, how widespread it is so far, and exactly what is happening with MTN Zone there? Secondly, in South Africa, Karel, are you able to give us a little bit of colour around the difference in ARPUs on the contract subscribers between your hybrid contract guys versus your vanilla contract ARPUs? Thank you.</p>
Brett Goschen	<p>So we introduced Zone in July, and at this stage we are nationwide with Zone with about 8 million active subscribers.</p>
Karen Pienaar	<p>On ARPUs classic post-paid is sitting at R588. Telemetry is sitting at R32 at the moment. Hybrid is at R205. Prepaid is at R93 and payphones at R16. Does that help you?</p>
David Lerche	<p>Fantastic. Thank you, Karel.</p>
Operator	<p>Our next question comes from Johan Snyman of Rencap. Please go ahead.</p>
Johan Snyman	<p>Good afternoon, gentlemen. Just a few quick ones. Back to Karel. Can you just give an update on the percentage of your prepaid subscriber base on MTN Zone? And secondly, you upped the guidance in Nigeria. I just want to get an understanding of what is happening to churn levels. And the third one is on capex. Are we still on track for guidance for FY12? Thank you.</p>
Brett Goschen	<p>So on the MTN Zone, Johan, we're just touching on 14 million customers on MTN Zone</p>



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	<p>out of a total of about 20 million. It is still growing strong. And I'm excluding the hybrid. On the hybrid we're touching on 2 million customers now, of which 50% is Zone hybrids.</p>
<p>Johan Snyman</p>	<p>And then the churn in Nigeria has been below market levels. It has become a lot more competitive and we've been running a lot more [unclear] campaigns in the base. We did a very good quarter for churn and quite a bit down on the previous quarter. So a good churn month for us. And we also had a very high activity ratio on our base as well. The second question was on the capex.</p>
<p>Johan Snyman</p>	<p>On a consolidated basis.</p>
<p>Brett Goschen</p>	<p>We're still on track for our capex guidance for the year as previously given.</p>
<p>Nik Kershaw</p>	<p>Jan, from a group perspective, no change from a group perspective either. We're still sticking with our last guidance we released.</p>
<p>Johan Snyman</p>	<p>Thank you.</p>
<p>Operator</p>	<p>Our next question comes from Richard Barker of Credit Suisse. Please go ahead.</p>
<p>Richard Barker</p>	<p>Thanks very much. A couple of them have been answered. You mentioned in a couple of markets one or two comments on margin pressure and inflationary pressure. I wondered if you could perhaps expand a little bit on that and help us understand the magnitude of the pressures that you're experiencing and where those are coming from. The other one I wanted to check was what you were saying about capex in Nigeria. I picked up a news report this morning saying that you were running into difficulties in terms of rollout of your network upgrade because of the flooding in the country and the disruption in the north. What you've just said seems to be in conflict with that a little bit, so could you just clarify exactly what is going on with these two issues on your capex build-up? Thank you very much.</p>
<p>Brett Goschen</p>	<p>When we gave the guidance we had anticipated and allowed for some problems for the north. So even before our [unclear] it was quite difficult to operate in that area. So certainly our plans took that into consideration. The floods in October have been a little bit of a setback. But it is starting to dry up now, and even with that setback we still believe we will achieve our guidance for the year.</p>
<p>Nik Kershaw</p>	<p>From an inflationary perspective I think the reality is you've obviously seen across a number of markets, for example in a market like Sudan, very significant movements in the currency. We've seen movements in Iran. We've seen big movements in the currency in Ghana. The currency has been impacted quite significantly. So I think really what we're saying there is there is incremental pressure on costs, staff costs, general operating costs for running the business. And obviously in a number of these markets clearly revenues are not growing at the same level as inflation, so it is putting incremental pressure on the business. Obviously the various management teams are working hard against this, but inflation is a challenge across the operations.</p>



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Richard Barker	Thanks, Nik. Thank you.
Operator	Our next question comes from Peter Takaendesa of RMB. Please go ahead.
Peter Takaendesa	Good afternoon. Just one question from me. If we look at Nigeria there is one thing that has continued, pressure on the network. And it looks like the trends that are driving this are unlikely to change in the near term. Is it maybe better, given that it is a market that is still growing, just to double capex and get a network leadership advantage into the market?
Sifiso Dabengwa	I think the key issue of what has happened in Nigeria from a pricing point of view has been much quicker in terms of the rate at which the prices came down than what we had expected. That's the first thing. The second issue is that the capacity of the construction environment – there are four players who do have deep pockets, unlike five years ago – that has put some strain on the construction industry to be able to service all the operators. So the combination of the price drops and also the demand on the construction requirement. We as MTN are actually working at the maximum possible rate at which we can actually do the work based on the capacity constraints that we have.
Nik Kershaw	To put the numbers in context, if you look back historically at the last 24 months, in the first half of 2011 we put in just over 2 billion. Then the next six months we put in just over 4 billion. Then 4.4 billion, and now we will put in close to 6 billion. So we are continuing to accelerate our capex rollout as quickly as we can, but as Sifiso said, there are practical constraints in the environment.
Peter Takaendesa	That makes sense. Thank you very much.
Operator	Our next question comes from David Leffel of Deutsche Bank. Please go ahead.
David Leffel	Thank you, guys. Just a question on Iran. In Iran do you have any foreign-denominated currency deposits, and were they impacted by the change in the official monetary act on 24 th September?
Nazir Patel	We have some foreign currency on despot. It was money that was actually set aside for the loan obligation once we had Foreign Investment Protection Agency approval. So that amount of money is the equivalent, held in Euros, of \$390 million. Keep in mind the funds were actually [unclear] what we call the old central bank rate. The way the central bank instructions actually work – and this is something we're trying to investigate – is the ability to actually procure currency at that rate, even though it might have been procured previously, is at the discretion of the central bank at what they call the unified [?] rate. What we are trying to do is secure our understanding as to whether the funds which were purchased at the earlier rate are still applicable. In any event, once we get past that hurdle if there is any movement it would have to be procured, and the forex loss, if there is one, would be incurred by the Iranian operation. The reason behind that is they have an obligation to repay the loan in foreign currency. Loans are the only funds that are held effectively on deposit.



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David Leffel	Thank you.
Operator	Our next question comes from Max Loginov of Goldman Sachs. Please go ahead.
Max Loginov	Good afternoon. I have a question on Nigeria. Historically your competitors were quite aggressive in reducing prices and taking share from you. And basically they were [unclear] only when they had a visible discount in price. Now with the number of reductions through the quarter you were almost on par with them. So basically do you see them reducing prices further to sustain price discount and take some share from you, or their prices were more or less stable over the couple of months?
Brett Goschen	They were all pretty much on par. Glo is a little bit lower. Airtel reduced their prices in September, but like ourselves they were at a bit of a premium before. They reduced it slightly in September. We're seeing a reluctance now to decrease prices further. So we believe we are not too far from the bottom and are unlikely to see further significant decreases as we've seen in the past.
Max Loginov	Thank you.
Operator	Our next question comes from Jonathan Kennedy-Good of SBG Securities. Please go ahead.
Jonathan Kennedy-Good	Good afternoon. Back onto South Africa. Your out-of-bundle spend you cite as moving lower. Can you give us what proportion of post-paid revenue is still out of bundle and whether that is being pressured by some of the activity in the market of late? I.e. do you expect that to accelerate? And perhaps some commentary on your data revenue growth in South Africa. In the first half it was obviously very strong. Is that continuing into the second half or do we expect a bit of slowdown? And then finally in Nigeria, just on data revenue itself, are you're still seeing similar kinds of growth rates or is the congestion issue impacting data to a greater degree than voice? I.e. are you prioritising voice over data growth?
Karel Pienaar	<p>Maybe I can start from the South Africa side. Let me start with the data. If you look at the last quarter we did see a slowdown. But we are identifying it more as seasonal, in other words holidays. Like in September we saw quite a dip. If I look at the total numbers to date then they're back to the 40s type of growth numbers relative to October of last year. So there are seasonal elements, and certainly we're definitely seeing a lower number from what we announced in June. But it is coming back up again and we're hoping for a good Christmas as well.</p> <p>On the out of bundle you must remember that two-thirds of my contracts are all on hybrid now, and so out of bundle effectively is top-up and so on. Especially with the 50% of the hybrids we're seeing quite nice growth in top-up as people go out of bundle. When it comes to the classics we're seeing a continuous decrease in ARPU there, mainly because people are just a lot more price conscious and so they don't go out of bundle. I hope that answers the question.</p>



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Brett Goschen	On Nigeria, we've seen our 3G data growth rate continue during the quarter. But on the 2G we saw a decline in September, and that is largely due to that congestion on the 2G network. It was putting a cap on this type of data use in certain areas. We're allocating more channels to the 2G data, but what we are doing when it comes to promotional activity on data – 2.5 GB data – we're concentrating on areas where we do have the extra capacity.
Jonathan Kennedy-Good	Thank you.
Operator	Our next question comes from Ziyad Joosub of JP Morgan. Please go ahead. Mr Joosub, you are live in the conference.
Ziyad Joosub	Sorry about that. Just two quick questions please. The first one is for Karel. As you mentioned, data is obviously going to be weaker on seasonality and obviously a difficult. How has airtime and subscription revenue held up in South Africa over the quarter? Would you be able to give us some detail on that?
Karel Pienaar	Certainly. Firstly, when you look at prepaid we're very happy with that. Certainly it is really going well. I've been told not to give an exact percentage, but September has been a nice bumper month in the prepaid space. In the post-paid space as I said growth is low single digits.
Ziyad Joosub	So I mean your subscription and airtime growth in H1 of 5.9%, would you say growth is flattish from that level or improved? Or is that asking too much?
Karel Pienaar	I would say similar to slightly higher than that.
Ziyad Joosub	Thank you very much. Then quickly on Nigeria. I'm not sure whether you guys will have this metric, but do you have your revenue split for data between 2G and 3G? How much of revenue is 3G?
Nik Kershaw	We're not going to give that level of detail out.
Ziyad Joosub	Okay, cool. Thank you.
Operator	Ladies and gentlemen, a reminder that if you'd like to ask a question please press star and then one now. Our next question comes from David Lerche of Avior Research. Please go ahead.
David Lerche	Thanks, guys. Just a question on some of the smaller markets. We saw Ivory Coast, Sudan and Uganda all having very low subscriber growth, but in general the ARPU looked quite good there. Could you give us a bit more colour on exactly what is happening in those markets? People are spending more, but we're not really growing the subscriber base.
Sifiso Dabengwa	I guess the main issue this year has been subscriber registration in Uganda. As you recall whenever we have subscriber registration the first few months we generally



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	<p>have negative net additions. And similarly we've continued with subscriber registration in Ivory Coast as well. But as far as operations such as Cameroon are concerned it has been quite competitive during the quarter. But so far we're not too concerned about what we've seen in the first three quarters of this year in those markets. We believe that once we've passed the subscriber registration and managed the competitive aspects in some of the operations we will still be able to get our fair share of net adds.</p>
David Lerche	<p>Great. Thank you.</p>
Operator	<p>Ladies and gentlemen, a final reminder that if you'd like to ask a question please press star and then one. We will pause a moment to see if we have any further questions. We have a question from Chris Grundberg of UBS. Please go ahead.</p>
Chris Grundberg	<p>Just one quick one on the tower deal that you announced. I'm obviously interested to see that developing. You did point out at H1 that you were looking at tower deals in markets like Nigeria and South Africa. Any update on that or any suggestions of other markets where you might be looking in FY13 and beyond?</p>
Nik Kershaw	<p>From a group perspective we are evaluating all of the markets to see when and in what form tower deals would be appropriate. And that would include markets like South Africa and Nigeria. Certainly I think in big markets like that it would be a significant process, so I wouldn't expect that in the short term. And we continue to evaluate the other markets, and when we are close towards concluding some of those deals we will give some more update there.</p>
Chris Grundberg	<p>Thanks.</p>
Operator	<p>Gentlemen, we have no further questions. Do you have any closing comments?</p>
Nik Kershaw	<p>I just want to say thanks very much to everyone for dialling in. I hope it was useful. If you've got any additional questions please give me a call. Thanks very much.</p>
Operator	<p>On behalf of the MTN Group that concludes this conference. Thank you for joining us. You may now disconnect your lines.</p>

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