# MTN Group Ltd
# Q3 Results
# DATE: 24/10/2017

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| **Operator** | Good afternoon ladies and gentlemen and welcome to MTN's Q3 results for the period ended 30 September 2017. All participants are in listen only mode. There will be an opportunity to ask questions at the end of today's presentation. If you should need assistance during the conference please signal an operator by pressing star and then zero. Please note that this conference is being recorded. I would like to hand the conference over to Mr Nik Kershaw. Please go ahead. |
| **Nik Kershaw** | Afternoon everyone. Nik speaking. Thanks very much for taking the time to dial in to our quarterly trading update for the period ending 30 September 2017. With me today is Rob Shuter, Group President and CEO as well as Ralph Mupita, Group CFO. I think you would all have seen the SENS announcement that was released this morning. The announcement is also available on the Group website. I would at this stage like to hand over to Rob and Ralph who will make a few opening remarks before moving on to Q&A which will be handled by the call moderator. Over to you, Rob. |
| **Rob Shuter** | Great. Thanks Nik and welcome everybody. Thanks for spending some time with us today. I'm going to leave the numbers for Ralph and rather take the opportunity to give you a little bit of colour and detail on what we've been busy with in the quarter. I think as you know we announced our new operational strategic framework, BRIGHT, at the half year, six key elements to drive the performance of the business. It is fairly straightforward focussed on customer experience, returns, very strong focus on the commercial agenda – that's the 'ignite commercial performance' – the growth in data and digital, and of course also a focus on people, reputation and technology.<br><br>So just to pull a few of those themes out I think we were really excited with some of the fresh talent we brought on board in the quarter. It was part also of the SENS. Just to sketch a little bit of that, in the segmentation model we announced as part of BRIGHT we decided to split the business into consumer, enterprise and wholesale. Wholesale is really all about commercialising the infrastructure we've got. So we were really pleased to bring Frederic Schepens on board. So he will be the new MD of what we are calling MTN Global Connect. That is basically implementing our wholesale strategy.<br><br>I think you are all well aware that we are very focussed on bringing the capex requirements down in the future, a combination of low unitary costs and also coming out of a fairly heavy investment period these last few years. It is also great that Dirk Karl joined us as Head of Supply Chain and Procurement, and the only two words we talk to Dirk about are unitary costs, unitary costs. So he has hit the ground running and he has been a lot of help this last while.<br><br>A big focus on the digital agenda, mobile money. I will talk about that a bit later. But we have confirmed Serigne as the Head of Mobile Money. And in the Ignite commercial performance I think we still have a big chunk of our revenues in voice and we are wanting to really up our skills and resources in customer value management, base management, and I'm also delighted to bring Ankur Bajpai on board. He has also |

joined us. So all these four gentlemen are hired, in place, working hard and settling into the MTN world.

We have an announcement coming up quite shortly, the new Head of Enterprise in South Africa, which obviously has been a big pressure point of ours historically but has also converted a very big opportunity going forward because our market shares there are pretty low. That person has been hired and we expect to announce that shortly.

The second thing I wanted to draw out was subscribers. I must apologise. There is a lot of movement in our subscriber numbers. Just to remind you, we wanted to modernise how we defined subscribers, particularly the definition of an active subscriber. What we see a lot across our markets is that subscribers are kept in active status when the only events are things like receiving incoming SMS, bulk SMS. So this has been a real exercise. It is not yet complete, but we have completed Nigeria. So the subscriber numbers you see for Nigeria, the 50.3 million, which is the fully modernised definition. We will complete the rest of the markets in the next few months. I think we will have a much better feel for the real active subscribers, what kind of penetration we have in the market, and what kind of ARPUs these subscribers are generating, and rather make our decisions off realistic information.

The third theme I wanted to touch on was growth in data and digital, specifically the data element. We discussed again at the half year we are embarking on a dual data strategy. This is a combination of both what we call the value part of the strategy, which is continuing to focus on our metro users, generally high end smartphones, higher ARPUs, more affordability, while at the same time building our volume strategy. This is really to bring the next layer, the bottom of the pyramid into the data world. Now, two big things we’ve got to do there.

One is we have to as we call it flatten the data pricing curve. So we need entry level price points that suit occasional itinerant smaller ARPU customers, and I think we’ve made good progress there also in the quarter. For your information, of our 22 markets we have reshaped the pricing curve in 12 of the 22. This is basically putting more affordable entry level price points in, reshaping the out of bundle run on rate. Of the markets that are left I think South Africa is the main one that still needs work. The other markets are relatively small, also some of the conflict markets. We anticipate to make some pricing transformation in South Africa in the course of Q4.

The second part of the data strategy is really focussing on the network rollout, particularly for the volume part it is increasing the population coverage. It has been really interesting looking across the market how in many of the markets we still had relatively low population coverage for data. A big part of that is refarming the 900 spectrum, so the old 2G spectrum used for 3G. A couple of points to note for the quarter. Just in Q3 in some of the big markets, South Africa, population coverage went from 95% to 97%. In Iran population coverage went from 61% to 64%. In some of the smaller markets the effect of refarming 900 is really striking. In some markets we’ve gone from 28% to 40% population coverage in the quarter. So we are very deliberately moving to roll out a dual data strategy.

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| | The second point on the growth agenda is digital. So we are really excited with the progress we're making in Mobile Money in particular. It is rolled out now in 14 countries. We had, I think, a good quarter in Q3. If you look at the numbers we are now adding roughly 500,000 30 day active subscribers per month. So half a million 30 day active subscribers a month. We ended the quarter 19.7 million and as we sit here today, we have crossed the milestone of 20 million 30 day active in the mobile money business. So I think that's exciting for the markets we're in. We are also working now on the financial services category for South Africa, Iran and Nigeria which is where I think there is more work to do.<br><br>A few quick comments on the three largest markets to give you a bit of colour. I will start with South Africa. I think we are still pretty encouraged by the performance of the prepaid business. Generally stable performance, good growth, the data story is going well, distribution well managed. Our challenges have been in post-paid. That is a story of two parts. Consumer post-paid I think there is quite some progress being made. We have finalised the structure of that. We have got a head of CVM who has started, head of post-paid has started. We launched our post-paid line-up at the beginning of October, the MTN Made For Me plans. These are new anchor plans. It's a whole new pricing strategy for us, we had also a positive net adds in post-paid in Q3 which is encouraging. I think in the enterprise space we still have a tremendous amount of work to do, and I guess that is still a work in progress.<br><br>I think on South Africa we are very encouraged by the network performance. As you know we are putting in R11.5 billion of capex this year. It's a big number. We are significantly out-investing the competition. We are trying to get to an 'as good' or a second to none network. If we look at the performance the rollout is going well. The performance in the big metros is going well. The network NPS is improving. I think if you compare where we are now to where we were 12 or even 15 months ago we've made enormous strides.<br><br>Nigeria I think a good performance. You saw some of those numbers. I think H1 was strong. Q3 a little bit stronger as well. Ralph will talk through that. Strong performance in voice. Strong performance in data. A little bit of pressure in digital which is largely the optimisation of the value added service business, but we are moving very deliberately through that. That is still a business we believe in going forward once we've got it into the shape it needs to be. There is so much noise in the subscriber numbers that if I take the Q3 subscribers and I go and restate Q2 into the new definition then for sure we've got positive net adds in the quarter. So we're pleased about that. I think relatively we are performing okay in terms of net adds. We are still trying to lift the gross adds performance in Nigeria, and that is largely a function of getting the terminals out there, more connections. So we're not quite where we want to be but we've made good progress.<br><br>I think the story in IranCell is still strong. Revenue up 17%, data up 65%. We are building the digital business. The business case and approvals for our FTTH, the fixed business, are still in development but generally I think a pleasing performance. So I'm going to hand over to Ralph to take you quickly through the numbers. Then we will have the Q&A and then I will make a few comments at the end. |

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| **Ralph Mupita** | Rob, thanks very much and a very good afternoon to those in our time zone and good morning to those who are calling from the US. I just wanted to go through a couple of areas related to our trading performance to the end of Q3, touch on some aspects around the trading environment just focussing on currencies, and how we see the movement there in the last quarter. Secondly just look at the shape of the big numbers in terms of our service revenue at a Group level, focussing also on the trends we're seeing in voice, in data and digital. Then some highlight points on South Africa and Nigeria. I will then come onto capex and how we've made progress and our views for the balance of the year. I will make some comments around the cash upstreaming with a particular focus on Nigeria and Iran. Then I will finish off with Nigeria in the context of how we've experienced the Dollar liquidity in that market particularly in the last quarter.<br><br>So if I start at the top of my list, the trading environments, for sure it has been tough operating conditions in many of our markets. I will focus just on currencies. Currency movements in the quarter were probably much more moderated than we saw in the first half of the year. Against the Naira relative to the Rand we saw a 1% decline if you look at it from a June to September point of view and a similar decline in the Rial versus the Rand. Some appreciation, very small and modest, in Cameroon and Ivory Coast. So all in all we're still experiencing weaker local currencies, but I think what we have experienced in the quarter is that the movement is much more moderated than we saw in the first half and obviously between the first half of last year and the half of 2017.<br><br>Moving onto the big numbers, as you will have seen in our trading update we have service revenue up 7.4%. Underlying that we have got voice growing at 0.3% and year to date strong growth off our investment in the network in data at 31.4%, continuing to grow our digital revenue at 19.6%, but some pressures that I will talk about. Before I go into the numbers in more detail I think there are three things that you need some context on in understanding the numbers. The first is that the Group service revenue at 7.4% is not normalised as we have normalised our South African number. Now, if you had to normalise for the changes that we made in South Africa you would have a number closer to 8%. To be specific 7.9% would have been a more like for like number.<br><br>In South Africa we referenced normalised service revenue growth of 5.2% and in that definition I think there are two key elements. Firstly ensuring that we remove the effect of the acquisitions and disposals which we have in SA which are Afrihost and Smart Village. There is also a one-off effect that we had in Q3 last year of R150 million which was part of the pricing review done in the second half of 2016 by MTN South Africa when they changed their post-paid subscription carry-over rule from five months to two months to align more with the market. The effect of this change was that this was previously carried in the balance sheet and was brought through to the income statement. The total amount of it is R250 million.<br><br>So R150 million was recognised in Q3 2016 which is what we have adjusted for or normalised for. The balance of the other R100 million there is R50 million that will |

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| | come in Q4 and then there is another R50 million that will come in January. So we will just alert you to those further adjustments to be made for the periods to come. But this adjustment which is the first point that I wanted to raise obviously affects the ARPU numbers that you see. You will see that the ARPUs have come down and this carry-over effect having an impact in the ARPUs.<br><br>So with that as a context to the numbers I think we saw very strong service revenue growth in Nigeria in particular. At the half year we had growth of 10.6% and we're showing 11.2% for the year to date. If you back out the quarter you would have seen a very strong growth in Nigeria of 12.4%. So we feel pretty confident that we are seeing value share increase off the back of the investment that we've made. So a very pleasing growth in service revenue level in Nigeria.<br><br>And South Africa at 5.2% is pretty much a continuation of the underlying growth and progress we've seen in the market and continue to see a very strong prepaid business performance in aggregate year to date. On the post-paid, as Rob has said, we are seeing improvements coming through on the consumer and we still have challenges in the Enterprise side. Ghana also experienced particularly strong growth at 23.4%. So those are some of the examples at the overall level of service revenue where we've had very strong growth, and Rob has already mentioned what we have achieved in IranCell. I won't repeat that.<br><br>If you unpack the trends that we've seen as I mentioned earlier on voice growth at 0.3% so some marginal growth in voice. The trend has been for some time as you well appreciate negative in many markets, though we are still seeing some positive voice and voice is still a large proportion of our overall revenue. For Nigeria underlying voice growth was 5.4%. In the quarter there was very strong growth of 9.2%. So we are really seeing pleasing growth coming through from the voice side in Nigeria. So that is the voice trends. They continue to be under pressure so we have seen voice revenues in South Africa decline over the period. But in other markets such as Ivory Coast and Cameroon we are also seeing positive voice trends.<br><br>The data growth overall is growing very strongly at 31.4%. Pretty much the trend that we saw at the half year is continuing, and again Nigeria had a particularly strong growth in the quarter. So for the year to date 72%, but if you look at the growth in the quarter under review since the half year we would have seen data growing pretty strongly at 77%. In other markets like Ghana good growth there, 51.1% growth, Ivory Coast 17%. But overall pleasing data growth on the back of significant investment we're making in the network and correlating to the comments made earlier by Rob.<br><br>If we look at digital I think that's where you would have seen the slight deceleration of overall growth, although the growth was still positive. We recorded in the period to date 19.6% growth. To Rob's point mobile money continues to be exceptionally strong. We have grown the 30 day active base to 19.7 million to the end of the quarter, but the underlying growth is a very strong 54% underpinning our digital revenue growth. Where we have seen the deceleration actually is predominantly in Nigeria where we've been busy as Rob has mentioned optimising our VAS offering. We think that long term the work we're doing to ensure that we've got the opt-ins |

and opt-outs and entrenching a very strong treating customers fairly principle to how we interact with our VAS providers we certainly think for the long term this is the right thing to do.

So we are going to see some pressure on digital revenue for a couple of quarters. But as this laps out in the latter part of 2018 we should see much stronger VAS revenue growth which will support the strong mobile money growth that we've already experienced in the market. So it is broadly in Nigeria where we've seen the deceleration. We have had a similar set of optimisations of our VAS offerings in market like Iran, and there we certainly are seeing in the quarter an improvement in the digital revenue growth in that market. So those are the comments I would like to make around the numbers, again drawing your attention to those points around what is in the Group service revenue numbers as well as in South Africa what we've normalised.

If I come to capex we've got cash capex at R18 billion for the nine months. We guided initially at R34.7 billion as our full year guidance. You remember at the half year we re-estimated the guidance given the cutback in capex at a Group level and FX to a number closer to R30 billion. We still feel pretty confident that that number of R30 billion is where we are looking to end off the year. We are seeing good rollout in South Africa and in Nigeria as key markets. To give you a sense of why we feel confident around achieving the R30 billion is that in the last quarter of 2016 last year we got R13 billion capitalised in the last three months. So we feel the trend and the activity we've seen on the ground means the R30 billion that we've re-estimated is a good number.

Just moving on to cash upstreaming. At the half year we gave an update on our cash upstreaming with regards to in particular what we saw in Iran and then the listing that we envisaged in the balance of the year. Certainly in Iran we spoke about more than R5 billion still to be repatriated over the next six to nine months and that nine month period ending at the end of March 2018. Our plan there still remains the same. For sure we have noted the US government's decision not to certify the P5+1 nuclear deal, but that still has to run through its process of going to the US congress etc. But we have also been encouraged by support for the idea that we've seen by the EU and other prominent members of the United Nations who are behind this deal. So we don't feel that there is a need at the moment to change our view. So we continue with our work of getting those proceeds repatriated before the end of Q1 2018. Also on cash upstreaming we have received our portion of the dividend that was declared by Nigeria. Nigeria declared a $113 million dividend for the half year and we received our proceeds. We're encouraged by what we see as a return to normality in Nigeria in terms of dividend upstreaming.

The final point that I will make is around Nigeria Dollar liquidity. Obviously this has been a point that we have raised before. In the period July to September 30th we were able to acquire $247 million, and as I mentioned earlier part of this was for the dividend, $113 million dividend, $58 million for intercompany loan repayment back to the Group, and then $77 million for capex requirements that was needed. We were able to procure the Dollars at an average rate of about ₦365. We are obviously

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| | procuring that through the NAFEX window. Again on Nigeria just to confirm and restate what we said before that we have the facilities in Nigeria to fund our capex rollout certainly for 2017 and 2018. So no concerns there in particular about Dollar liquidity impacting our rollout plans and work plans in Nigeria.<br><br>The two last points I wanted to make actually were around listings. We had spoken about our Ghana listing in the second half this year. We have been engaged with the authorities in Ghana and agreed that we would move this into 2018, so looking more like the first half of 2018. We have always said the Nigeria listing is obviously subject to market conditions but it would seem at this stage more likely an H2 2018 event. Broadly the rest of the guidance we have given on dividends and everything that I mentioned now is still pretty much on track as we said at the half year. Rob, I will pass back to you to make concluding remarks before the Q&A. |
| **Nik Kershaw** | Actually, conference call facilitator, if you could please do Q&A at this stage that would be great. Thank you. |
| **Operator** | Thank you very much sir. Ladies and gentlemen, at this time if you would like to ask a question you're welcome to press star then one on your touchtone phone or the keypad on your screen and that will place you in the question queue. If you however decide to withdraw the question you're welcome to press star and then two on your touchtone phone to remove yourself from the question queue. Just a reminder, should you wish to ask a question you're welcome to press star and then one. The first question comes from Cesar Tyron of Merrill Lynch. |
| **Cesar Tyron** | Yes, hi. I have two questions actually. The first one relates to the growth that you are seeing in post-paid in South Africa. There have been some exceptionals and it makes it difficult to calculate. So could you please show a normalised revenue growth in the post-paid segment in South Africa? Then on the dividend have you made some progress in terms of formalising a new dividend policy for MTN or do you still stick with the R7 per share dividend going forward? Thank you so much. |
| **Rob Shuter** | Cesar, thanks for the questions. Maybe if I can pick up a couple. I will start with the easy ones. So the longer term dividend policy is still work in progress. I think what we discussed last time is we're going to get through our detailed financial planning exercise in the back end of this year and we intend to announce the new gearing dividend return policy with the final year results in March/April. I think on the specifics of post-paid service revenue that's not something we normally disclose at the quarter. So I think we will just stick with the high level trends at this stage. Obviously you will get chapter and verse on that for the full year. |
| **Cesar Tyron** | Thank you very much for your answer. Is it then possible to have a normalised post-paid ARPU for the quarter to be able to calculate what the service revenue is? |
| **Nik Kershaw** | Cesar we can have a look at that. I think probably what I suggest is probably your best bet is to take the R150 million that we've given and use that, and take that out of your revenue numbers for last year, back that out and come up with like for like numbers. |

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| **Cesar Tyron** | Thank you. |
| **Operator** | The next question comes from Chris Grundberg of UBS. |
| **Chris Grundberg** | Thanks very much. If I can just ask on the SA post-paid as well. I wonder if you could give a little extra colour. You mentioned then issues you've had in the enterprise space. I was just wondering if you could dig into it a little bit further. Is it due to signing bad contracts in the past? Is it something where there are revenues at risk that you might be looking to recut contracts? How do you think we should think about that and what kind of time horizon should we be looking at? And then as a second one you also mentioned bringing capex down over the longer term and obviously this new appointment in procurement. I just wondered if you have any further thoughts on a two, three or four year view on what the absolute capex number ought to be, or even as a percentage of sales would be helpful. Thanks. |
| **Rob Shuter** | Okay. Thanks Chris. I think if I start with enterprise in South Africa just to give you a bit of colour, of course in enterprise there is our ICT fixed voice fixed data business and then there is the more traditional what we call managed mobility. I think one of the challenges we had in MTN South Africa historically is we diverted a lot of resources to the ICT and fixed business and should have put more focus on managed mobility. So that is where a lot of the pressure is. And the pressure is I guess in most aspects. First of all I think we've got an inflow challenge. So we haven't been bringing in the kind of business we need to. That's a combination of not having the right rate plans. We had some billing issues. We haven't had a good indirect or business partner model in enterprise mobile, which is where a lot of the traffic comes from. We have had some issues also in how we price the business. But I think not necessarily writing bad contracts. I think we could be more commercially optimised.<br>And the real shorter term pressure has been in churn. We have been losing a lot of large enterprise accounts. So we've got to come at this from a number of different angles. I think what is very positive though is the network is in good shape. This used to be one of the reasons for enterprise cuts and this churning off. The billing and service experience is much better. Generally the commercial portfolio is looking okay. So now we've got to keep the customers we've got. We've got to roll out the channels to bring in the new customers. We have reorganised the enterprise division. As I said we've hired two very key guys who are going to be starting in the next couple of months. I think once we've stabilised the business actually we've got a lot to win. In enterprise fixed our market share is 1% or 2% maybe. And managed mobility we are under indexing our major competitor with an as good network and a decent brand. So I feel positive about that.<br><br>I think the longer term capex trends that is obviously going to be a big topic when we announce the gearing dividend story next year. But I think I can reiterate what I've said before that the two big numbers in the capex are South Africa and Nigeria. South Africa is structurally too high. I mean you see that we spent this year R11.5 billion. Our next best competitor will spend probably R3 billion less than that. So South Africa has to come off. I think Nigeria we can optimise. I think a lot of the other markets we can bring down. So we still remain convinced that we can make the investment for the future strategy but also bring down the absolute capex envelope. If that is what those |

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| | amounts look like I think we leave that for March next year. |
| **Chris Grundberg** | That's helpful. Thank you very much. |
| **Operator** | The next question comes from Madi Singh of Morgan Stanley. |
| **Madi Singh** | Yes hi. Thanks for the call. To focus on Nigeria in terms of the competitive activity what are you seeing on the ground? Are you seeing following the exit of Etisalat any improvement in the pricing trends especially on the data side? Also any update on your approach to the regulator around the data pricing I heard that there was a presentation made to the regulator asking for a significant price increase. Has there been any progress on that matter? And also are you interested in acquiring Etisalat or rather 9mobile? Thank you. |
| **Rob Shuter** | Thanks Madi. Let me take those one by one. I think the competitive intensity is pretty high. Etisalat has rebranded as 9mobile. They have always been very much focussed on the metro data positioning. So we've seen them more active in the market. It's a competitive market. You've got ourselves, Eti or 9mobile, Airtel, Glo, a lot of ISPs. So I think it remains a competitively intense market. I do think though that we are doing much better there. I feel much more confident about our relative performance. And we see that in some of our internal subscriber analysis. I think in terms of pricing we've been very much focussed on looking at the shape of the data pricing curve in the Nigeria market. And at a high level there we do need to put more attractive entry level price points in. but some of the larger bundles have become very cheap, below variable cost. So we've seen in our own process there which we believe over time can improve the average yield. This will be the big question and this is what we will hopefully be able to show you the effects of at the full year.<br><br>I think regulatory wise it's a competitive market. In recent interactions with the regulator they believe the retail price is in the domain of the operators. So we are very much focussed now on just implementing our own pricing and commercial strategies. A final question on 9mobile. There is a lot of press speculation around that. That is not our focus. Our focus right now is basically focussing on our own operation and improving that, optimising it, focussing on the commercial performance. So we are not actively engaged in that process. |
| **Madi Singh** | Thank you. Just following up on the pricing and the regulator's response on pricing trends, do you think there is an appetite or rather a tolerance in the market for a significant price increase by the operators? |
| **Rob Shuter** | Look, I think pricing is very much a commercial competitive thing. It is not the kind of thing I would be… I wouldn't want to signal a pricing strategy on an investor call. I think the challenge is in Nigeria obviously if you've got inflation running at 15% or 16% that does create at least a partial incentive for the operators to get customers to absorb some of the inflationary pressures. And I think secondly particularly the high level data bundles have really been driven very low. But will these be big, once off events? I think that's less likely. I think the operators are more likely in the scope of a competitive market to optimise their pricing on an evolutionary basis over the next |

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| | year or so. |
| **Madi Singh** | Okay. And in that regard are you comfortable with the usage growth especially on the data side by customers? Do you think that will continue? So far it has been very strong. I'm just wondering. |
| **Rob Shuter** | I think Nigeria data monetisation is a very healthy combination of relatively low penetration of subscribers. So our active data subscribers are still only roughly a quarter of the total. So there is going to be subscriber growth. There is still the utilisation growth that is relatively low. And the pricing as I said already is relatively low. So I feel quite positive about the ability to monetise data in the Nigerian market. |
| **Madi Singh** | Thank you very much. |
| **Operator** | The next question comes from Jonathan Kennedy-Good of SBG Securities. |
| **Jonathan Kennedy-Good** | Good afternoon. Thanks for taking my questions. Just two from me. I know that it's probably not overly relevant but just the fact that it has taken six months to identify SIMs in the Nigerian market that receive SMS's and cut them off the network. I'm just trying to understand what your IP capability is. My question is looking forward if it takes so long to understand SIMs receiving and SMS what capability do you have to drive below the line offers to individual customers in the prepaid space to try and monetise that base a little better? So that's the first question. And then the second one just on the current rate at which you are paying your tower operators. Is that still ₦325 or ₦365, and if so when will that change? And then finally do those tower companies actually have the capital to roll out base stations for you, or are you doing all the capex rollout from here on in? |
| **Rob Shuter** | Thanks Jonathan, not so much for the first question. Let me give a bit of colour on that. What we are doing is we are redefining the basis upon which we regard a subscriber as active. This is not about deleting or suspending. It is simply a definitional thing. Now, it might sound like a very straightforward thing. But if you actually look at the rules that are determining in Nigeria for example who is active that is 60 to 70 rows of an excel spreadsheet because it has to deal with all manner of events. It is not simply outbound calls, inbound calls. It is on-net, it is cross-net, it is SMS, it is MMS, its voicemail, its data sessions, its mobile money.<br><br>So a lot of the effort has gone into what actually the metric is that gives us the best proxy for activity. And then this has got to be fed into a BI system. The results need to be analysed. And this has to be done across 22 OpCos. It was only when we were broadly comfortable with the results that we said Nigeria was far advanced. We would move first with them and move with the other 21 OpCos in the next couple of months. I don't think it's necessarily reflects the lack of capability. In fact I think we are one of the few multinationals who actually is modernising the subscriber definition to take into account the circumstances we're in today. As an example SMS is a very small contributor to revenue. Interconnect or SMS is tiny. And so it is not perhaps really optimal anymore to call and SMS-only receiving subscriber active or revenue-generating. |

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| | So that's where we are with that. And of course we have also been doing all the work on the data rules for activity. And that is not so much exposed in this quarterly statement. I think the CBN capabilities in prepaid need work. They are not really related I think to the previous point. We have decided on one vendor for the Group. We have signed the GSA. We have deployed now in around eight OpCos. And the kind of contextual pricing for consumers dependent on what they have spent last time, how many days are left, how many minutes are left is live in a number of our OpCos and will be live in SA soft launch later in the year, fully live early next year. And I think with Ankur coming in he really is helping us a lot with that. I think finally on the Tower Co particularly related to Nigeria the rate that we are using is… |
| **Ralph Mupita** | Jonathan, for the Tower Co it is indexed to the CBN rate, so ₦305 or ₦306 is the reference rate, not the interbank rate. And to your question, do they have the capital, they are continuing to roll out and support us. And obviously we fund the active equipment that goes on for our own capex needs in Nigeria. And I think you probably are following their own developments in other markets as IHS. But they do have the cash. |
| **Rob Shuter** | The complexities in tower rollout with the Tower Co is much more related to municipal approvals etc. |
| **Jonathan Kennedy-Good** | Thank you very much. |
| **Operator** | The next question comes from Mike Gresty of Citibank. |
| **Mike Gresty** | Good afternoon guys. Just a couple from my side. First of all I was wondering where you are in terms of the IP upgrade in South Africa. It is probably a bit related to Jonathan's question earlier. Obviously the network is coming along nicely, but particularly your billing system is I think a major constraint. My understanding was that by the end of this year that should have been materially addressed. Particularly on the billing system, where are you with that? And then the other thing is obviously Vodacom have made some announcements recently about out of bundle pricing and that is quite topical at the moment. Can you give any sense about the sensitivity of your revenue to out of bundle spend at this stage in SA? |
| **Rob Shuter** | Thanks Mike. Let me tackle the first one. Generally the billing systems in South Africa are actually still pretty flexible. We designed and commercially brought live the whole new consumer post-paid line-up on the existing billing system. I was personally quite encouraged that it could do all the things we needed it to do within the time that it took. The project that was running, the old so-called Project Orbit, was originally going to drive enterprise billing for ICT and fixed. Now, that project has been re-vectored. What we always do when we change projects is give them a new name. And that is going to be also used for the enterprise managed mobility billing. But it is still resting on the existing provisioning systems. So it is not that we have some old creaky mainframe in a basement somewhere. We can do a lot with the systems we've got. And actually most of the optimisation is in what we call the digital layer that sits above the core billing engine. And that particular project we have already gone through drop |

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| | one and we will go through the migrations of drop two I guess in the next nine to 12 months. That is a big project now of our new CPIO, Giovanni. And I think we have pulled that nicely into shape.<br><br>I think in the data out of bundle certainly the dependency on out of bundle has been reducing over the last few years as we have been pushing bundle penetration. It's a complex area because it is split across prepaid and post-paid and there are different ratings in post-paid as well. But I think we are putting a good plan together. It will create some pressure I guess for one to two quarters. But if you look in SA as an example, if we look at the difference between the data subscribers and the active data subscribers there are almost 5 million subscribers who have got a data-capable device, they are in a data coverage area, but they are using less than 1MB a week. These are the first Group of customers who tend to come into the data world when you improve the entry level data pricing. So I still feel encouraged that this is a manageable commercial initiative. And as I said we want to finalise our plans over the next few months. |
| **Mike Gresty** | Great. Just to clarify, Rob, is your sense that by providing a more inviting or attractive pricing structure for those low using guys that potentially is quite a good way of offsetting the impact of bringing down that out of bundle dependence? |
| **Rob Shuter** | As I said earlier we have done this lowering of the entry level pricing now in a number of markets. The first order effect tends to be that the accidental users increase their utilisation because they are offer pay users so they were historically at these fairly high out of bundle rates. And the second order effect is that the average usage goes up for those that were already customers. And the third factor which has been interesting in many of the markets is actually often the weekly recharge amount stays the same. So if the data pricing has become more affordable and the data consumption hasn't gone up then that money has been displaced into prepaid voice or other categories. So I do feel that there are many things that will counterbalance a reduction in entry level pricing. I think it's the right thing we need to do particularly for our own volume strategy for data. And we will just have to ride out a few quarters of it until we get back onto the right track. |
| **Mike Gresty** | Thank you very much. |
| **Operator** | The next question comes from Alistair Jones from New Street Research. |
| **Alistair Jones** | Hi. Thanks for the question. Just a couple of follow-ups. Firstly on the out of bundle that you have just been talking about, is that predominantly a South African feature or how prevalent is that across the other markets? You said it is the big focus in South Africa at the moment, but if it is prevalent across other markets is that likely to have an impact longer than the next couple of quarters? Then the second thing is just on the capex. I know you have mentioned it in quite some detail and South African capex coming down etc. I am just trying to understand. If you look at the traffic that you mentioned, 125% growth in terms of data traffic on the network, you've seen historically some network congestion particularly in places like Nigeria. I understand the unit cost of capex is going down, but strategically how do you think about upping |

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| | your investment spend into the network to basically future-proof further growth rather than holding back to focus on the free cash flow, which obviously is important, but in terms of future growth why don't you increase coverage but spend almost even more and just future-proof your growth going forward and cement your position in each of the markets? I'm just trying to get an understanding of why you wouldn't necessarily maybe try and spend a bit more to get even stronger? Thanks. |
| **Rob Shuter** | Okay. Thanks Alistair. If I take them in order I guess the question is as we rebalance the pricing curve is that going to create some pressure in the other markets. In general no. Nigeria already rebalanced its pricing curve some time ago. It has been data only on an opt-in basis since 2015. The Iranian pricing is much more close to how we want the curve to look. And most of the other markets we have moved already in the course of the last six months or so. So I think the big one that is left is in South Africa.<br><br>On the capex I think the issue is that you need to think about what capex goes into a mobile network. And a lot of what we need has been built. There is the core network which is a lot of IT infrastructure. There is the core transmission which tends to be fibre transmission between data centres. There is metro fibre that connects sites within a network. There is the long distance fibre which connects the major metropolitans. Then you have the access transmission out into the access network, and then you have the radio network. Now, a lot of very heavy lifting and investment has gone into all these categories over the last few years. So generally the radio networks are modernised, the fibre networks are in place, the core has been modernised. We have got IMS cores in all the large countries.<br><br>So basically the push of capex in the next few years is largely capacity in the metros for the data traffic. And we are trying to push out a coverage layer into the peri-urban and the rural areas. And in the peri-urban and rural we have very high 3G population coverage already. Obviously with 2G running on 900 if you can refarm the 900 also for 3G you very quickly get a decent layer of data connectivity over large areas with not a large spend. So our sense has been that the combination of bringing down unitary costs and also coming off this capex hump that was created by the transition from 2G to 3G, 3G to 4G, modernisation of radio, fiberisation of core, we are moving through that curve. And of course 5G in our markets is very far away.<br><br>So we are not trying to hold back in money that needs to be spent. We're just trying to be smart about spending it where it is required. We have a leading position in 15 out of the 22 markets. We are not wanting to surrender our leading position. So that's where we are. And as we go through the detailed planning now for 2018 to 2020 which we can give you much more detail on early next year I feel we can make a convincing case that this is all very achievable. |
| **Alistair Jones** | That's great. Thanks a lot. |
| **Operator** | Ladies and gentlemen, just a reminder, should you wish to ask a question you're welcome to press star and then one. The next question comes from Ziyad Joosub of HSBC. |

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| **Ziyad Joosub** | Hi everyone. Thank you for the questions. My question is around voice growth in Nigeria. If I could just confirm that the 5.4% voice growth that you disclosed in the release is a year to date figure similarly to how service revenue and data growth was the year to date figure? If it is the year to date figure it appears that voice revenue has really accelerated very strongly in Q3. I was wondering if you could maybe give me a bit of colour in terms of what is driving this big uptick in voice. Is it volume growth? Is it market share gains? Is it pricing? And how sustainable do you see this 5.4% or what could be a much higher figure in Q3 in voice revenue growth? Is this sustainable? Thank you. |
| **Rob Shuter** | Okay Ziyad, thanks for that. I guess your numbers are clear. The 5.4% is a year to date. So that is the nine months. It was 2.8% at the half. As Ralph said earlier that gives you 9% in Q3 which is a big number. Remember it is both outgoing, incoming and international. So the international termination rates increased a lot this year. And there has also been a huge effort on combating grey routing, the refiling of traffic. So I think that has pushed a little bit of a spike into the quarter. So I wouldn't extrapolate the Q3. I think that really would be fighting a fairly heavy tide. Even at 3% to 5% we were tremendously encouraged by the nine months. |
| **Ziyad Joosub** | And could I just ask one quick question please? In terms of prepaid for South Africa you still obviously despite the prepaid segment in South Africa it still looks like there was a bit of acceleration in Q3. Just broadly speaking what is going right in the prepaid segment in South Africa? What is driving the growth in what looks to be almost double digit growth for the segment in SA? Thank you. |
| **Rob Shuter** | Okay. Let me tackle that and then unfortunately we're going to need to wrap up the call. I think in general in prepaid you've got stable pricing, maybe even slightly up year on year if you look at some of the pricing in the second half. You've got a good adoption of data in the prepaid base. We have extra time which is the ability for customers to go slightly into overdraft if they haven't recharged. It is also working its way into this year which was not such a big factor last year. So it's a number of factors coupled with at least on MTN's side a stable team, stable distribution, a stable commercial strategy. It is one of the few areas that have been untouched by a lot of the change in the Group. Long may it continue, but as you said as it heads up to double digits it does become quite steep to keep it up. But for sure we still expect a decent performance out of prepaid going forward. |
| **Ziyad Joosub** | Thank you very much. |
| **Rob Shuter** | I think unfortunately we need to wrap the call up now. There are some other commitments coming up for us. Maybe if I can just make a few comments in closing. I think from my side a steady quarter. As we've said some pressure in value added services, but we know what we are doing there. I think for Q4 a big focus on getting our network investment in place, setting ourselves up for a good start as we move into 2018. A big focus as I've said a number of times on the financial planning, the forecasting, the budgeting and things like dividend, gearing etc. needs a lot of work. We also said in the SENS that we reiterated guidance for the full year. Just so there is |

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| | no confusion around that particularly in Nigeria our original guidance was high single digit revenue growth and obviously we are now above that. So when I say reiterate guidance I don't mean we're going to drop down from where we are. I just want to say that we're meeting the commitments that we've made. We look forward to engaging with all of you in not too much time off the back of the full year results. Thanks very much everybody for attending. |
| **Operator** | Thank you very much gentlemen. On behalf of MTN that concludes this afternoon's conference. Thank you for joining us. You may now disconnect your lines. |
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