

COMPETITION COMMISSION

DATA SERVICES MARKET INQUIRY

5

10

VENUE:

Venue: The DTI Campus, Block D, Boardroom DG16 & DG20
77 Meintijes Street, Sunnyside,
Pretoria

15

DATE: 18th October 2018.

Contents

Introduction.....	3
Vodacom South Africa.....	4
MTN South Africa	75
5 Telkom.....	128
Cell C.....	171

Introduction

CHAIRMAN (MR MAJENGE): Morning everyone, welcome to the Competition Commission's data market inquiry public hearings. Today is the 18th of October 2018. My name is Bukhosibakhe Majenge, I am the Chief Legal Counsel at the
5 Competition Commission. On my right, I am joined by Doctor Liberty Mncube who is the Chief Economist at the Competition Commission and on my extreme right, I am joined by Mr Arthur Mahuma, who is part of the Inquiry's Technical team. Excuse me. On my left, I am joined by Mr Jason Aproskie who is also a member of the inquiry's Technical team. Both Mr Aproskie, as well as Mr
10 Mahuma will be acting as Evidence Leaders in this Inquiry. I am not going to set out the terms of reference because this has been circulated and are available on the Commission's website. I am just going to recap the rules that will be applicable to this inquiry just for purposes of the record.

The first is that the formal seating of the inquiry is open to the public at all times,
15 except when the Chairperson rules that part of the proceedings will be closed on grounds related to confidentiality or for any other reason deemed justifiable in terms of the Competition Act. And all sessions of the inquiry will be recorded and will be streamed online, save for those sessions or parts of the sessions that may be closed on grounds of confidentiality. And in order to allow for the
20 proper ventilation of issues, the Chairperson as well as Dr Mncube, as well as the Evidence Leaders may pose questions to any person making oral submissions. Because this is an evidence gathering process, no person will be permitted neither personally nor through legal representatives, to question any person making oral submission in this public hearings. In the event that there is

a stakeholder that has an objection, a comment or question in respect of any submission made during these public hearing, that stakeholder must submit such an objection, comment or question to the inquiry in writing and such an objection, comment or question will be attended to by the inquiry as soon as possible at an appropriate time. We will receive the first submission from Vodacom. Gentlemen, thank you very much for coming and welcome. If you could please just state your full name and surname for the record.

Vodacom South Africa

MR JOOSUB: Good morning Chairperson, morning members of the Panel, ladies and gentlemen, good morning. Thank you for the opportunity to present. My name is Mohamed Shameel Aziz Joosub. I am the CEO of Vodacom.

CHAIRMAN (MR MAJENGE): Thank you Mr Joosub. If you may kindly take the oath or the affirmation, there should be a piece of paper or document in front of you reflecting the oath or the affirmation

MR JOOSUB: I, Mohamed Shameel Aziz Joosub swear that the evidence that I shall give, shall be the truth, the whole truth and nothing but the truth. So help me God.

CHAIRMAN (MR MAJENGE): Thank you very much. You may proceed to take us through your presentation or submission. That will then be followed by questions from our side.

MR JOOSUB: Thank you Chairperson. Chair, I am just going to ask the different members of my panel to just introduce themselves as well.

MR BELLIS: Morning, I am James Bellis, Director of Frontier Economies supporting Vodacom in this.

MR MIDDEL: My name is Louw Middel, I representing Vodacom and working in the Regulatory Affairs Division.

5 **MR NYOKA:** I am Nkateko Nyoka, Chief Legal Officer, Vodacom.

MR JOOSUB: Thank you Chairperson, I will begin. Okay, maybe just to start with, just to give a little bit of context. I think first and foremost, in the Telco industry, there is a couple of things that one needs the take into account. At the height of it is investment. So, I am sure you will have a number of submissions
10 that will talk to infrastructure investment versus pricing. Sorry, infrastructure competition. So, we compete on 2 fronts. We compete on infrastructure and we compete on pricing and obviously, we compete on quality and service and so on.

But I think the first and most important ingredient is that you have to invest. And
15 a lot of the difference between the bigger and smaller players to be very frank with you is all based around, do you put money? And in Telco, you have to invest to be able to see, to be able to grow your network, you have to build up your coverage, you have to put in capacity, you have to provide proper quality of service, you have to provide distributions. So, it's all around investment. So,
20 investments is one of the most important ingredients. But at the heart of it is spectrum. So, if you don't have spectrum, you can't even investment. So, you have to have spectrum. The Telco industry in South Africa, I mean, I think it is fair to say that spectrum hasn't been allocated for 14 years. So, the situation in South Africa is very hamstrung in terms of availability of spectrum. It is not that

the spectrum is not available, it's that some of our policies and debates around it and preparing for the digital migration has been somewhat of a mess. So, effectively, we have not had access to that spectrum for 14 years. That puts a lot of pressure as I will explain to you through the presentation.

5 So, if you have got the capital to invest, you have got the spectrum, the next part is about coverage and quality. And the bigger you get, the more you have to... part of what you have to do is, you have to keep investing in coverage. Now, a lot of the time you might and investing ahead of the curve, right. So, you have to put the capital out, then and create. So, for example in the 4G networks
10 as you will see later, we now, this year we are closing 85% population coverage. However, we only have seven and a half million smart devices out there. So, you are not fully utilizing that investment as yet. So, that is the one part. The 2nd part is, how you spend the capex, but I will talk about that a little bit later.

15 Then you take into account customer needs. Reducing prices are part of it because data prices have to continue to come down. I think, I know that is the purpose of this inquiry is to look into data pricing. As you will see data prices are coming a bit down. But I think as Telco we accept that the price has to continue to come down. But, it is more an economies of scale thing and you will see how
20 that plays out.

Usage also plays a big part. So, you have to be able to grow the number of users and the usage per customer, is extremely important so that you can get a return on that investment and then the whole virtuous circle starts again.

The Telco sector in South Africa doesn't have a lack of capital investment. Vodacom alone spent just over 41 billion in the last 5 years in its network. So, a significant amount of capital going into the network. If you ask me, are we spending that capital optimally? My answer will be no. We spend it optimally
5 from the perspective that we drive down prices. We get some of the best prices in the world. We leverage off our parent company, Vodafone, and make sure that we really do good infrastructure and deals. The negative though is, when you invest in the network, you are basically investing into, so we are investing a lot of money into capacity and coverage and quality. But we could have been
10 utilizing that capex a lot better had we had access to spectrum, and I will explain why a little bit later.

Also, customer growth has been growing quite significantly. We have more and more customers coming on board and customers using more and more data. So, we have got 41.6 million sim cards in the end of March 2018 and customer
15 spending. But you also see that the average spend per customer because of the drop in prices has been coming down. We have 20.3 million customers. So, about half of our customer base uses data. 18.5 million have a smart device. Why that is important is that, because you can on a smart device, obviously, you get the full effect of using data properly. But also you are using it, if you are
20 using a 4G device, it's a bit better for us because 4G technology is more inclined to data. If you are using a 3G device, it's less efficient. And if you are using it on a 2G device, it is even less efficient.

So, one of the big issues is constraints that results on the unavailability of spectrum. What we did was to basically just to show you how effective it is.
25 When we compare ourselves to all the other Vodafone countries around the

world, you can see where we rank in the availability of spectrum. So, spectrum is a big issue and constraint. And maybe just to explain a little bit on why this is such a big issue. What happens in a network is, when you build a site, you put up a site, then you have 2G coverage, 3G coverage, 4G coverage. What happens is, when you get load or you are putting on more customers or customers are utilizing more, when you are using 3G, if you cover this whole campus if you like, what will happen is, as you put on more users, the cell shrinks. So, the cell gets smaller, okay, which means you have to build many more base stations to be able to carry the traffic. So, the speed deteriorates, but the cell, the actual coverage gets smaller. So, 3G is not a hugely efficient data technology. In 4G, the cell stays the same size, but the speed shrinks. So, you want to get as many customers onto 4G. The problem is, we don't have 4G spectrum. The spectrum that we are using is re-farmed spectrum. So, what we have done essentially, the spectrum that we have allocated for 2G and 3G, we squeeze customers into less of that spectrum and re-farm that spectrum and re-utilize them. But the real spectrum that you need is 700 to 800 spectrum or what we call low [indistinct – man?] spectrum. So, maybe just to explain a little bit more, you have what is called sub-1gig spectrum. And what that means is the lower...so, currently we have access to 900 spectrum which is historically 2G spectrum. Anything below a gig, so 900, 800, 700, that spectrum is very good to basically do coverage, but also to penetrate indoors. So, you can cover further, the signal travels further with that. When you get to high [indistinct – band?] spectrum, which is like 2.6, 2.1 and so on, the issue is that, that is more for capacity. So, around the world, 700 and 800 has been allocated for basically the use of 4G and 2.6. So, 2.6 you typically use Sandton,

maybe and Pretoria and so on, parts of Tshwane where it is busier is where you will use the 2.6, and you have concentration of customers. But generally, you would use the 700 and 800 which will penetrate indoors and so on. So, I mean, just to put this into perspective, we are now busy with our final option if you like
5 for spectrum in Mozambique. So, all of our countries will have access to the 700, 800 spectrum, besides South Africa. Now, for me that's quite disappointing and at the same time quite embarrassing.

Now, what it does, if we don't have... so, basically, if we... what happens is, as we load the traffic on and customers are growing, we get to a point where we
10 are adding more radios, we add more radios, the site runs out of capacity. If I get spectrum, I use the same site and I will just add more radios in the new spectrum bands. If we don't have access to it, we have got to build another site. And building more sites is frightfully expensive as I will explain. So, that drives up the cost and if, for prices to drop, the underlying cost to carry needs to drop.
15 So, the cost to carry a gig of data needs to drop for prices to drop. It's not, to be honest, it is a lot more complicated than that. Now, this just gives you the impact of what exactly happens. So, effectively what you have, if you have got spectrum, you can see you are building their sites. This is visually trying to show how that changes if you don't have access to spectrum. You have got to do
20 what we call site densification. Site densification simply put, means we build more sites to be able to carry and manage the traffic that is out there.

In terms of quality of networks in South Africa, I think it is fair to say that the networks in South Africa are among the best in the world. So, if we look at population coverage, Vodacom's population coverage in 2G now sitting at
25 99.7% in March, this past year we put 200 other sites in what we call rural

coverage. So, really we are looking at your farm areas, where you have got very sparsely populated. We are doing the same this year where we are putting on and our commitment is to continue to do that. To take both data coverage which is now sitting at 98.8% on 3G and as you see we have 40% 4G coverage
5 which will grow to 85% this year.

Speed-wise, one of the elements that we compete on is speed. And to be honest, it's also a bit of a, you know, it is a competitive element to be able to claim the best network part. So, there is competition exists in the speed part as well. Just from a download speed, we have also looked at across the Vodafone
10 group. We do rate as one of the best networks in all measures around the world.

Are there constraints in packing the network roll out?

I think the first thing is access to ducts and poles. So, and maybe just to put into perspective. Up to about, I think, I can't remember the exact date, but up to
15 about 10 years ago, transmission in South Africa had to be bought from Telkom. It is mandated by government that you have to buy transmission Telkom. So, remember, we are broad based stations, but at the back of every mobile network is a fixed network. So, you build a base station to cover an area. But then you have to connect that base station to something. So, at the back of a
20 mobile network is a fixed network. And you typically connect that to what we call transmission. Transmission takes two-fold. It is either microwave connections or it is fibre connections. So, we connect it with fibre. Well, we try to connect as many as we can with fibre. About a third of our network today is connected with fibre. But it has been, the industry has had to, because we couldn't get the

pricing from Telkom, the industry had to start building its own fibre and transmission. And that's why companies shared networks like DFA where you can buy capacity and what we call [indistinct], you can buy 15 to 20 years' capacity. Basically, is how we have tried to drive down the cost because that is one of the bigger input costs. And as you go more and more into the data world, you need the transmission at the back. So, the base station takes it, but you need the pipes to be able to carry all this traffic. So, that is the big element of it. So the effects of that is that access to ducts (?) and poles are extremely important so that you can put down fibre and so on. Now, it's interesting that and some weird things that have happened in South Africa. I mean, just to you an example, if you, we have big issues with Telkom when it comes to access to poles and ducts because it simply refused access. So, basically, I mean, just to give you a little antidote. We have a case that is happening with Telkom at the moment where, home-owners' association bought its own ducts. Now, common sense will tell you that if the ducts is owned by the homeowner and they can decide how many people to put into the duct. Telkom claimed that they owned because they were in the duct first, so the air in the duct was theirs. They went to court, and they won. We took it to the high court and Telkom won again, because the court felt that the air is Telkom's. Now, we are going to the Supreme Court to fight. The regulator, however, felt differently. The regulator felt that we should share. But, that Telkom has refused to do that and essentially, is taking the regulator to court on their ruling. This doesn't help, it doesn't help because access to ducts is extremely important so that we can get the cost down.

Second issue which affects all networks is the cost of a site. So, rentals are extremely high on sites. It's not mandated. So, if a landlord knows they have a key site, they can put the rentals up, but also approvals can take anywhere up to 2 years in certain parts of the country. So, it's funny that the people that
5 complain most, you know, when you get to the Inandas and Sandtons and so on, we have to a lot of complaints about coverage and so on, but it is very difficult to get an approval. What then happens is, if someone has a site, they can basically charge you exorbitant rates to get access to that site, if you can get access to the site at all. So, that does make it very difficult and we have to
10 find very difficult ways to try and cover those areas. So, what would definitely help is, if we had rapid deployments, fast approvals, access to buildings, roads and so on. That does then bring down the cost to deploy.

The other part is certainty in investment. Panel members, the industry has lost 139 billion rand in market cap in the last 2 years. And that's basically Telkom,
15 Vodacom and MTN. The reasons are not all related to regulatory uncertainty, but I would venture to say, at least two-thirds of that is the uncertainty that we create in the environment. We have agreed to what we call a... the industry and the Ministry have agreed to what we call a hybrid model. But, the reality is that the spectrum is still delayed, the digital migration is still not happened. The
20 country was supposed to be done by 2015, the International Telecommunications Union mandated that the digital migration must have happened by June 2015. It hasn't happened, it still hasn't happened. We are sitting in 2018, we are still debating how we are going to do the digital migration. I think there is more commitment today in the current regime to make it happen,
25 but it's still not there. So, which means that it drives up the cost for networks to

deploy. And I think, you know, one of the big things is, for prices to drop, you have to deal with the cost elements, and unfortunately in networks spectrum plays a big role.

The other thing is just certainty of investment is, in Telcos you need certainty
5 because the investments that you are making, you know, some of it you are going to get longer returns. So, you are investing, you have 9-10-year horizon how you are investing. If you create uncertainty and you come up with statements like we may take back this, we spent 2 years fighting on this one. It was interesting, there was a meeting 2 days ago with investors. And a senior
10 official says, you know what, this whole debate on 4G, maybe time has passed. Now, this is after 2 years of fighting and we are agreeing to a [indistinct] and so on, we now need to focus on 5g because actually, by the time we get to around giving the spectrum, the 4G, everybody will be focusing on the 5g spectrum. But for 2 years, we have been having this debate. So, you know these things don't
15 help. We are going to option spectrum, which is also an additional cost versus, you know, the way you pay in your licence fee. So, things are changing and regulatory certainty is also really needed for Telcos to invest. It doesn't help when people say, oh, we may take back all the spectrum in 2 years. Okay, we moved form that and we managed to find and agree with softer, but the
20 nervousness the it creates is not good for the Telco industry.

So, for prices to come down faster, we need to drive down the cost to carry. So, what will help us to drive down the cost to carry, firstly, high-demand spectrum as we call it should be assigned and usable as a matter of priority. It is extremely important that we get access to those spectrums, not just for us, but
25 for all the Telcos so that we can drive right on the cost. Obviously, the bigger

you are, the more constrained you are. And therefore, basically, so you are using up more of your capacity. So, your costs are actually start to get higher because you are having the carry that traffic at an in optimal cost.

There needs to be effective duct and pole access, I have spoken about that, I
5 won't [indistinct] the point. Measures should be put in place to ensure that after deployment, the new legislation does talk to it. So, it is positive in that respect. But also, there needs to be create a certainty. I would say, let me just say from a regulatory perspective, we seem to be on a better track in that we now have a directive in terms of the allocation of spectrum, we have a hybrid model. So, we
10 are going down the right track. That said, the directive now and the ECA proposed Amendment Bill are inconsistent. So, on the one side we are going to basically give options spectrum, on the other side... So, that's an open access network and the network is going to buy capacity. On the other side they are saying, but, if you do get buy spectrum, you have to make that open access as
15 well. So, essentially some of the concerns and the way it is [indistinct] is that the one can buy capacity from us and sell it back to us. So, you know, it's just those kind of things need to be addressed. We have highlighted it. There is comments that are out there, but this level of certainty is required.

In terms of price per meg and data utilization; prices have come down 21% over
20 the last 5 years. You will see last year, it dropped 22%. Traffic however, is growing by 52%. So, this is where the issue comes in. Your traffic is growing by 52%, but you don't have access to spectrum. So, you are spending and this year we are spending 9.2 billion in our network in South Africa. So, you spend the 9.2 billion, but you could have spent it a lot more effectively if you, and you
25 could have addressed different cost elements if you had access to spectrum.

The types of views that we have are different. So, we have people that are 1st time users, they use data infrequently, they use small data packs and so on. So, when we design our pricing, it's designed for different types of users. It's designed for small users right up to large users using massive amounts of data.

5 We also have customer who only use social media, so we only have social media bundles and so on. In determining our pricing, we also look at bundle sizes. So, the bigger the bundle, the lower the rate, but the shorter the validity period, the lower the rate as well. So, hourly data, daily data, weekly data is cheaper than the monthly data. We also look at the commitment, are you buying
10 a recurring bundle and so on. And I think that's extremely important as well.

So, just to give you an idea of basically, when we look at pricing... it's interesting when people talk about the price of a gig, because the question is, what is the price of a gig? Is it R12 which we charge for an hour for a gig. R29 which we charge for a day, R79 for 7 days, R99 for 2 weeks or 30 days for
15 R149 which is actually 2 gigs, so R75 a gig because you get a gig at night as well. So, you can see, your effective price goes down. The interesting part about this is that, the customers, basically, a lot of customers buy hand to mouth, they buy daily bundles or they prefer to buy daily bundles. So, to put into perspective, 80% of prepaid customers buy shorter bundles. So, they prefer
20 hourly, dailies and weeklies. And that has become a big part. Contract customers on the other hand are different because it is inherent in their package, 25% of contract customers only buy hourlies, dailies and weeklies. 75% buy the longer form which is monthlies.

Bundle sells are also important. So, when you buy a package or prepaid, you
25 essentially will buy a bundle. So, the number of bundles that we now sell are

766 million bundles a year, 61% of all customers, of data customers buy bundles. We have a 44% increase in bundle purchases year over year. We also make sure that we give customers notifications to help them stay in bundle and tell them when they are about to exceed their bundle so that they can purchase
5 a new bundle and not experience out of bundle rates. Out of bundle rates are being dealt with in the ICASA and user subscriber charter. And Vodacom is now ready to basically implement those.

When it comes to... to give a little bit of insight into how customers buy. So, I think firstly, customers will walk into a store. Generally, they will 1st select a
10 device, then they would sign up for a deal. They will choose a plan that best suits them. So, it could be post-paid plans, hybrid plans which is a hybrid between contract and prepaid. So, you have committed some as an example, you buy R500 and then after that you buy prepaid vouchers and then you will have a pure prepaid plan. And then you will buy bundles as required. We also
15 have artificial intelligence learning tool called Just for You, which now caters for over 61% of what we sell. And basically, what it does is, it personalizes offers based on your usage profile. And your machine learns and it adapts the offers. It's what we call one to one offers. We also then have a number of free services, everything from free Facebook to jobs, to education, to health content
20 and so on that customers also enjoy.

Important part as well is the availability of devices. As I was explaining, we have got 80% 4G coverage going on to 85% 4G coverage this year. But the access to devices because of the price point is high is still a problem. So, typically a 2G to 3G device, sorry, a 3G device costs \$28 to \$30, a 4G devices cost \$65. We
25 are trying to drive the cost down of the 4G devices so that we can get further

penetration which then helps us to optimize how our capacity on the network, so, we using the 4G network for data which then alleviates the 3G customer base. So, the way to think about it is, the more 4G customers on the network, what will happen is, we are using that capacity which is a cheaper form.

5 Secondly, what will happen is it will alleviate the pressure on the 3G network. So, it means that those customers also enjoy a better experience.

The one thing panel members that I would also like to also point out is that, there is a perception in South Africa that phones are free. That phones don't cost money. The new iPhone basically, the cost of the new iPhone is R30 000.

10 Now, when you look at pricing, you must also accept there is a recovery of the phone price built into the 2-year contract. So, when you look at 2 contracts, that's the part now. A few years ago, the average price of a cell phone, probably 7-8 years ago, average cell phone price is about R2.5 to R3000. Now, the biggest cell phone like your iPhones and your Samsung notes and your S9s
15 and these type of things, the price of a phone, so these phone start at 15 000 and go all the way up to R30 000 a device. A customer doesn't understand it. He thinks it's free. Exchange rates don't help, and the exchange rate is weakened by over 50%, closer to 80% in the last 6 years. So, essentially all these devices have become more expensive and also in that it plays a big role
20 in network equipment because you get less bank for your buck. You can't get as much network equipment as you would have when you had a stronger exchange rate. So, these things also play in the price part because if you are charging R1000 a month, a big portion of that in some cases, as much as 60% of that is just to recover the cost of the phone. So, you have got say R600 for
25 the phone and R400 for the actual service.

Also, we have a number of things that we do to ensure that we are giving free access to content specifically to help the lower ends of the market as well. We have a number of job portals that are free, a number of health sites that are free, we have our own e-learning part where we have put on all the syllabuses
5 on to what we call Vodacom e-learning. We have made that free. We have 3100 schools where we have connectivity and so on and all of the universities or at least it is offered to all the universities, 20 out of the 26 have taken it up. But essentially have free access to all education portals for access to university information. We also have specific solutions where we basically try to create
10 products and services that speaks to the lower end of the market. So, we have a platform called SIACA where we make a number of things free and provide cheaper data and so on. We have 7.5 million people connected to the SIACA platform. And that gives you the access to you know, free job sites and so on. We also have in SIACA a million women who basically joined in what we called
15 the mom and baby solution, where we provide information on pregnancies and so on and various steps and so on to help you through pregnancies, but also on young children. It is a very well frequented site and obviously, we make it free as well.

In conclusion, I think, let me, maybe just to summarize again. Investment is key
20 to Telco. So, it is important that if you want to be at Telco, you have to put the level of investment in. I think that is crucial. So, that's the 1st part.

The 2nd part, if Telcos don't have access to spectrum, it does put pressure on cost. You cannot go 14 years without access to spectrum and so on.

And finally, prices are coming down, they will continue to come down. But it is important, if I can leave you with one thought. For prices to drop faster, your cost to carry has to drop. So, we are not making exorbitant margins on it. You only need to look at the growth rates of the Telcos in South Africa to understand, their days have long passed. The issue is that you have to basically drop the cost to carry a gig of data if you want a gig of data to drop. And obviously, any help that you will give in that respect will be appreciated because prices must come down, will come down, will continue to drop prices, but we do need help.

10 Thank you.

CHAIRMAN (MR MAJENGE): Thank you very much Mr Joosub. Mr Aproskie.

MR APROSKIE: Hi, good morning, thanks very much. Maybe just to start from my side. So, you would have seen that the 1st sort of guiding question for today was, are prices higher than they ought to be in South Africa. And just in your submissions, you have addressed the question in a certain way. Let me summarize what I think you are saying and you can tell me if you agree. And I don't have every page referenced here because of the updated report that we were given or the updated submission. But, my understanding is that Vodacom is saying that given all the factors, these are the cost factors, the factors that you have mentioned such as spectrum and regulatory uncertainty, and given all of the factors that you are dealing with and these constraints, you say, prices are in line with comparable countries. So, my understanding therefore and is this correct that the fact that of you saying that given all the constraints that we have in our industry, pricing is as good as it can be?

MR JOOSUB: No. So, let me emphasize. I think when you firstly when you look at pricing, it is important that you look at effective pricing. What effective pricing is, is that you take the revenue divided by the traffic and that gives you the effective of a meg of data, and you use that as a comparison because, if you
5 look at... because honestly sometimes it can be when people are doing comparisons, there is various things that you comparing across networks. So, an example would be, let's use the 1 gig. What are you comparing? The R149 for 1 gig, or you are comparing the fact that it is R149 for 1+1 gig. So, it is actually 2 gigs. So, people just choose to ignore that. Another big that gets
10 ignored is all the promotional activity which is very much part of the Telco sector. And customers know how optimize that. So, that's the one part.

I think that prices should come down, can come down, but you need to drop the cost to be able to do it. So, that's the important part. So, if you want to compare across countries, you must also look at what the... do they have access to
15 spectrum and so on. So, I mean, you will see prices have dropped 22%. It will drop again by those big percentages again this year. But if you want to drop it even faster, then basically you have to drop the cost the carry a gig of data.

MR APROSKIE: Right, okay. So, I don't think we are too far apart on this. But I suppose I am saying my understanding is that you are saying, given all of these
20 constraints and South Africa has got all these constraints that other countries do not have. So, this is not saying if you compare 1 gigabyte from South Africa to another country, but it is effectively, you are saying the price point across all your product, effective prices as well where you have arrived is good essentially. It is not high as it should be, you are dealing with all your constraints
25 and your prices are effectively as low as they can reasonably be.

MR JOOSUB: Ja, I am saying, we are trying to bring it down, but we are trying to bring it down at a certain pace because, yes, we want data to be cheaper. And the reason we want data to be cheaper because, honestly, it encourages more utilization. Right, so you get more utilization as well. So, you are getting
5 the more utilization out of the customer the more confident feels about the pricing.

And also, in South Africa, we have an over-dependency on mobile. Which is also a big factor that we need to take into account. And the reason why we have an over-dependency on mobile is because we don't [indistinct]. So, you know,
10 our total number of fibre is something sitting like something like 900 000 with something like 300 000 houses connected out of 16 million houses. So, we need more fibre on the one side, okay, to be able the deal; with data needs. On the other side, we need prices to continue to come down. And I am just saying that the rapidness of that price decline is very much a factor of the input cost
15 associated with it. It's like everything in life right, if you buy a cup, you can only sell the cup for... you have got your cost of producing it, and you are going to sell it at a margin. You need to drive down the cost of manufacturing the cup if you want the cup to be cheaper. And yes, if you drop the price of the cup and you are going to sell more cups, you know. And I think that is just the reality.

20 **MR APROSKIE:** Right, and then, so the factors that you mentioned and I will run through a few of them; capacity constraints stemming from authority is not executing on the digital migration and the assigning of high-demand spectrum, the lack of effective facility to gaining access to ducts and poles, sufficient measures to ensure rapid deployment, regulatory uncertainty and you have also
25 mentioned smart phone costs and the exchange rate. So, my understanding is

those are all cost factors from what you are saying, that's driving your costs and you are saying if your cost to carry is too high and then your prices will be higher. And if you bring the cost carry down, then your prices come down. So, is also my understanding from that is those are the drivers, and for you there is no
5 competition issue in the sector that will be driving prices up or higher. Let's say in the way you answered, prices aren't coming down as quickly as you would like.

MR JOOSUB: No, there is no... the competitive elements in there is obviously some entities like Telkom who have a lot more access to spectrum and because
10 they have got bigger chunks of spectrum for historical reasons, having been part of government. That said, they don't have access to low [indistinct – man? band?] spectrum which I am sure my learned friend is smiling at me will point out later today. So, that's the reality. So, they have got their constraints, we have got our constraints. But essentially, the only issues I would say is, there
15 isn't a competitive problem as such. It is more, if you want data to drop, drop the costs.

MR APROSKIE: Okay, thanks, we will talk more about that in a few moments. I just wanted to clarify the various constraints or cost drivers that you have talked to, so the idea here is that you are saying, and it seems to be quite a firm
20 statement that if you resolve some of these; depending on obviously, the extent to which you resolve them then you will see prices coming down faster. Because you are saying prices are coming down, but they will come down faster if you resolve some of these things.

MR JOOSUB: That's correct.

MR APROSKIE: Okay. All right, so obviously the factor that seems to be the most important which we know of, and this is true for MTN as well is the spectrum issue and the scarcity of spectrum which you have talked to today. So, it was on one of your... we are aware of confidentiality, it was on one of
5 your slides, you have dealt with it more in your written submissions in more detail. But the one thing that you have said from your slides is that you say, because you have got spectrum scarcity you have to manage prices so that you don't have quality issues. And therefore, the question there and I suppose this is what you have agreed to already is that if you get more spectrum and you are
10 allocated more spectrum, you have less scarcity and you don't have to manage it as much with prices and therefore prices come down. Is that right?

MR JOOSUB: That's correct.

MR APROSKIE: Okay. Can I just take you to, or can you take me to the slide that you presented with the effective pricing and the volumes over time? Ja, that
15 one. So, when I look at this and you can tell me I don't understand this necessarily, but on the right hand side where we have got total data traffic in millions of megabytes, you have got a very substantial growth there, an annual growth rate of 52%. Now, I suppose I would like to understand especially spectrum hasn't been released in the last 14 years, perhaps, this is my
20 understanding that, is that drive, that volume increase over those 5 or 6 years, is that driven by the fact you will be able to re-farm spectrum into 4G, or is it driven by investments infrastructure and all of that. But effectively you have managed to increase your capacity despite the constraints over the last sort of
5-6 years.

MR JOOSUB: So, basically what you have done is... so what happened back in 2012, we decided to basically re-farm spectrum as we call it. So, basically take the 2G users, squeeze them into less spectrum. Now, that has its own cost implications because you are squeezing it into less, which means you need to use radios in order to cater for that. And you free that up for, we free that up for data. And then we started to invest in the data network. So, we typically what we call, we use the 1800 spectrum. So, we had 900 bands, 1800 bands, 2100 bands. So, we squeezed customers in the 1800 band, took some spectrum away from 1800 band and launched 4G4G in that respect. Now, what then happens is that your data demands start to grow quite significantly. Why it is important is that the 3G networks, you are just going to add more sites. The biggest problem in a 3G network is that when you are putting on load, basically the cell is shrinking. So, you have to build many more base 6stations to be able to cater. And still today, a lot of the traffic is... most of the traffic is still on 3G3G networks because of the price issues on the devices. So, you are building out the 4G coverage. So, you are also investing because you have to build out and say, okay, the customers will come. And then you try and drive down the cost of the device. But that is subject to world demand pricing and so on. Cheaper you can get the device, the more the demand on 4G goes up. That helps you with your cost factor of getting people onto the 4G network. Which means, you don't have to build as many 3G sites. And that drives down your underlying cost.

MR APROSKIE: Thanks, and then this is me not a Telco person until the last few months; so you are talking about demand here. I suppose I would like to differentiate between demand and volume. As economists, we think of increase in demand that there might be a new product. So, for instance, speeds increase

or technologies change, so you can get a greater speed then the product becomes more attractive and therefore you will demand more than you would otherwise because it is effectively a different product. But then you also get a demand shift or a volume shift that just comes from lower prices. What is driving
5 here, this increase in data traffic? Is that a case of increased speed that has come from 4G or is it a capacity change. It's something that says we can now deliver more volume at lower prices so people will naturally buy more.

MR JOOSUB: It's a bit of a ... it is a few factors actually. Firstly, it comes from if we start with the consumer. I think we need to appreciate that data has now
10 become an inherent in all our lives. So, coming here this morning, using ways the get around the traffic as an example. Data, or you wake up in the morning and you are now looking at your social media part, your WhatsApp, your Facebook to see what's going on in the world. So, it has become more inherent into people's lives and the demand on data is growing. And what people do with
15 data, the use case are growing quite significantly. So, that's, so customer demand is from this inherent global trend of data becoming more, let's say more inherent, dominant in our lives. So, that's the one part.

The 2nd part is the obviously as you drop prices, yes, your demand does increase two-fold. One is, as you drop the device price, your barrier becomes
20 less and that effectively increases your data devices go up. But also, the, you know, as you drop the prices of data, your volumes do go up as well.

MR APROSKIE: Okay, thanks. And so, what you are saying I would also anticipate if you are looking at the amount of data used per used or per subscriber will be increasing, probably not as much as that because you are

getting a few new subscribers as well. But per user, you are getting a substantial amount of data that is being used over time as well.

MR JOOSUB: Yes, that's right. But you can see the revenue per customer is coming down.

5 **MR APROSKIE:** But, I suppose that revenue is not coming down per customer is not coming down as fast as the volume per customer.

MR JOOSUB: Correct, so you get your volumes going up, your prices coming down and then you are off setting it with the number of user growth as well. So, you can see there is 3 elements that normally determine your customers' growth. So, your factors are your customers' grow, your usage goes up and then your effective price plays a big part. So, the 3 measures is what determines the revenue of a Telco.

MR APROSKIE: Right. And if you could just go back to the slide with the effective prices and volume. Thanks. And just to check that effective price per megabyte on the left, is that a price per megabyte actually sold or per megabyte used? So, is it revenue divided by usage or revenue divided by what's purchased

MR JOOSUB: It's revenue divided by usage.

MR APROSKIE: By usage.

20 **MR JOOSUB:** Ja.

MR APROSKIE: Okay, so if I am looking at this and you can correct me if I am wrong.

MR JOOSUB: Sorry, just to explain. It is total revenue divided by total traffic, gives you effective price.

MR APROSKIE: Okay. So, if I am looking at these 2 graphs and I am seeing the effective price coming down over time, that must be driven and I think you
5 have said that, it must be driven to a larger extent that volumes are increasing right because you have got value divide by volumes, volumes are increasing substantially, so this must be driven in part by your volume increases.

MR JOOSUB: It is driven by that, but it is also taken up by people buying. So, you have a number of different effects right. So, you have the price itself coming
10 down, but you also people buying bigger bundles. So, as people buy bigger bundles, the rates get cheaper, okay. So, basically what then happens is the effective price drops. So, that plays a role as well. And then we have a lot of personalised offers and also daily, weekly, monthly. So, people are optimizing and buying different things. And obviously a lot of promotional activity as well.
15 Buy 1 gig, get one free. That type of thing all plays a role.

MR APROSKIE: Okay, so and like you have said one of the drivers of that is people buying bigger bundles. So, are you ... is part of this trend seeing users move, [indistinct] existing subscribers are moving into high-volume products they buy much bigger bundles that you may not have offered before, but you
20 now offer because you have got the 4G working, you have reformed spectrum, there are and bigger bundle offers that perhaps you couldn't offer before.

MR JOOSUB: So, your bundles take the form of different things. So, you have got bigger bundles for the day, you have got bigger bundles for the week, you have got bigger bundles for the month and so on. So, that's the one part. But,

so just to give you an idea. I started using, I used a 100 megs in my 1st couple of months. Then I start to discover WhatsApp, I go to 150 megs. I discover Facebook, I go to 175 megs. I discover YouTube, I go to 300 megs you know. So, these are the type of, I decide now I want to watch a video online, that gives you a different utilization. So, all of these factors, people are discovering more, using the internet more, using apps, you know, you get apps for everything now. And all these things start to... apps for travel, apps to getting around the traffic, you even get apps for sleeping you know. So, these things all, you consume data.

10 **MR APROSKIE:** All right, okay. I suppose before the next question just to go back one step slightly. You were talking earlier on about how you have got, you have a 1 gigabyte bundle, but it can be offered in various different validities, commitment that has been made. I mean, has that been a strategy that you have implemented over the entire period on this figure or is that more recent?

15 **MR JOOSUB:** It's become inherent, I would say probably in the last 3 years in artificial intelligence, in machine learning has definitely been one of the stand-up features of giving.... And we have seen huge success with that because customers have very much enjoyed in getting more value for cheaper based on their personal consumption and usage patterns.

20 **MR APROSKIE:** Okay, I suppose my question is, from what we have talked about and looking at this, my understanding would be that, to a larger extent, the increase in capacity and the technology changes that have allowed you to deliver more data, so on that right-hand side. It seems like what happens from this to a larger extent, maybe not exclusively, but to a larger extent as it builds

in like you said, it builds in to... well, let me say it in a different way...where it impacts your effective price is that you have got people effectively buying more data, you have got people buying bigger bundles, you have got more high-volume consumers or less consumers becoming high-volume consumers. So, that effective price is really being driven by people's choices in terms of what bundles or how much data they decide to purchase and knowing that high-volume data is cheaper than low-volume data. That seems to be my judgment from this is that your capacity, the fact that you are able to carry more that's actually being passed on to people in that sense that they move to high-volume usage patterns. Is that right?

MR JOOSUB: So, firstly, maybe just to reiterate. Firstly, when it comes to data traffic, so, the way I would think about the right-hand side of the graph is that what you need the capital investment for. So, you need the capital investment to be able to cater from this massive traffic growth. Now, one of the things that Vodacom does is, because we are part of the Vodafone broader group, we do have access to all optimization technologies. So, I mean, you can think about the Indian market and the amount of capacity and so on, and also, spectrum constraint and so on. So, we take all of those learnings and we implement it, and we use technology to the maximum degree to try and optimize within a spectrum constraint or frankly put, no spectrum environment. You are trying to optimize as much as you can all of these [indistinct]. So, that's on the right and that's where the 9.2 billion levy is for.

On the left, you have done a couple of things. So, you have dropped the prices on certain things, you have created smaller bundles to deal with, so that you are also helping the smaller consumer who is living more hand to mouth and so on.

So, you have created everything from hourly bundles to daily bundles to weekly bundles and you have made it cheaper, okay. So, you have driven down your cost. And then you have driven down certain price points. So, competition forces us to drive down certain price points. So, we look at the elasticity of demand, we also look at, frankly speaking, we look at, are we losing customers, are we gaining customers, has the rate of customers that are converting or using data or the amount of data that they are using or are they deal simming, are they using more than one network because many customers have more than one network as well, can we get more of the utilization and so on. So, we take all these factors into account and then we have to, in a normal competition environment and then we say okay, maybe we need to change this price point and so on. So, it is a combination of things. It is that they are buying a bigger bundles, it is that we have driven down the prices, it is that we have introduced new things like hourlies, dailies and weeklies, it is that we introduced new price points that will increase demand and so on. And also, that we have [indistinct] campaigns, these type of things to try and get utilization. Also, we need to dynamic pricing certain things in certain areas. There is areas in the country were we are severely constrained spectrum-wise. There is areas in the country where we have less spectrum or less market-share. So, we can be a little bit more flexible I certain areas than we can in other areas.

MR APROSKIE: Okay, so I take your point on all of that. You have got a couple of factors, you have got people buying more bigger bundles. But you have also got some of your strategic choices around selling bundles with low validity periods, and that is part of also why effective prices have come down. But I suppose the question is; if you have someone who knows that they want

to buy 1 gigabyte every month and they want the 30-day validity and they buy 1 gigabyte, and I take your point that there is lots more to this in a 1 gigabyte bundle for 30 days. But, for that person who knows what they want and they know they want 1 gigabyte for 30 days, if that person is looking at this and not
5 seeing any benefit from the left or right-hand side of that paragraph, they are still seeing the same price from the last few years, which is the R149 per gigabyte. So, I suppose my question is, I mean, how is that person the effective prices are coming down, and that looks good. But, for a specific consumer who is on that kind of bundle and who is not changing his consumption patterns and
10 it suits him or her, that person is not seeing the benefit of the capacity change of the technology change of optimization.

MR JOOSUB: They are, they are in the form of the promotions that we put it out all the time. So, an example would be, there is a promotion currently running at the moment called Data Bonanza, buy 1 gig and get 50% off the next one. So,
15 and that is for customers. So, that is basically all. Or, buy through the app and you can get the gig cheaper or buy a gig for the week and pay R79, or, what we have done is added a 2nd gig in for the night. So, those are some of the changes that have happened just in the last couple of weeks on those ones. But that happens all the time. So, you know.

MR APROSKIE: But I suppose my question is, what this is saying and what you are saying is, to some extent you are happy and able to decrease your cost to carry, and the is why your effective prices are able to come down as well. Why don't you stand to see that benefit and pricing across all your products? Maybe they are on special offers or on shorter validity periods, and I know I am
25 focusing on it because it seems to be a point where comparisons are done, but

the 1 gigabyte 30-day has been, at least at a headline level has been flat for a number of years.

MR JOOSUB: So, one of the difficulties in a Telco is that if you re-price, I mean, just to put it into perspective, if you take a prices down by R1, okay. So, say we
5 took down a price down by R1, that's a R540 million to the bottom-line. Okay, just on your, that's across the board now, just using you 45/46 million customers that you have today. So, that's the impact and you have got to manage it and you have got to manage it. So, one of the big things that we do, just to give an
10 example, one of the points were we have been taking a lot of pressure is on the bigger bundles from my friends Telkom sitting here; we re they have driven the market prices down. That's competition. So, we have to basically get our act together. Not very good for us in the sense that bigger buy data bundles selling 50 gigs, 100 gigs had serious issues on the network. But we are losing those customers. So, we had to then say, okay, how can we be more competitive in
15 that space. Now, when you have just dropped the price immediately, what then happens is the entire base will re-price. So, you have got to manage it, and essentially say okay, I am going to drop these price point and I am going to drop those price points. So, it's difficult in a Telco to manage all of that because otherwise other customers will... so, you have got to drop, you have got the
20 volume up, you have got to get the price down, you have got to deal with the price points where you are losing customers or you are not as competitive. So, you have got to balance multiple different factors. So, to be honest, it is complicated. So, you can't just say right across the board you know, it is R1 less or R5 less or R10 less. I mean, if you took R10 across the board, that is 5.8
25 billion something like that.

MR APROSKIE: I take your point that there is a lot of complexity involved. I suppose my final question on this is getting back to the issue of spectrum and say, if you assigned more spectrum and your spectrum scarcity are solved or released in some sense, the question then becomes, are we going to see
5 effective prices coming down, you have said that, or, come down more than they are now, are we going to see benefits across, benefits in terms of price changes, across all your products or is this really going to concentrate on your high-volume products or the low validity periods? I mean, can every Vodacom subscriber user expect to see a change in the prices that they are not adjusting
10 their volume patterns?

MR JOOSUB: Yes.

MR APROSKIE: So, you would see or expect to see a 1 gigabyte 30-day bundle to come down in price if you had a lot more spectrum?

MR JOOSUB: Correct. So, basically what will then plan to do is to bring down
15 the pricing. We have got to manage all the complexities, and also, we have to manage that if we have got spectrum tomorrow, with have got to roll it out 1st then you have got to take it through the 13 000 base stations across the country. So, it doesn't all happen immediately. But yes, it does, to drive down your underlying cost and then you will costs and you will then start to bring
20 down your different price points. I mean, we are also aware of where all the pressure points are, right. And that something like the 1 gig price point is the one the people are always comparing to. So, that one will be one that we plan to address. It's just, how much can you address at the same time trying to build that virtuous circle right because you have to also get... you have to put the

investment in, you have to drop the prices and you have to get some sort of returns so that you can continue to invest.

MR APROSKIE: And maybe just to press that point slightly more, I mean, would you see, would you expect to see if spectrum was released, would you intend or expect to see prices decreases on the very small out of bundle rates. So, I don't think you were here yesterday, but you would have heard some of the few consumer rights groups [indistinct] talk about the price of data for low volume consumers. Would you see a change right across your pricing plans?

MR JOOSUB: Ja, we already do that in respect of the smaller bundles and so on. You can see it has dropped quite significantly there. It will be, it will definitely be, I would say, across the board. So, you would see the benefit of that coming in. I would say that, here is the issue, are we going to be sitting here in 2 years' time having the same discussion because the spectrum is still not allocated or, and with the operators trying to manage all of these complexities in bringing down the prices, the consumer pressures and all of these type of things. Customers want data to fall faster. And they are right, but we need the help to be able to achieve it. Here is the other opportunity, here is 5g. 5g is, are we going to be a leader in 5g? Remember, South Africa has been at the clasp of these, we were one of the countries in the world to launch a GSM network. We invented prepaid for the world. Now, we are going to be sitting back and we are saying and having the same discussion for 5g that we are going to be sitting 5/6 years later after everybody else got spectrum, having the debate or we are going to licence it early because what it does do; 5g General Secretary you the ability to emulate what fibre does. In my mind, 5g basically gives you the ability to do unlimited type offers and so on. It is big capacity pipes, it is optimal data.

South Africa should be spring warning and saying, you know, let's put 5g technology as soon as it is available because it will help us to get fibre-like connectivity more cost effectively to everyone. So, that is what I would do if I was Minister.

5 **MR APROSKIE:** I take your point. Just the last point on the pricing question, I just want to take you to your written submissions, I hope I have got the right reference because I am working off a slightly earlier version. Page 47 in the annexure. So, it is on my page 47, it might be on a different page in the newer version of this written submission that's under the heading ICASA, 8.2. ICASA. I
10 will just read the 1st couple of sentences for the audience. But here Vodacom is referencing a study by ICASA and this is just an example. So, I suppose to this before I talk to this is that I experience with Vodacom submissions on this question of pricing and how prices in South Africa might compare to other countries given of course that there are a lot of concerns and complexities on
15 how you compare across countries. That tis quote from ICASA retail tariff report says:

The benchmark findings show that South Africa does not have the most expensive prepaid data bundle prices for the 500 megabyte, 1 gigabyte and 2 gigabytes in the SADC region. It is also not the cheapest. However, its prices
20 are below the average price of all the SADC prices across the categories.

And it's something that comes through to the [indistinct] economics report that has been submitted to us as well that there is this... what seems to come across is, whether it is a Frontier or a Frontier representing Vodacom is that Vodacom is comparing South African prices to average. So, it is an average in

Africa or it's a trend line set across various factors and where Vodacom or South Africa, where Vodacom says South Africa falls above that average that's seen as something good and it says something to say that our prices are okay.

I suppose my question is a philosophical one particularly within Africa, is
5 whether we should be comparing ourselves on an average or not comparing ourselves against the best. I suppose, why is the benchmark the average, why shouldn't it be something like the best or a group of the best countries in Africa or even across the world?

MR JOOSUB: Okay, I think that's a very good question. I think the reason we
10 compare to average is; we are not saying we are the cheapest, we are not saying... and that's where the average becomes important because it looks at what is the most expensive, it looks at what the cheapest is and says how do you compare to the average. So, that's the one part.

That said, I think it's fair to say we should be comparing ourselves towards the
15 best? I don't think we should be comparing ourselves to just the best in Africa, but we should be comparing ourselves to the best in the world. That said, we have to take into account all the factors; does those countries have access to spectrum. So, it's in the GSMA index it is actually quite interesting in that respect because they do, which is different to what ICASA does, they do take
20 into account the factors of spectrum and so on and so on. So, and you will see we also compare... South Africa compares very favourably in that report given the constraints that it has. Now, for me, we need to be looking at, but you have to come back to the virtuous circle that I keep talking about because we have countries, honestly, we have countries that we have lower prices. But we also

have lower level of investment. We don't have the level of investment, we don't have level of penetration, we don't have the quality, we don't have these types of things. So, that is factual. You have to be able to get the results. The 99.8s, the 99. So on coverage capacity, speeds that you get and so on. You have to invest. So, ja you can drop the price, but you won't have the level of investment to be able to put in, you will have crappy service like you do. To be honest, I am not that impressed when I go to the States as an example. I think the networks are atrocious when you compare to our networks here. As many times you can't even use the phone properly. So, that's the one part. So, you have got to look at all the different factors. And yes, you have got try and bring your prices down to the best. That's it. But also, try and bring your cost down to the best. So, I think we need 2 charts, cost and price. And it's fair to say if your costs are comparable, then your price should be comparable as well.

MR APROSKIE: Thanks, I think that's fair. Just moving on to the topic of competition that we touched on earlier where we see most parties making submissions to this inquiry and into the hearings, I was saying whether it is internet service providers, whether it is Telkom or Cell C and [indistinct] markets, findings documents, there seems to be a lot of strong views expressed to us in submissions to us that the mobile market is not competitive. I know we touched on this briefly a moment ago when you said you know; everyone faces their constraints. But it seems like people at least describing to us is the mobile market is largely a duopoly between Vodacom and MTN. Is it your position there are no competition issues in the wholesale and retail markets within mobile?

MR JOOSUB: There is competition issues and I assure you Telkom saying there is competitive issues later on. Sorry, Theo I see you there, just picking on you. But the reality is that there is certain constraints, the constraints are around fibre, the constraints around ducts and access to facilities. There are some, so, 5 to give you an example. The facilities, there is a lot of good things that do happen. So, let's also be fair. Sites facilities, these things are shared. We share with all the operators. So, a lot of us share. An example would be a base station, we typically have 3 or 4 tenants or 5 tenants essentially because we try and optimize the cost. We are trying to optimize, one of the big issues as an 10 example is battery theft. So, we are trying to do armed response together, these types of things to drive down the cost because we are trying to see how we can deal with the issues. So, there is lots of areas I would say there is cooperation. I would say there is more than can be done with access to ducts and poles. Not just from Telco but from anybody for that matter. I think that would definitely 15 help.

Coming back to the wholesale part and the retail part, so, I think the other thing that's important to realize; if you look at the Vodacom capacity constraints, it's important to realize that Vodacom has carried Cell C for 18 years on its network. So, they have got spectrum, but they are using our spectrum customer 20 remember, they don't use their spectrum on our network, they use our spectrum. So, we are even more constrained in terms of that. And Telkom has been using MTN's network. So, there is, that's the best part of wholesale. We are using [indistinct] network because we are capacity constrained. And so, you know, there is a lot of cooperation from that perspective. The smaller players 25 like, I saw some of the comments from yesterday, they are saying, listen, we

need better wholesale prices. Yes, I can give you better wholesale price, but I don't have it to give you. I don't have the capacity to give you, I am struggling for capacity. So, what do you want me to do? Make my situation even worse? I am having to go to Rain to ask them to give me capacity because I don't have
5 spectrum. So, you want me to see something I don't have? Snakes.

MR (not sure of name)?: Sorry, just one moment, I don't know if we need to do an oath or an affirmation.

CHAIRMAN (MR MAJENGE): He is a legal advisor.

MR NYOKA: So, on the question of whether the South African Telco's market
10 is a duopoly or not, factually it isn't a duopoly. It's a fact that Vodacom has, I suppose about 45% market-share and maybe MTN in their 30s. But you also have players like Telkom Mobile as you do have Cell C. But, fundamentally a question from my perspective, if you are talking about whether the market is sufficiently comparative, how do you measure that? Do you measure that by
15 virtue of the fact that you have 7-8 competitors in the market? Now, it's a fact that Vodacom has a presence in a number of countries across the continent. And if you take Tanzania as an example, theoretically you will be told that you have 8 competitors. The question is, where do you find those 8 competitors operating. And typically, you will find them in the major cities. When you talk
20 about national coverage, it will ultimately be the bigger players. But we are seeing as a trend not just across the continent or around the world, there was a point when it was fashionable in the TELCO space that you must have as many competitors as is practically possible. But even advanced economies such as the US, Germany, UK, what we have seen over the last 10-15 years is a

reduction of the number of competitors. From about 6-7 on average to about 3. And the question is, why is that at play? I think it's at play because a capex intensive industry. And then ultimately what you will have, the smaller players who really can't afford to invest as much as your consumers would expect; 5 would be absorbed into the bigger players. And I think the buzz word today in telecoms across the continent in different parts of the world is consolidation. And consolidation is prompted by the fact that there is recognition that for CAPEX intensive industry and not just limited to TELECOMs, you will always have a huge challenge trying to promote a policy of licencing as many operators 10 as it practically possible.

So, South Africa not so long ago artificially licenced the user and I think there was a multiplicity of that. And it didn't take long, maybe one or 2 were successful. But today there is possibly non-existing. It is also true, if you put a question to the authorities in South Africa about a number of TELECOMs 15 licences that are available in South Africa, the number would be 250 or so. But in reality there is about 5-6 players that are competing in the market place.

MR BELLIS: Maybe just to add to that, I think it's you know, from a wholesale perspective, if we have the capacity, it is easy to be able to say let's do more in terms of reselling it. But, if you don't have the capacity, then you are severely 20 constrained. And we do a wholesale a number of the elements of the network where we do have it. Whether it's sites where we try and sell to as many tenants as possible so that we can try and bring down our underlying costs to sharing in terms of fibre where we will anchor tenant on the creation of DFA because we couldn't get better prices from TELCOM, so we basically became

the anchor tenant for DFA which then basically supplies fibre to all the 250 providers that Snakes is talking about.

I think the other thing to just remember in South Africa is we have 6 Telcos, we have licenced 6 Telcos, these Telcos all have access to spectrum. From Neotel
5 now Liquid to RAIN, to Telkom to Vodacom to MTN to Cell C. the issue is, how much are you willing the commit and invest in your market in South Africa? Now, if you are not willing to put the capital down, then you can't play in the Telco space. Not you can't play, but you are not going to be as successful. One of the competitive elements is investment and Telcos are about investment. So,
10 I always say I have a rule, we put some of our [indistinct] some of the countries are for sell because if we are not willing to put the level of investment, we are never going to be a competitor. So, we have an operation in Nigeria as an example where we are a TELCO. But we cannot, we are not going to put in the level of investment then we shouldn't be there you know. And I think that's just
15 the reality.

MR APROSKIE: Okay, taking your words then, if you need to invest to be a competitor and you also said it in your opening remarks that you said the difference between the large players and the small players is investment and then investment gives quality. So, the smaller players I this market being Cell C
20 and Telkom and the broad understanding is they are investing less than CAPEX than Vodacom and MTN. Does that not mean from what you have said they are less able to compete with you because they are not investing in their quality as much as Vodacom and MTN.

MR JOOSUB: No, there is more need... so let me put it this way. Firstly, think about this way. Firstly, you have got Cell C on Vodacom's network. You have got Telkom on MTN's network. So you have got... they have the joy of using your network. So, when you go and roll out rural coverage, it doesn't cost that

5 cost you are going to get a return on in a short space of time. Or, there is that site you have to put up that you have to do because you are a TELCO in South Africa. They have that, they can ride on the back for free. Or when you have to cover a stadium that doesn't... you are trying to create capacity for 80 000 people for a game everyone then the rest of the week it does nothing until the

10 next game comes up. And they get the benefit of that. So, the sharing is there. The TELCO operators through roaming have access to that. So, that's part one.

Part 2 is the there is a number of solutions that you can operate on that has globally been deployed. If you are a smaller operator, one of the things that you can do is; we have what we call NETCOs. So, there is no reason why Telkom

15 and a Cell C can't get together and say listen, I have got 5 billion to spend, you have got 3 billion to spend, together we have got 8 billion. Because every TELCO is going to start building from Sandton out. So, you are going to start from the bigger cities and so on. There is no reason why you can't cooperate. There is no reason why Cell C can't talk to RAIN, can't talk to Neotel and say

20 look, let's work together to build these towers, let's do these type of things. So, they can; remember they have got access to the tower from us. They can still put the common set of equipment. Now, that's what you are seeing, trends around the world. People are doing more of that. Or, you have an alternative model which is effectively, you have infrastructure layers which could be your 4

25 or 5 operators today, and then you have your wholesale layer where you have

your MVNOs and these type of things. We have MVNOs in the South African market, but you can have more of that. Now, we have chosen a different route in South Africa. We have chosen to say let's open a wholesale open market so that the smaller players can combine their spend and should achieve it. So, this
5 should have been marginally happening naturally is now being forced into a model which basically says, people will share their capital investment in a one type structure. But, so you need that. So, your smaller players can go into the one into the future and be able to invest. But they do. I mean, we do have wholesale rates. There is options from Cell C, there is options from Telkom,
10 there is options from MTN for wholesale access.

MR APROSKIE: Okay, so I take right point that there is some wholesale access in that sense and roaming, MVNOs. But I suppose something that comes from Vodacom submissions is part of your strategy to be the highest quality or the best network and that seems to be something that the most
15 important to Vodacom in terms of your strategy. And one of your slides, one of the matrix for quality was speed and it was showing that Vodacom speeds are the highest or at least comparable with MTN with everyone else a bit lower. I mean, does that not point to the fact that despite this roaming and this wholesale access in that sense, despite that, Vodacom and MTN still have, let's
20 just say Vodacom, don't want to speak for MTN. Vodacom still has a higher quality of its network compared to Cell c and Telkom mobile.

MR JOOSUB: So, that is changing and that's because both Cell C and Telkom are starting to look at options to roam on 4G and so on and therefore, will have access. So, probably the modus operandi that the smaller operators were using
25 was essentially to say, we build our own 4G networks, right. And we will take

2G, 3G... realistically we will take the expensive part from you and we will do the more cost effective petty stuff ourselves. There is nothing wrong with that strategy, but that then gave them the ability to approach it in a different respect. And that's why you see your speeds are lower. But, the minute they start to do
5 4G roaming which is imminent, basically what then happens on both sides that then changes the landscape because then there is no speed differentiation.

MR APROSKIE: And then something that was pointed out by Research ICT Africa yesterday and a number of other submissions is that market-shares have been stable over time. That there has been relatively little change over the last
10 5 years between the 4 operators. What is your view of why that is? I mean, why haven't Cell C and Telkom mobile not been taken more from you or take more market-share from you despite some of their pricing and promotions.

MR JOOSUB: We, I mean if you look at both Cell C and Telkom numbers. They have both been growing. So, your customer shares are under pressure. Telkom
15 has been gaining every year. I think Telkom is at 5.5 market-share, so, they have grown... 5.5% is a big number. So, if you look at the results they are growing 30-40% a year. And I think if I was looking at Telkom mobile, I think they have done really well. Rain has become a new competitor, they have added a lot of customers, they are growing. Cell C, you know, their results show
20 that they continue to grow. And so, I think the ... let me just say, your growth comes from your customers on your base using more or using more traffic and so on. So, in my mind yes there is, and if I look at someone like Telkom, I think Telkom is in the position where they decide how much money should they put into their normal market which is fibre where they have 85% market-share or
25 how much market do they put into mobile where they are a new player. That is

a choice. They can put all their money into mobile, they don't have a lack of capital investment. They have a choice of where they put their money. Cell C is a different issue. Cell C, you know, needs more capital investment in my mind. They are doing it through roaming, but that's also a choice. They, you know, maybe they have a lot more suitors had the regulatory environment been better you know. Then there will be more people that want to invest into TELCOs. Rain has put a lot to of investment in and they seem to be doing quite well.

MR APROSKIE: When Telkom mobile decreased its price for the 1 gigabyte bundle to R99, a lot of submissions we were receiving were saying Vodacom didn't respond to that. And as you are now saying that Vodacom you felt would have responded to the larger bundles that Telkom mobile released. What is your view on that? Why didn't, if that is correct, why didn't Vodacom respond to the change in the price for that 1 gigabyte bundle from Telkom?

MR JOOSUB: For all the reasons that I have explained, it is very difficult the do everything at once. I had to put priority on the smaller ones, the daily ones, the weekly ones that type of thing. [indistinct] so, you look at the competitive part, you see where it's... we added a gig extra in terms of night data. Is that completely comparable? I think the consumer can basically judge. But you okay, we have had to respond in different ways. Through promotions, those type of things. So, you know, on some of the bigger ones, we also had to change the 2 gigs, the 5 gigs and what we call some of those bundles as well. We would like the respond, but I have to take in the virtuous circle. If I drop the price new, I will end up with a background loss which essentially means that I don't have the money the drop the prices for everybody else as you asked; do I drop it across the board. So, that's the issue. But also, I need the money to be

able to invest because without doing anything, with that traffic growing 50% a year, I need the 9.2 billion to put in to just keep up with the pace.

MR APROSKIE: I suppose is, sure with that R99, 1 gigabyte bundle was hurting you or constraining you, then you would be losing revenue anyway, so, therefore, you would want to respond. So, your response to me sounds like it wasn't affecting you enough that if you drop the price on the 1 gigabyte bundle, you would be losing so much revenue. If Telkom was competing with you in that specific part of the market and was taking customers out of the way, then you would think some kind of response or price drop would make up for the revenue loss of losing customers.

MR JOOSUB: Yes, and I have. I have 80% of my customers buying daily, weekly bundles. So, that's what this is my response. I introduced R12, R29, R79, R99 bundles. So, I have responded and I have added the extra gig on the top. So, I responded in a different way and you can imagine it is not easy sitting in a TELCO being able to balance all the factors. But these are the choices we make in terms of pricing and we have to measure it. And sometimes honestly, it is not the right choice. And then you have to respond and then you feel it in the one since biting you, and then you respond in a different way. But, you know, I would say the market is very competitive in the way that customers respond to what Telkom is doing. That is where they are growing. To gain 5.5% market-share and growing 30-40% in Telkom, you can't be an un-competitive market. And Cell C showing good results and saying that they are growing at the rates that they say they are growing can't be a bad result either. So, I mean, you also have got to look at you know, it's not logical to say, listen, I am growing 30%,

but the market is not competitive, but the m s not competitive. Then where are you getting it from?

MR APROSKIE: Okay, thank you. Last question on this before we move on because we are running out of time. Last question on competition, a lot of
5 questions were received saying that Vodacom has the 1st mover advantage. So, it pointed to factors like, you know, existing scale before other operators came in, the fact that the first movers and TELCOs can get the best sites, high sites or the best sites for coverage, that is easier to attain customers and all these retained customers once you have got them and they are long standing
10 customers, and also the benefit of having national coverage that you can control the roaming arrangement. Do you agree that Vodacom has the 1st mover advantage?

MR JOOSUB: Look, I think it's fair to say Vodacom and MTN, not Vodacom, Vodacom and MTN will licence at the same time, so. That's the 1st part. I don't
15 buy the access to sites story to be honest because Vodacom was built on the Telkom network. Remember, Telkom owned 50% of Vodacom. So, Vodacom actually was built on top of the Telkom sites. And so, that's t1st part. It is through that you know, if you are being, you do have the part of being... you know, but that is TELCOs all over the world, it is not unique. You licence one or
20 two players. Of course the one or two players have the ability to grow. But again, it comes down to, did they invest? So, many places you find that even if you were 1st, you didn't really end up being successful or 1st or 2nd because what typically happens because government like licence like the state-owned entities. Which is the same thing that they did here. They licenced the state-
25 owned entity which is Telkom. So, Telkom owned 50% and then basically

Telkom found a technical investor to work with that to be able to launch Vodacom. Transnet was basically the biggest shareholders in MTN. So, government made sure it had its stay its hands in everything. So, you know, that's the part were...but, in many countries what happened, because
5 government was the capital investment in the flow, right, and because the capital investment didn't flow, you know, it didn't work. Here what happened was capital investment did come and continued to come, and that's why you has the success? So, it does come down to, did you put the money in. Here is a case in point. You have a got a number of players in the South Africa market
10 that have been...you have 6 big operators who are sitting with all the spectrum and so on. Why haven't they invested? Why are some people sitting in spectrum for years and they have done nothing with it? Not little, nothing. So you are sitting with constrained operators on the left and you are sitting with people who are sitting with a lot of spectrum, doing nothing with the spectrum.
15 Some are waking up of late and some are still doing nothing. So, you know, that is a big issue. So, we are starving we want prices to come down and the other side we have got people sitting on the spectrum on the other side doing nothing with it.

MR APROSKIE: Chair, just one more point, I won't labour this too much. I am
20 trying to find the reference in your written submissions, but, effectively you say something to the effect of, your investment, so, I won't use a proportion, I am just worried about confidential information. But effectively, you say something around, your Capex investment has already been funded from profit. So, has that being a 1st mover, has that not enabled you to fund that Capex. So, to keep

ahead of the game in terms of how you have invested versus the smaller operators who come in later?

MR JOOSUB: Look, you are taking, so, TELCOs around the world need to continue to invest. You could have cut your investment, you could have taken it
5 and said look, let me go to Nigeria and build a big network, or you could have said I want to stay in South Africa and put most of my money in South Africa. That is what Vodacom has done. It didn't choose to go and have 25 countries, it chose to have a few countries and make sure that it properly capitalizes those markets. So, it's a choice you know. We have 5 markets plus our investment in
10 Vodacom, 6 markets. We make sure that we invest properly into each of our markets because we believe strongly that part of the recipe of success is investment in a TELCO.

So, if you like me to slow down investments so everybody else can catch prices, we can have that discussion. But this is part of being a TELCO. You have to be
15 willing to put the money in.

MR APROSKIE: Okay, that's fine. Let me just move on to 2nd last topic. So, one thing that came out of yesterday's submissions at these hearings was the difference in pricing on per megabyte basis between low-volume consumers and high-volume consumers. So, some of the evidence that was brought is on
20 very small bundles. A low-volume consumer might be paying over R600 per gigabyte effectively, whereas high-volume consumers might even pay less than R20 per gigabyte if you are buying extremely large bundles for long periods of validity. Do you accept that low-volume consumers are paying much more for data than high-volume consumers?

MR JOOSUB: No, because you have these offers. So, essentially there is lots of different offers available. Yes, bundle rates do differ and as you start off higher and you go to lower based on the volume that is factual. But you also have validity which changes the model around the other way. So, based on the validity, the period... so, the shorter the period if you are buying a day's bundle you are paying R29 for a gig. So these and your prepaid customers as I was showing, 80% of your prepaid customers choose to buy daily, weekly, monthly. So, they actually have cheaper prices than a lot of your... than some of your bigger bundles.

10 **MR APROSKIE:** But I suppose the question is whether they are buying those lower validity bundles because of affordability issue. So, in some of the, I think it's in your written submissions, the cause of sporadic consumers the might buy a little bit of data here and there for a day. But, why for a low-volume consumer who wants to buy 20 megabytes a month and is able to plan their purchase from their pay cheque, why, I suppose let's not say why. Do you accept in that case you are comparing apples against apples, 2 people want their data for a month, a low-volume consumer is paying significantly more than a high-volume consumer on a per megabyte basis?

MR JOOSUB: So, your prices to reiterate, your prices do go down. But I think it is important to note that you have same low user customers who have access to free data like free Facebook and so on as well. And then they also have a lot of promotional. So, they get daily promotions in the Just4You menus and so on. Where most of the customers are actually these promotional offers. So, when you look at your effective rates across the different bundles, it's interesting to see that there isn't a huge differentiation for those gaps that are quite

significant. But also, it is a competitive environment right. So, if this is not the right strategy, then the MTNs, the Telkoms and the Cell Cs have also the ability to come up with a different strategy and customers will vote to what they feed, right. Or rather in this case with what they will buy. So, it is you know, they do
5 have the ability to choose which offers they prefer.

So, for us, the personalization bundles is a huge success and [indistinct] customers are enjoying it because they go in, they like the shorter validity and it has changed the profile of our business quite significantly. And customers are liking that ability to buy. Now, you can have different strategies and I think that's
10 what happens in a competitive environment.

MR APROSKIE: So, I hear you that you are saying that you have got different promotions and there is some free data as well that you have talked about free services. I mean, given that, I mean why, I mean, I suppose if you have seen some of the submissions and what was presented yesterday and what we have
15 seen in the last 2 years in South Africa, it comes across as an outcry, okay, against data costs particularly for low data volume consumers. Is that just a, I mean, is that people with a wrong perception that they are getting it wrong, that they don't understand that they actually have products to reduce costs, or, is it actually that what they have been offered doesn't actually meet their needs and
20 they are buying a 1-day bundle is all they can afford and there is an urgent need for data rather than actually a choice that they want to make in the way that they want to deal with their service provider? So, I ask you this question because this is the submission that we have received that people are unhappy, that poor consumers are saying, low-volume consumers are saying they are paying
25 exorbitant amounts for data, they easily slip out of bundle because they are

buying a 1-day bundle that might last for such a short time and it is difficult to monitor. I mean, none of us know how much data we use in a day. So, that's my question. I mean, do you think that it is an unreasonable complaint? It seems to be based on numbers and experience.

5 **MR JOOSUB:** Ja, so, I look there is certain things that the industry needs to improve on and I think that's fair. I think the concept within bundle and out of bundle creates noise. I think the... and obviously we were upfront with the customer. We said, look, we accept that the in and out of bundle needs to change. It's funny that the market started with in and out bundle the same.

10 Customers then competition forced it the other way. Competitors came in and actually decided to create this gap between in-bundle and to of bundle. Customers like it voted and went that way. And then the rest of the industry had to change to in and out of bundle. Now, it's the reverse, customers are saying, well, in and out of bundle should be the same. So, it will change and I mean,

15 what we decided to do is drop out of bundle rates in October last year and we are now waiting. We are going to do another drop now, but we are waiting to finalize the ICASA's part which in supposed to be implemented soon. That will help to deal with the in and out of bundle issue because it needs to be dealt with. So, there is certain, let me be frank and say there is certain hygiene things

20 that we need to do. One of it is the out of bundle rate. There is certain price points where that creates more noise, we need to deal with those. But it's a multitude of factors that you are trying to deal with at the same time. And therefore, and that's why I am saying from a competitive perspective, there is opportunities for wholesale providers, for MVNOs, for smaller players to

25 basically decide, look, we are taking a different construct that will create

competition. That's what a competitive environment is and essentially that then forces you to respond. We have to you know, look at our full offer to our customers. One is... we do multitude of different things. One, is the prices in the bundles, secondly, it is the loyalty stuff, thirdly, is the special offers that come.

5 You buy 100 megs, you immediately get an offer which says well, would you like a little bit more for only a rand extra that type of thing. That drives down your... so, there is a lot of different modus operandi that each of us use that is part of a competitive environment.

MR APROSKIE: One of the recommendation that came out from the few of the
10 presenters yesterday was that MNOs in South Africa should be regulated or should be some kind of regulation that limits the level of price discrimination across products. So, that flattens out that price curve between low volume and high volume or even goes to a scenario where there is a flat rate across all data. If hypothetically Vodacom were forced or faced with such a regulations
15 which in some way limits the extent in which you could differentiate or discriminate between different volumes of consumption; how will that affect you and what would likely your response be in terms of how you price or how your pricing strategy?

MR JOOSUB: Look, I think it is dangerous to get into... to regulate what
20 happens in a retail environment because what you are then doing is you are trying to force a particular modus operandi. That creates less flexibility in competition. So, if you have... we have places where we have price floors, so you can't sell below a certain price. The reason they have done that is so that they can collect taxes and also, so they can make sure they get the right taxes
25 out, but also to encourage investment. Those things are possible. But, you

know, do you really want to go down the route of trying to ... because if you did that, an example if you fixed all of that and you said right, everything is 10c a meg or 15c a meg, then you wouldn't have the ability for customers to buy a gig for 2.9c for the day, right. And 80% of your customers are choosing to do that.

5 Do you really want to upset 80% of the public by telling them they have to pay 10c or 15c a meg?

MR APROSKIE: Ja, I suppose it depends on how it is implemented, but I take your point. I think just 3 more questions from and I know we are running out of time. But I think it's worth it. Another recommendation that was made yesterday,

10 I am not sure if you had sight of it or your team has briefed you, but the DG Murray Trust talked about, their proposal was to have zero rating of certain content and you have explained that you do that in effect anyway. But, to have that funded from your SCD obligations so that there will be some level of various billing on certain applications from public benefit organizations, I mean,
15 what's your view on that and what have you been briefed on the submissions?

MR JOOSUB: I haven't been briefed, but, I mean, we are open to that. We think that there is and that is when we have done the universities that is where we do the job sites, that's where we do free education. We do think it is a necessity.

MR APROSKIE: Okay, thanks. And then just second last question is the
20 Internet Service Providers Association who presented yesterday made this point that the MNOs and I think they are referring to the large MNOs are talking to spectrum scarcity saying that there is no enough spectrum, and we have talked about this today already. But his was to say, if you have got a situation of spectrum scarcity, you have got the scarce resource that you are trying to use,

his question was or his view was it doesn't seem to make sense that if you have got scarce spectrum, you would price lowest to your high-volume consumers. Because if you are limited on how much your capacity on your network because of spectrum, why are you essentially incentivizing large volume consumers with
5 the lowest prices?

MR JOOSUB: For competitive reasons, you are right.

MR APROSKIE: Can you expand on that?

MR JOOSUB: So, let me out it this way. 100 gig bundles, 200 gig bundles, 50 gig bundles, 20 gigabyte bundles are actually, they have the ability to create the
10 more that you sell, the more spectrum constrained, sorry, the more of the capacity it eats up, right. That is factual. But someone like Telkom and RAIN have been very, very competitive in that space and they have forced the market down. They have forced the market down in terms of the pricing. And you try, you know the 1 gig story, how can you sit it to, how long do you have that
15 discussion for, that type of thing. Until today, I mean, the one who is selling the most in that space is Telkom. And the reason why, because it is swimming in spectrum in those high bands. So, it can afford to have those alternatives where the rest of us can't. So, your logic is right, but you have to take in terms of account all kind of competitor stuff and see what you do. So, the response
20 would be that you create bundles, you are not the cheapest, you hope that the quality of service that you are providing will stand out for you against some of the players who are more aggressive in that space. And you do it because you have to.

MR APROSKIE: Thanks, last question, we are often promised last questions, but I think it is my last question. Just changing topics slightly to the one, just a practical question, but from your understanding of the WOAN currently, what it's likely to become, what would Vodacom need to do practically in terms of
5 investments to provide the capacity on the WOAN and the frequencies that the WOAN will get? So, effectively, will there be cost for Vodacom, will there be infrastructure changes in terms of antenna or the way that [indistinct] are arranged to broadcast on those frequencies but also to have the right direction of that antenna on the [indistinct]. Maybe you can give me a rundown from
10 Vodacom's perspective on what you believe you need to do to provide that capacity to the WOAN.

MR JOOSUB: So, it's the other way around hey. The WOAN I going to provide capacity to us.

MR APROSKIE: In the end, but on the wholesale level they carrying on your
15 network, right?

MR JOOSUB: So, look, what the WOAN will have to do and let's be clear, the WAN will have to invest to its network, create the level of capacity. What it will require from us is access to sites, it will require access to transmission which will be either Telkom, DFA predominantly in that market, but also where we
20 have or MTN has you know and Cell C will also provide access to that. So, one would be access to facilities as such which would be, you know, like we do that anyway to all the operators. So, that's the 1st part. Then the idea is that we would buy 30% of the capacity that the WAN creates. So, industry will buy at least 30% or at least, least, let's say the bigger TELCOs will buy at least 30% of

the capacity of the WAN. Then it will have the ability to resell the capacity of the remaining portion of its capacity to some of the 250 other licences who can then create its own services which will then create additional competition. So, that's really the idea behind the WOAN.

5 What's not clear is what the WOAN would want to wholesale from us. So, that part still needs to be worked out and you know, what does the WAN want to do. So, the WAN would typically come on, try and use your site, so, they will not have the costs of the sites. They will only pay, it will end up being a rental and so on. And then effectively put the antennas on top of the mass and so on.

10 **MR APROSKIE:** Okay, so your understanding is that the WOAN would share a site the same way another MNO would do so it would... you have given position on the mass so you would have to get access to that and you will have to put an antenna on that mass and then connect to your network and [indistinct]

MR JOOSUB: Correct.

15 **MR APROSKIE:** Thank you, I think that's all from my side.

CHAIRMAN (MR MAJENGE): Thank you Mr Aproskie, Doctor Mncube.

DR MNCUBE: Good morning. I have one question and I really want to invite a comment from you from a proposition that came out strongly yesterday; which is that to reduce the data prices, the inquiry must focus on the wholesale market for data services and that the solution should be along the lines of imposing obligations that require Vodacom to offer open access on non-discriminatory terms or even think about vertical separation as a solution. And the suggestion is that on Vodacom's [rewards, it is only Vodacom alone operating and if many more players were encouraged to be on Vodacom's rewards, that would

20

increase competition in retail markets, which will ultimately lead to data prices coming down for the poorer consumers.

MR JOOSUB: So, my response will be that, firstly, to have more... firstly, you have to start with the main ingredient and the 1st ingredient is, do you have
5 capacity? Because if you are sitting with excess capacity, there is a case to be said about, why don't you wholesale it? But, if you don't have the capacity, what then are you going to resell. So, remember, we are doing the biggest one which is not necessarily the small operators, but we doing Cell C. So, you have got that wholesale access through a roaming arrangement which you providing
10 through to the biggest operator. Now, here is the funny part, the MVNOs then use that, they go to Cell C and they are by through Cell and they are using the Vodacom network anyway. So, that's the one part. So, they have access through the Vodacom network via Cell C. But because of our capacity constraints, it is very difficult for us to be able to cater for more and more
15 players. We are not opposed to doing more, I call it more MVNOs and these type of things. The problem is, we need the capacity to be able to do it. So, the spectrum will give us capacity. And then you know, if you, some may take more MVNO, some might take less MVNOs, but that would be the dynamic. In my experience having been in Spain where we had a big MVNO market, what then
20 happens is because of the comparative part; so, if you have got you know, MVNOs sometimes move around from network to network and so on to be able to get better deals. South Africa has chosen a different route though. So, one of the solutions that you could come up with, MVNOs is something that you do see in markets, but then you don't have a WAN. You are choosing a different
25 solution. You are choosing a WAN solution versus an MVNO solution, right.

I could tell you what I would have personally done, it would have been the MVNO part versus the WOAN. But let's just say an overwhelming sentiment from the same people by the way was that they want a WOAN instead. So, now you have got to decide which one do you want? If you want to give the
5 spectrum to the industry, then it is going to have more capacity, then it is fair to say, well, why don't you do a wholesale of nexus (?). But if you take the spectrum and put it into the WAN, then you are taking away the additional capacity that could potentially be part... you have chosen a different, if one can call it an anomaly, a different form of remedy. And a more complicated one at
10 that. The MVNO model is a more tested model. The WOAN model is an untested model. So, you know, personally I would have gone a different route. But, I am not the Minister.

DR MNCUBE: Thank you.

CHAIRMAN (MR MAJENGE): Mr Mahuma.

15 **MR MAHUMA:** Just on the slide the is currently showing here, please just explain to us practically, why does 1 gig which is valid from an hour more cheaper than a gig valid for 30 days. And the 2nd question is that, given this limited number, do customers actually utilize their bundles? So, for example, someone who buys a gig which is valid for an hour, do they actually utilize that
20 bundle given the limited time period?

MR JOOSUB: So, you have customers with choice. You are right in saying that some customers, but they feel it's a confidence, right. So, I buy a gig for the day, say for R29, even if I use 800 megs, I know I have a better rate. From a TELCO perspective, you have got a high... you might end up with a high

effective rate, so the 29 might become 33 in reality once you do the revenue divided by the traffic. So, that's the one part.

What you are also doing is, you have the ability with these things to look at when the network is fully utilized or not. So, you can basically...you are using
5 daily, hourly bundles to typically and increase the traffic in a particular period. And by using the personalization, you are presenting customers with these options to try and better balance the traffic in certain areas, but also in some of the days. It's a different way of giving customers a lower effective rate. So, it's a pricing methodology. You could choose, you know, your colleague mentioned,
10 you could have a flat rate across everything. You could say, listen, it's 10c a meg or 15c a meg across the board. That is a pricing methodology, you could do that. We have chosen a different one, thus far. And to be honest things change. So, if it doesn't work, you change it. This is the methodology we are using at, and it seems to be resonating well with customers. They are liking this
15 concept of cheaper bundles, you know, shorter periods. You do have a big portion of the base who buys more hand to mouth.

MR MAHUMA: And then from a cost perspective, maybe just explain to us. Is it cheaper to...so, what is the cost difference between these validity periods?

MR JOOSUB: So, your costs are more or less, I mean, it depends what you
20 look at, right. But your cost to carry a mega of data or a gig of data will be similar across the board.

MR MAHUMA: Okay, thank you.

CHAIRMAN (MR MAJENGE): Mine is just follow-up questions from the questions which have been put by my colleagues. I will start with the 1st one and

I will ask my colleague to hand you this document. It's a submission from Amandla. Mobi which was made to the Commission and was also presented yesterday. You will see on the 2nd page of the submission, this is the page with the heading, the main focus of the submission. And if you start at the bottom of the page, at the 2nd paragraph from the bottom of the page and I quote the submission, it says that;

Research conducted by researchers at the University of Witwatersrand, Cape Town and Rhodes soon to be published by the highly regarded Institute of Development Studies in the United Kingdom among low-income consumers suggests that average, I think it meant to say on average, low income consumers are purchasing data in much smaller quantities, I think it meant the say, [indistinct] done, 1 gigabyte. Then the submission goes, it suggests that these consumers are buying data in quantities as low as 20 megabytes to 30 megabytes. And some of these consumers are using mobile data without buying data bundles.

Then a submission is made that it is our contention that low-income consumers are paying disproportionately high charges and are not seeing benefits of competition in comparison to high-income consumers who are able to buy larger quantities of data.

And then on the next page, the submission references a table which illustrates the pricing of this smaller bundle in comparison with 1 gigabyte bundle. And the submission then concludes by making the proposition that, and you will see that this is the bolded part. It says that, this means that those consumers who are

using small data bundles or using data out of bundle may be paying 50 times what richer consumers are paying.

And this submission also converges with another submission which was also made by the DG Murray Trust. So, there appears to be convergence in the
5 submissions that low-income consumers seem to be getting a raw deal in the pricing of data. And this is what the table seeks to demonstrate. If I could just have your comments.

MR JOOSUB: I think, so, you know, I mean, without reiterating all that is said, but I can immediately tell you that this table is wrong. Firstly, the out of bundle
10 airtime using airtime at 1.50, this thing is like a year outdated. So, that price is 99c and 89c. So, we don't have tariff with R1.50. So, this completely wrong.

Secondly, you can just see that this thing is illogical, I don't know where they got it from. But basically, if you look at the table on the top, if you look at the one being presented, this says a gig is R29 for a day, right. According to this, 250
15 megs is R25 for and day. So, why would you by R25 for one day for 250 megs when you could buy R29 for a gig for one day. Right, so this thing is wrong. I think the principle that you pay a bigger rate from a small bundle and it gets cheaper as you buy more is correct. But these comparisons are all wrong. So, I think the writer needs to update his data on the one side. But, I think
20 conceptually to deal with the question that you are really asking is customers, the methodology is and I have said upfront out of bundle rate needs to be dealt with. So, I have accepted that the out of bundle rate is an issue and it needs to be dealt with. And honestly, we are... it is just the way that the industry went. The problem is, the is quite a big issue when you try and deal with it all at once.

So, that's why we have been trying to phase down the out of bundle rates, and we have been reducing our exposure to out of bundle rates every year. One, by getting customers to take up more bundles, but 2, by reducing the out of bundle rate. And I think if we do deal with out of bundle rate, it will take the noise factor
5 down significantly. At least that's what I am hoping for. So, that's the one part.

Secondly is, there is a methodology that does say, the more you buy, the cheaper you pay. So, that is a pricing methodology and like I said, you can have competitors who can decide that it is a fixed rate throughout, those are out options. But you do have a situation with the more you buy, the less you pay.
10 That said, you have also introduced you know, cheaper 1 gig bundles and so on so that customers can buy. And obviously, if you make the 1 gig R29, it just means everything below it gets a lot cheaper. So, you do have a situation then the methodology would be that the rest would also be cheaper.

CHAIRMAN (MR MAJENGE): Ja, indeed the data is about a year old. But the
15 same point is also made by the DG Murray Trust. I will also request my colleague to also hand you a copy of the submission for your comment, and you will service that on the 2nd page, and we accept that a you can see these submissions were received, particularly this one, was received in October last year. But, it also makes the same point on the 2nd page and I quote were the
20 submission starts by saying that; it will appear that mobile networks take advantage of poorer South Africans by charging them disproportionately higher rates. 1, wealthier individuals that qualify for post-paid contracts pay approximately half the cost or prepaid users for 1 gigabyte of mobile data and get even greater discounts when purchasing more data. 2, poorer individuals
25 who pay R12 for 30 megabytes equal to (400 gigabytes) often pay 10 to 30

times more for their data than wealthier individuals that for example can afford to buy 100 gigabytes for data valid for a year for R15.

- 3, South Africans living in poverty are more likely to run out of data and be exposed to excessive out of bundle data rates. Notification of when users are out of data tends to be erratic and unreliable. Mobile data operators promote certain data bundles that expire within a few days making it more likely the users will end up using very expensive out of bundle data without their knowledge. Data should also be rolled over for at least 3 months to allow for change in usage patterns.
- 10 While mobile operators try to appear to reduce data prices through special offers, these offers are often complicated, difficult to understand and redeem and designed as not easily comparable to other offers and are often temporary in nature and require extensive effort on the part of the user. Prepaid mobile offerings can be highly confusing even to the most astute users.
- 15 So, there is convergence in the submission that users who are poor seem to be paying disproportionately higher rates than the wealthier or high-volume consumers users in the light of this consideration. So, are these concerns valid or legitimate?

MR JOOSUB: So, I think the... so, a couple of things, there is no differentiation between prepaid and contract customers in terms of bundles. So, bundles are exactly the same price regardless of whether you are a prepaid customer or a contract customer. Only difference is in contracts some of the contract plans come with inherent data in the plan and as I explained earlier you have got to

look at, when you are looking at the cost of that, you have got the take out the device and so on. So, that's the 1st part.

Secondly, it is true that you go from a smaller bundle where you pay slightly higher. The bigger the bundle, the cheaper the bundle gets, right. Which is no
5 different to any other industry. If you, in many industries, if you are buying one by one you pay, the Gautrain as an example. If you buy a 1-day pass, you pay a certain rate, if you buy a 3-day pass, you pay a lower rate effectively, if you buy a 7-day pass you pay even a lower rate. And that's through multiple different industries. So, that is factual. That said, on the very big bundles, it is an unfair
10 comparison because the big bundles are a different market completely. They are not, they are more dongles these type of things that you put the data only sims. So, they are different. That's where as I have explained, we have been taking heavy competitive pressure and we have had to... and we are losing customers, so, we had to adjust it in price points. We are still not the cheapest
15 in that respect, and that's where Telkom, RAIN and to some degree Cell C have be quite aggressive in terms of price points.

Now, does it completely logically make sense, I think some of those bundles as I said, they do take up a lot of capacity. But that's where the competitive, that's what you have when you have a competitive environment. Telkom can explain
20 to you its logic of why it charges more for or so much less for bigger bundles, part of their reasoning is they are using it for their fixed wireless replacement because the copper gets stolen. So, they are using it like a fibre replacement. They have the capacity in the spectrum to be able to do it. Now, do you stay out of that market completely? Don't you stay out of that market, you know. These
25 are the comparative considerations that we have had the deal with. Then for a

while we tried to stay out honestly. And it kind of bit us. So, we had to kind of make a response. Now, are we the cheapest in that market? No, that's when we try and differentiate between quality and service. But that's where competition takes you.

5 Now, the same with the lower bundles, we have competition every day. That's why we have introduced the 7-day, 1-day, 1-hour, 14-day bundles. It has proven to be successful. How successful again is dependent on the competitive environment, you know. And the environment is such that every day someone is doing stuff. Just yesterday I was looking at some of the crazy offers from MTN.
10 But, you know that's how we compete. You know, the next day it is Telkom and the following day it is Cell C. and then you have to respond. And that is what a competitive environment does, it does sometimes, and you know, you sometimes feel the impact very quickly because customers do have more than one sim.

15 **CHAIRMAN (MR MAJENGE):** The 2nd question is a follow-up question to Dr Mncube's question and I would also like to take you to the submission made on behalf of Internet Service Providers Association. And my focus is on paragraph 10 of the submission as Dr Mncube has indicated, the thrust of the submission is that dominant mobile network operators should... there should be
20 obligations which are imposed on them to offer wholesale open access to their network on a non-discriminatory basis. And a 2nd aspect of the submission is that there needs to be a functional separation that is effected for vertically integrated incumbents to underpin this wholesale open access obligations. And if I am following your response to Dr Mncube correctly, you have referenced
25 constraints relating to spectrum and capacity. Is there any other constraint,

maybe let me start there, is there any other constraints other than what you have referenced in response the Dr Mncube?

MR JOOSUB: I think one needs to think about, I think the MVNOs and so on as an option. And as I said, South Africa is choosing a different route to go down.

5 That is a consideration. But I also think you need to be careful when you look at these things customer we were there. We had a whole level of what we call service provision which essentially was, you had the networks and then you have the service provision layer. But, it is an expensive way to do it because it is a cost. So, it's nice that the internet service providers because you have got
10 to look at their perspective right, they want to make money. So, they want to make money, basically, they want to take a service from you, mark-up the service and sell it. Now, again we come back to what us the cost? So, let's take a cost of a meg of data. How much does it produce to produce that cost? So, if you produce the cost at a particular rate, then you are going to add a margin on
15 to that rate and then you are going to sell it to the next, let's call it service provider wholesale level, they are then going to add a margin and sell it to the customer, right. So, that distribution cost was costing us 25 to 28%, sorry, 26 to 28%. That whole level has been done away with. So, we have bought everybody back. All the Telcos have done the same thing, bought that whole
20 level back the reduce the cost base. And huge parts of doing it, now, do we want to recreate and buy back again? Or, do we want to make the price more expensive? Are we dealing with trying to make the price cheaper to the customer or we are trying to make the price more expensive to the customer? Because this proposal doesn't make it cheaper. This proposal makes it more
25 expensive. So, that I don't get the logic of this part. I understand why they want

it because it's nice to be able to get someone else to out all the investment in and say, look, I will just ride on your back and essentially put the mark-up and sell it. Great business model, but it doesn't necessarily make sense for what this hearing is about or necessarily for the consumer in South Africa.

5 **CHAIRMAN (MR MAJENGE):** But their argument is that this has made sense in relation to Telkom. This emanates from the Telkom settlement agreement with the Competition Commission. They say it has made perfect sense within the context of that market, and that model could be replicated.

MR JOOSUB: It is a very different context. In Telkom, you are a monopoly, and
10 a monopoly that went on for 100 years. Okay, so you had a monopoly that has been going on for 100 years that have infrastructure that is well-based. And essentially, basically what you have done is you have a monopoly which is one player which essentially has all that fixed capacity and so on. There is no real competitor to Telkom. They play in the fixed space. In my view, you have got
15 some peripheral stuff which is more the future stuff which is fibre and those type of things which has changed slightly the market-shares. But Telkom still had got 83-85% of the fixed market. Even the service that you are competing in is not pure fixed. Pure fixed today is Telkom. Nothing has changed. So, you know, you are building on new fibre, those type of things. But talk about fixed calls,
20 talk about this, it is Telkom still. As a corporate, you can't not have Telkom in your business. Just look at the Competition Commission, I am sure your phones are still with Telkom, and there is a reason for that. And that's the one part.

So, when you are wholesaling that, it's because of what they have had and that they are a pure monopoly. Now, in the mobile industry, it's not, you have got 6

players, you have got 6 licenced operators. That's the reality. So, you have got 6 licenced operators. Yes, some are more successful than others, some are bigger, and some are smaller. That is true. But essentially, what I am saying to you is you need to have the capacity 1st to be able to do it. In Telkom's space, it had the capacity. In the mobile's case, so, am I supposed to resell what I don't have, and do you want to drive up my inherent cost or rather reduce my margin. So, essentially what you are saying is that I am going to cut the margin which means I won't have the level of investment to put back to meet the virtuous circle that I was speaking about earlier. So, it actually complicates the situation, it doesn't resolve the situation because you are going to add another layer of cost. I am not saying that we shouldn't have certain elements of the network where you can do wholesale, I am not saying we should never have wholesale parts. But I think what they are trying to say is that listen, we must try and sell this thing at next to nothing in a situation where we are already under pressure. In South Africa, we want the price of data to drop. Therefore, give us the tools to be able to make it drop. ISPA is not going to make the cost of data to drop, or any of those providers or any other provider is not necessarily going to drop it, unless, they are prepared to put their investment into the networks. It's not a complicated thing. To be honest, you have to put the investment into the network, so you have the capacity, you have driven down the cost of the data, of carrying the cost of the gig and then you can sell it. Then the competition says, are you making a disproportionate margin. That's a fair question to ask, right. But that's not the case, and that's not the reality of the situation. The reality of the situation is we are faced with higher prices because we have

higher costs. Let's drive the cost down so that we can get the price down and some of the consumer issues.

CHAIRMAN (MR MAJENGE): Ja, if I may just make a further follow-up question on this, because what the submission is referencing is that, because
5 there is concentration at wholesale level, you need to address the competition issues at wholesale level in order to be able to reduce costs. That sounds like a very sensible proposition that this is one avenue of actually reducing data costs.

MR JOOSUB: There isn't concentration in the mobile network because you have got the ability to go to any of the 6 operators. So, any [indistinct] can go to
10 Telkom. If Telkom loves their model of what they are doing on fixed. I am sure they will be very willing to do it on mobile as well. Maybe you should put that question to them. Why then don't they open it on mobile as well which would be a good part. The point I am trying to make is that there isn't a concentration of wholesale parts is that all you are going to do is that if you do that, if you say
15 that let's create a vertical, have a network layer, let's create a service layer. The service layer wants to make a margin. That margin means someone is going to pay more. So, if it costs me a 100 to produce a gig of data as an example, right. So, that's my costs. Now, I add on the margins. Say my margin is 20%, now, I make it 120. What do you think the next level is going to do? They are going to
20 put on the margin. So, you are making the thing more expensive in the cost of a gig of data. Not less expensive. We have wholesale, but we offer different things to wholesalers. Where there is MVNOs who can provide...who company to us and approach us, it's a competitive part. We bid against other people and they have the ability to sell. But they go, they shop around. An example would
25 be Standard Bank. They were shopping around. They went to MTN, they came

to us, they probably they went to Telkom and eventually they settled on Cell C. So, today a lot of the smaller, a lot of the MVNOs, so you have got Standard Bank, you have got FNB, you have got Virgin, you have got, what's this thing called, what is a cheap clothing store...not Edgars, anyway, you have got some
5 of these.... You have got clothing stores that are doing it and so on. So, you have got a few...

CHAIRMAN (MR MAJENGE): please, let's allow the presenter, please guys.

MR JOOSUB: So, you have got and there is obviously an opportunity for more to do it if they see an opportunity to go into that market.

10 **CHAIRMAN (MR MAJENGE):** The margin that you referencing will be contested and competed, that's the point and will certainly bring down costs.

MR JOOSUB: But you have that today, you have got 6 people that they can go to buy for.

CHAIRMAN (MR MAJENGE): But the point is that because they are vertically
15 integrated, they will not be able to provide this on a non-discriminatory basis.

MR JOOSUB: No, that is not factual correct what they need the do, remember, you have got; you have to take into account the dynamics. The 1st dynamic that you have to consider is that Telcos are about capital investment, you have to put money in, you have to put the investment in to be able to do that. Now, you
20 are dealing with 2 issues, you need a continuous investment cycle in the Telco sector. So, that is your 1st issue. 2nd issue is you want your prices to company down faster, right. If you want your prices to come down faster, you have to look at the cost elements that are driving it. Now, if the cost elements is because you have a problem with the wholesale part fairness that could be a remedy. That is

not your problem. Your problem is your input costs is an issue. And your input cost is an issue because government is not licencing the spectrum. It is as simple as that. So, if we bring down the cost, it will drive down the cost to the consumer. The wholesaler is just going to increase the cost because you still
5 have to produce the gig of data. How does the gig of data become cheaper by me adding another element of people into the thing? It gets more expensive; they have to make a margin. There used to be 14 service providers, they have all disappeared. And the reason that they all have disappeared is because we came under pressure. Mobile termination rates came down, we had to cut the
10 costs, we had to look at the downstream part of trying to get the margins out and trying to make the cost base cheaper, right. These things all contribute to cost. It is the cost of producing it, it's the cost of the device, it's the cost of the distribution. All of these become cost factors in determining the cost of a gig of data, if you add another layer, you adding another margin. The margin in the
15 service provider world is 25 to 30%. The margin in a wholesale fixed space is 30%. So, you are actually making the cost high. Today you don't have that cost. You have that downstream distribution which is the retailers which is costing you less. If you add another element, you are making it more expensive. So, you are actually asking to drop prices but you are asking on the other hand to
20 increase the prices or increase the cost. I am not getting it.

CHAIRMAN (MR MAJENGE): I am not sure how competition will increase the cost, but for now, let's leave it there.

MR JOOSUB: But it's but competition. Competition needs to happen at the top. So, you have got 6 operators, if you sell on a [indistinct] 7 or 8 that you can say
25 is possible. But you are saying I am going to make... we are saying we have a

problem with the cost of a gig and we are saying we are going to add more elements to make it more expensive. Not you, but that what's ISPA is asking for. ISPA is saying let's add more people to make the gig more expensive. They are not driving down the cost. If they can help us to produce the cost more
5 cheaper, let's put many of them in. But, they need to help us to reduce the cost of the gig.

CHAIRMAN (MR MAJENGE): Ja, let's leave it there for now. Dr. Mncube.

DR MNCUBE: I have one final question. And I think you have raised very strongly the issues of investment, spectrum and regulatory certainty. I want to
10 get a comment from you again on one other proposition that has been put to us. And this proposition arises out of a concern that the pricing structures of data bundles are very complex for customers to work out. And the suggestion here is, why not just have one pricing structure that is just simple which could be for example be 2c per megabyte across all... can I just get your comments on it
15 because the fear is that the chocks that are arising out of an experience of a text message that says you are out of data are confusing to consumers who still think they still have something.

MR JOOSUB: Look, I think in fairness there is an option to go with the simpler pricing methodology and say that's the price. I wish we could get to the 2c
20 though. But, the... I think the, it's a different pricing methodology. You are seeing operators that are coming up with that type of thing. You had RAIN launch with a flat rate per gig of data or per meg of data. And again, in a competitive environment, customers are choosing, right. So, that's why you are seeing some smaller operators grow because there is different options. So, I

thank you will end up in a situation there will be more simplification. Or, you will just go with the simple thing like, R29 for a day which will probably continue to drop as well. So, you will end up with situations where you will end up with daily allowances, those type of thing. I think you will eventually get to a situation
5 where you will pay a rate and you will have unlimited for a day. That's where we are going. But, you have to be able to have the capacity in the network to be able to deal with that. And that's what 5g will give you. So, you know, as the technology evolves as well, I think a lot more becomes possible in that respect. But I think the issue that you are faced with, these are pricing methodologies
10 and like I said, what will happen today is if you did that and you just said listen, it is 10c across the board, right. Because if you look at the effective rates, then that would be, and then you will say that is 10c or 12c across the board, whatever it might be, what will then happen then you are right in saying there will be smaller users that will be happy, I think that is fair and I don't think there
15 is anything wrong with that logic. I think that's fair. But, what will also happen is that the same person who was paying R29 which is 2.9c a gig will be prejudiced because something is going to have to give in the model.

CHAIRMAN (MR MAJENGE): Thank you very much Mr Joosub for your time as well as for your submission. Thank you very much, we really appreciate it.

20 **MR JOOSUB:** Thanks, thank you very much.

CHAIRMAN (MR MAJENGE): You are excused. We will now take the next submission from MTN South Africa.

MR JOOSUB: Would you like these back?

CHAIRMAN (MR MAJENGE): It's your present.

MR JOOSUB: Thank you.

RECORDING ENDED.

MTN South Africa

CHAIRMAN (MR MAJENGE): Uuhh...welcome back we will now receive the
5 next submission from MTN South Africa. Welcome gentleman thank you very
much for coming, if we could just get start with the formalities, if you just for
purposes of the transcript place your full name and surname for the record and
indicate what your current position is within MTN.

MR MOTSA: Okay so I will start with myself, Godfrey Motsa I am the CEO of
10 the South African Operation MTN South Africa.

CHAIRMAN (MR MAJENGE): Thank you Mr Motsa, if you could uuh...maybe
whilst we are still on you just take the oath or the affirmation.

MR MOTSA: Thank you, okay I never done this "I Godfrey Motsa swear that the
evidence that I shall give shall be the truth, the whole truth and nothing but the
15 truth so help me God.

CHAIRMAN (MR MAJENGE): Thank you very much Mr Motsa if any of your
colleagues are going to be making submissions they may also take the oath or
affirmation unless you are the only one who will be...

MR MOTSA: No, this is Krishna who build the network so I just want him to say
20 something.

CHAIRMAN (MR MAJENGE): Okay, please switch on the mic Mr Krishna.

CHETTY I Krishna Chetty swear that the evidence that I shall give shall be the truth, the whole and nothing but the truth so help me God.

CHAIRMAN (MR MAJENGE): Thank you Mr Chetty.

GODFREY: I have got Enza who does the pricing here so I also want him to
5 say the oath.

CHAIRMAN (MR MAJENGE): Please also switch on the mic.

MR SCARCELLA: Okay, I Enzo Scarcella swear that the evidence that I shall give shall be the truth, the whole truth but nothing but the truth so help me God.

CHAIRMAN (MR MAJENGE): Thank you Mr Scarcella.

10 **MR MOTSA**: I am told that if you use Lawyers here you normally don't go well so I don't think that Graham should say anything.

CHAIRMAN (MR MAJENGE): He doesn't have to take an oath.

MR DE VRIES: Good morning gentleman, good morning Panel my name is Graham de Vries I'm the Chief Corporate Services Officer for MTN South
15 Africa.

CHAIRMAN (MR MAJENGE): Thank very much Mr de Vries , Mr Motsa you may proceed to take us through your presentation that will be followed by questions from our side.

MR MOTSA: Okay, thank you very much and thank you everyone. We thought
20 we will basically start with the introduction uuh...about MTN I am aware that a lot of you is aware but sometime I think is good to give a bit of deeper context. Why a South African organisation, born basically the donor of democracy

licensed in 1994. Yes, we are in 24 countries and all those 24 countries we are either number one or number two, in all those countries we are adequately capitalised so that is why we are able to get to number 1 or number 2. We have got 230 million customers and 30 million in South Africa of which almost 20 million are data customers and we are head quartered in Johannesburg 14th avenue, we are not head quartered in Dubai, we are head quartered in South Africa even though we have an office in Dubai for the Middle East operations. We are Africa's largest operator by customers and by revenues and we've got Africa's most available brand. We spend most of our money in capex, we spend far more on capex than on dividends in the last four years we have spent over 40-billion-rand building the network. We are listed in the Johannesburg stock exchange, we are a level four BBBE company, we used to be level two but they changed the codes in the last two years then we slipped back but we are working on our way up again our ambition is to be level one company anyway yeah and we have 36 percent black owned and 13.4 black women owned suppliers of which we have spent basically 11.7 with those owned 51 % with and 22 billion with those black women owned. Trying to put those statistics to demonstrate that we are socially conscious organisation. We've spent over 3 billion with SMIS in the last Small Medium Enterprises in the last three years, we pay our taxes from our profits, the last three years we almost spent 5 billion, we pay out vats, we pay our customs so if you look at those indirect taxes we've paid over 6 billion rand in the last three years. We directly employ around 5 thousand permanent employees but I need to put that very clearly we've got tens of thousands of people who work in our system to deliver the yellow sims and the yellow airtime to our 30 million customers so if anything happens to us it

is not just the 5 thousand people that we are dealing with it's the tens of thousands I know some of our competitors have been talking a lot about jobs we play a very big role in creating and sustaining jobs in the country. The foundation that we have the MTN foundation we have had it in the last 11 years

5 we've spent over 700 million rands. We have committed officially and publicly that we are going to be part of the yes campaign which is around empowering the youth especially the disadvantaged youth around job creation so from 2019 we would be hiring 1000 of those youth and the 1000 that I am talking about is for 2019. We basically have got coverage everywhere in the country okay

10 expect for the 1 percent from the population coverage perspective. 99 percent on 2G that basically allows you to at least do like a basic GPR on data and most voice. On 3G we are currently on 98.9 something like that but by the end of the year we would be on 99 percent. On 4G we would be at 90 % the end of the year, we are currently on more than 88 percent already for us this is a

15 remarkable achievement on 4G that with all the constrains that we actually have we've been able to do a lot in terms of innovation especially in spectrum reforming to basically to get us to this level of coverage. We are not boasting about this I think it goes to the point that I made earlier that our company is socially conscious that everybody should have access to internet, rich or poor.

20 People that have studied our core beliefs would know that we have a core believe that everyone deserves the benefits of a modern connected life that is why we create 4G even where we don't have enough devices to support that. The other part that we never really talk about is the fibre as a global organisation we have web cables but when it comes to the land in South Africa

25 we've got 18000 KM of fibre that we use to basically connect our sites that we

also use to basically backhaul this. We have got the second biggest fibre infrastructure in the country after Telkom and this is basically built by an organisation that just was born in 1994. I think we were debating yesterday about what 18000 actually means I think some of the guys said this is basically

5 from here to Silicon Valley and you go beyond but you go to the pacific after that so it is really something and we use this to make sure that the quality of data and voice experience that we deliver to our customers is really top class. We are dropping the prices Dr Mncube for the first half of this year the effective rate on yellow network is down 27 % we published the half year results

10 unfortunately we can't tell you where we are now but I think you heard from the previous competitor about crazy offers which means that it is going to go down even more. The questions that came from you because we are here to answer the questions and not to lecture you about MTN from our understanding the first one is about data prices basically were they ought to be, are they too expensive

15 or are they too cheap surely not too cheap you are pushing around are they too expensive. Why are they where they are or why are they not where they ought to be and then what are the solutions and then how does this impact the lower income people, the rural poor, the small businesses and basically the unemployed people and then how affordable are they to those segments. So we

20 are just going to take the question and give our position. I think on the question "are data prices higher than they ought to be", at MTN we believe that the data prices are competitive with the current conditions in the South African market and we also believe that there are some sub-text, there are some sub questions to this, the first one come from the submission especially the one that came

25 yesterday you also read about a lot of this in the press. The current data prices

prevent South Africa from being an African ICT and broadband leader we basically looked at the numbers people like me I think I am pretty lucky as much as I am a South African I am an African I have worked in many countries and I have seen a lot it will come out when I answer some of the questions. The

5 conclusion around us not enabling the country to lead in ICT the conclusion we have is that South Africa remains an African leader in ICT and broad band outcomes. I think the question was asked earlier, should we be bench marking against Africa or should we be benchmarking against the best. I think we will discuss that one a bit later, the current data prices makes South Africa

10 unaffordable to many especially the rural and lower income South Africans again the conclusion from our side is that if you have to look at the African context South Africa is actually a leading country when it comes to affordability based on average income. However, everybody knows that South Africa is many countries in one, we talk average and then we hide the effects of the

15 extreme income inequality in the country so that is why for me the discussion should go beyond just are you better than Swaziland, are you better than Lesotho, are you better than Nigeria it has to go beyond that even though that also brings a lot of complexities around how you start doing the bench marks. The current data prices are not coming down and driving the cost of living for

20 poor South Africans again our conclusion on this one is that the consumer price index data doesn't not recognise communication as a major spend I think there is a graph later that shows that people don't spend most of their money on data or on communication especially the poor or even the rich according to Stats SA the money spent on alcohol and tobacco is like twice that is spent on

25 communication and this is not me making this up it is stats SA. I know Ntate

Padi is no longer there I don't know who the new guy is but it's the Stats SA. The current data prices result in a digital divide preventing many people especially women from accessing the internet. There is a gap between the developed market part of the society and the emerging part of the society in as far as internet access especially from the fix side but from a gender perspective 5 thank God there is no discrimination, we can find evidence of gender discrimination when it comes to data access. We basically go to the next slide because as much as we have these questions we all know that we want data everywhere, we want supper fast speed and we want supper low prices but for 10 as to get into that and also to drive the adoption because the belief we have at MTN is that everybody watches TV, the internet should be like that as well. We've basically gone to three areas, we've gone to UN, we've gone to ITU they were in Durban last month and we had a big show with them, we've also gone to Facebook not that we like our friends on Facebook but nobody connects 15 people more than Facebook today, over 2 billion users or customers or whatever they call them and then we went to the GCMA nobody argues about GCMA. The point is what drives data adoption or internet adoption in a country it is not just only price, you have to have an infrastructure of course it has to be affordable and it should be relevant and it should have the right content and of 20 course the consumers as well they need to be in a certain level but we still believe that it is our jobs to make sure that we introduce the internet to the people that don't know because in the 21st century if you are not digitally connected you cannot effectively compete. So I can put some numbers to the conclusions that I was talking about when we were doing the bench marking 25 around Africa, the first part is around the ICT development index, South Africa

ranks third and also from an African perspective we rank third the clever people would tell me that but there are more than 44 countries in Africa and there are 16 countries in the SADC region I think as African we know that some of these African countries don't collect data but from what is available we can see that

5 South Africa is leading if you had to take out the two island nations of Seychelles and Mauritius, if you look at one benchmark a bit higher I think one mentioned that we must move beyond the continent, if we look at BRICS community the only person we bit here is India and I really believe we should be going for the Russians. If you look at the inclusive internet index it's basically a

10 similar story except there that we are clear basically number one both in Africa as well as in the SADC region and again the only person we bit in the BRICS is India if we could go for the Russian it will be really cool. When you look at what you call the connectivity index again we are basically top the only place that beat us in the SADC region is the island nation of Mauritius and then when it

15 comes to then continent its actually the North African so Morocco and Tunisia and again we rank fourth when it comes to the BRICS. This is the statistics that I was talking about and as you can see I asked the guys to make the source very bold "Stats SA" look at the yellow line which is basically the communication 2.6 for all households in the country there is over 15 million households in the

20 country, if you look at rural household its 2.7 percent if there are those who still want to verify it you can go to the second line which spell alcohol, beverages and tobacco you can do the crude math you can see again I am not justifying that the prices shouldn't go down I am just trying to de-bunk the view that people spend most of their money buying the internet. We want them to buy

25 more internet I wish people were buying more money on the internet then on

alcohol and tobacco and I am not trying to be preaching. The household gap exists but South Africa we still remain a leader in closing the digital divide again you will basically see the statistics from Facebook, again you will see it on SADC's perspective we are basically number one, Africa we are number two and

5 when it comes to BRICS countries we are number three I don't know whether it because Facebook is not in china why now we seem to be moving better even though Chinese are still ahead. When you look at closing the internet gap the percentage of male to female access to internet only our neighbour Namibia is ahead of us but again its basically almost tie. When you looking at closing the

10 mobile phone gender gap when it comes to actual phones not the internet again it spells a similar story. So if I can summary on this Dr Mncube we really believe that from an African perspective South Africa is competitive but it can actually get better because the benchmark has to be global. We have to be racing ourselves to the top. What we have done at MTN again when you look at what

15 ITU says, you look at what Facebook says, you look at what GSMA says we realise that the experience that we had from the 24 market, 22 mobile network operators, two ISPs in Kenya, Namibia still selling the internet what do we basically move forward to basically drive total penetration or optimal penetration basically of data and usage. We have come with this model we call it the chaser

20 model we are not chasing the buck, we are chasing connectivity, the first one is basically around coverage, our ambition for the year just on 4G is by the end of the year to be on 90 percent so I was to talking to the guys every time when we are talking about this maybe you have to give a sense of what you are talking about, I know it's a rural town you go to the Lusikisiki today in the Eastern Cape

25 the Boza network we basically there on 4G, you go to your Burgersfort, your

Pratersphere we are basically there. You got to your rural areas in Kwa-Zulu Natal we are basically there, the President last time he went to Umlaba Uyalingana we are basically there. All those areas we want to convert to 4G because again Dr Mncube we are just driven by the view that everyone should

5 have access to the best network in the country. When it comes to handset I am not sure I am allowed to say this but I am going to say this anyway, I asked the network people what devices are we seeing in the network they say to me Godfrey we are seeing around 30 million devices in every 90 days or so and then out of those 30 million how many are dumb phones, are smart 3G phones,

10 smart 4G phones they say to me 10 million of them are dumb phones and then I go to this guy why don't you replace the dumb phones with the smart phones he tells me the entry price point on the dumb phone if you go to Pep Cell you will pick it lets say 160 rand or 170 rand the cheapest 3G phone is 399 with the subsidy again in the same store. The cheapest 4G phone will be at 799 he said

15 do you want me to find a difference from 170 to 400 bucks and we still make money and build a network. So the point we are trying to make here is the main driver in South Africa today around achieving total internet access is the device it is not the network coverage, it is not the price I am going to go to pricing later. But I spend a lot of my time studying pricing because my background is

20 commercial. At MTN today for 2 rand you get 50 megs you are in the game on WhatsApp, at MTN today for 10 rand although it's at night you get a gig I know somebody is going to ask me why is only at night not during the day I don't have capacity because you build the network for the busiest part of the day but we all know that people don't make calls and use the internet at the sometime so

25 what we try to do is to spread the traffic across where you know the people are

going to be there all the time you can't be discounting otherwise you will collapse the network and guys I think the media people are we launched a WhatsApp bundle for ten rand a gig valid for 30 days we saw flames, it was tough, we were laughed by customers, we were hated by these guys that build

5 the network, we congested the network because we don't have the capacity we had to basically price up because people always challenge us like why is it only Telkom who is basically bold in taking the prices down. The main reason for us is the constrain we had on capacity and it is not a smoking gun but everybody is clear the biggest issue there is basically the spectrum then we basically go to

10 affordability the key thing around affordability telecom services cannot be priced like petrol where you all know that in Gauteng its 16 rand or 17 rands I know the prices change all the time on petrol. It is a different industry and it is a competitive industry and there are people who are providing better prices than others, there are different times in the day because of the capacity dynamics so

15 I just have to I know I am going to cover it a bit later but we can't say price data on one price just like you do with petrol prizes its totally different commoditises, we want to believe that are not a commodity I think in reality we are. But the point that I am making is that we are big on customisation, we are big on segmentation there a lot of people on our network who actually just get stuff for

20 free, there are people who receive more bundles than paid for bundles. I think you saw again that for four years we basically provided free internet access to Twitter, there were no caps until recently we introduced 500 mgs per cap and we finally had to retire it and that has actually had done a lot in building the internet in the country. The Twitter people in California didn't give us even a

25 cent we had to pay to advertise on the base that we were building for free. The

other area is service bundling but we have left this one for a purpose because we really believe that Dr Mncube for the discussions that we have today which is basically about the questions that you have given us on the MTN chaser model which is basically our template, our bible around how we basically drive

5 internet in the country, its coverage, its devices and its affordability of the internet. I move further so I can demonstrate with a bit of numbers, the yellow graph is a growth on 4G and the blue graph is on 3G I think on 2G we know that by 2010 we were on optimum point, they say I am left with 45 minutes I think I am going to up my pace. The important point I want to make here Dr Mncube is

10 that infrastructure competition matters there are lot of false theories that you should just have service competition and not infrastructure competition where is the infrastructure going to come from when people are not competing for that as I said earlier that we spend more money on capex than we do paying out

15 dividends why would we do that if it didn't matter. Every day I have to make sure that I compete with the red guys on coverage, you can call it maybe a race for coverage but it helps because then everybody in the country can have that. The view here is that you should have infrastructure competition and service competition you do not have to choose one. The other point is that we build coverage in the urban areas in in Sandhurst we basically don't do it in the rural

20 area again it is not true we actually have more sites in the rural area than we can have the metros, over half of our traffic actually come from peri-urban and rural. The deal that we've actually done with cell c talks to the point of infrastructure competition, Cell C had an option to basically shop around and ended up on our network because of the investment we actually given them and

25 with that deal come 4G I know Jose is going to talk a bit later but we've seen it

actually in the press by just doing the deal with MTN with what with that we have actually built and us giving them 4G coverage he has moved his coverage on 4G from 33 percent to 80 percent and there was no regulation involved it was basically on the commercial basis between the two parties. We spoke
5 about spectrum sometimes we just have to basically put context...okay it's not a spectrum it's around building coverage but again you cannot have coverage without quality. The best quality network in South African is MTN South Africa, the best quality network in the African continent is MTN South African, the best quality networks in the world are the Swiss networks we are never going to talk
10 about Nigeria on the other side it's not MTN Nigeria by the way so this is coming from P3 the most reputable engineering network quality assessing organisation globally as you can see I am assuring you Dr Mncube that we are not just covering we are also delivering quality on that coverage. We spoke about devices people may not actually know, the phone that you see today at
15 Edgars, the phones that you see today at Pep Cell, at Ackerman's almost 80 percent of them come from us and the red competitor, why would Pep come buy phones from us when they are retailers, the answer is simple we take a lot of cost out of them and we subsidise the devices so that we can enable access. We spend over a billion rands I am not allowed to quote the real amount
20 because its more than a billion rands subsidising the phones not because we are bored because we know that people cannot afford the phones, it's a way of helping the poor. We do not subsidise the iPhone 10s I saw that they say the cheapest one is like 20 thousand rands I know people love iPhones but we are not going to be subsidising those ones we will be subsidising the poor. So we
25 can move people from 2G to 3G, from 3G to 4G. Here is the thing that I think

you should understand around the spectrum, if you look at the 3G (inaudible) on average you are looking around 1.5 megabits per second, if you look on the 4G it's like 13 to 14 megabits per second but if you look at the congestion most of the people are sitting on the 3G because that is where the most of the customers are. But we do not have enough spectrum and the speeds are slower guy let us be clear slow speeds monetise poorly compared to faster speed one of the easiest ways to reduce the prices is to increase the speeds to, to increase the speeds you need the capacity, to get that capacity you need to get the spectrum otherwise all you do is you just keep building more 3G sites then you get less room to actually reduce the prices. I think our top Lawyer here Graham says in South Africa MTN we had to build ourselves out of trouble and by the way we don't have Rain spectrum maybe other competitors have that. Somebody spoke about the fact that some people have been sitting on spectrum for decades I have never heard an enquiry around why are people sitting on spectrum when the country's spectrum is constrained. Out of the six licensed mobile network operators not all of us are using the spectrum that the government gave us, there is a lot of inequality around the allocation of spectrum, some are sitting and some people are starving on spectrum. This is similar to the other slide that you saw before expect that these prices have fallen more. Effectively the prices have basically gone down 87 % put simply if you were paying 100 cents for a megabit in 2011 today you are paying 13 cents. It's a graph with a beautiful slop, with show improvement however the point is it is not where it should be. We have a lot of interventions around this maybe I should call this one out one of the interventions from MTN is what we call the stepper segments basically for the most vulnerable South Africans what

we did for world AIDS day last year not related to AIDS it was December 1 we basically say all those people who will default them to an out of bundle rate of 29 cents so Telkom does not have the lowest out of bundle rate in the country of the default basis, we also have that the only difference is just it is segmented

5 in our case, why is it only segmented, we had to basically target the most vulnerable, the poorest of the poor. How do we determine the poorest of the poor, we just look at the base of the 30 million that we actually have and then we look at the bottom and then as I say it's basically around 5 million people more or less the same as the number of Telkom customers on mobile. It has got

10 nothing to do with Telkom Ciara, it has nothing to do with you Siyabonga personally but Telkom is the benchmark on affordability in the country so we are chasing you. The factors basically driving the data prices to be where they are I think have spoken a lot about spectrum, it's a big issues on the exchange rate value , we've got a lot of costs and we've got regulation. For the poor people

15 who have got to get the internet most of the phones or the components are not made in this country, they are imported, we tax, we put duties on the foreign phones when you put duties on phones you make them more expensive. That is why I am talking about regulations prior tax regulation just to talk around the cost factors its around electricity I think I have got a slide later about electricity

20 because we have labour, salaries have to go up and we support that the salaries have to go up because the cost of living does go up. We lose a lot of our infrastructure to theft and vandalism and then I have spoken about tax region on smart handsets, we are on the lower part, we are next to Bulgaria but for me what is even more shocking when you take the same picture, if you just

25 put the 22 MTN countries that have spectrum the only places that have got

more spectrum than us are Afghanistan, South Sudan those kind of countries so really the urgency of us getting the spectrum is long overdue, the urgency is now. We talk about exchange rates always like to demonstrate with the price of an iPhone I know I am talking about the rich maybe I should talk about another
5 example. We've got a guy who runs our CFO Sandile Ntsele, Sandile says every time the rand moves by 100 cents that injects 600 million in our costs mostly costs of sales and opex that is not even talking capex, we have to grapple with this all the time I don't have to remind everyone in the room as to where the rand is basically is coming from we have to look at how (inaudible)
10 depreciated over the years for those who basically love the iPhones when Steve Jobs launched the first iPhone in 2007 it was 499 dollars if you are in New York, you are an American of course those people take these prices up we are the only ones who take these prices down. Last month they launched a sexier iPhone the iPhone 10 max. If you are saying you are a hard-core iPhone
15 person in South Africa in 2007 you were paying 3000 today we are paying over 16. This is driving the costs when you look at the packages you have to create for post-paid, people were saying I used to pay so much now I am paying so much why are these networks increasing the prices it is not us it is the exchange. The price of fuel I don't have to explain this to anyone again, why is
20 this relevant to us because we have got over 11 thousand base station if you go to a base station today you have to use power, what you use you have to use Eskom. Can I ask you a question, when there is load shedding from Eskom and there is no power does you phone switch off? it doesn't, it's not that it is magical because of the base station, if Eskom doesn't not provide reliable power it
25 means we have to buy a generator and put in that base station so that when

Eskom is down it calls the generator and the generator uses diesel and that is why I have to talk about this fuel cost. We spend 100s of millions in this even if you had electricity we also know what what NERSA has actually done with Eskom around pricing going up of electricity again I am not going to be debating
5 why those prices are going up but I am just going to demonstrate that those prices get passed to us and basically have to accommodate them in our income statement. The CPI is the obvious one but sometimes we have to state the obvious, we are not in Japan, we are in an inflation environment I hear that Japan is starting to get inflation and they are celebrating. We lose over 100
10 million rand a year over vandalism people go on our sites to steal what is steal able what do they normally steal, the most important thing they steal is the batteries. Again people would ask me why do we need batteries. What tends to happen when Eskom is down and Diesel is expensive in some of the site we have green power we also do it for environmental reasons so then we move the
15 power to basically that. So those lithium batteries there is a second hand market for that then people vandalise we have to basically spend more now not just to replace the batteries but to also hire Bidvest to guard the site. I used to work in Congo in Congo you talk about diesel 24/7 not electricity and because you don't have electricity people go there to steal diesel I had to have guard everywhere
20 here in South Africa everywhere now I had to basically out security guarding my site and that cost we have to accommodate in our income statement. What is the impact of the data pricing to the poor I will also argue basically to everyone, for us if you look at the hard facts the poor people in this country do not have the capacity to afford data like us or like most of us in this room but in spite of
25 that we've been able to drive penetration even in that segment, I am saying this

I think I have mentioned before around the prices and the coverage just look at our neighbours because like who we have to compete with I went to Lesotho, I ran the Lesotho operation for a competitor for almost three years the prices in South Africa even today are lower than they are in Lesotho, the next neighbour is basically Swaziland don't get me started on that one the prices there are not lower than here you go to the long one Mozambique the prices in Mozambique are lower than in South Africa but to Shamir's point go and look at the quality of the network in Mozambique just talk about coverage internet, penetration in Mozambique those who have got smart phones Goggle and see and compare it to South Africa because again if you don't basically coordinate the virtuous cycle properly you end up with the Mozambican situation were prices are every low, but penetration is low, coverage is low, quality is low I really do not think what this country really require. You can continue across to Limpopo and go to Zim the prices in Zim are not lower than they are in South Africa, Mascom which is basically an MTN investment in Botswana (inaudible) Botswana prices are higher than in South Africa, you got to Namibia I would even tell you the prices that we are getting guys I just want to mention that it is fallacious that in the region we are the most expensive, we are actually the cheapest just go around just look at the neighbours and the situation there is very similar a lot of these countries are using Rands even the Pula in one way or another it is basically tagged to the Rands I won't talk about Zimbabwe I don't know what currency is there but most people use Rands you can actually compare. We have increased penetration with these prizes, we have increased traffic on these prizes, we have increased coverage on 4G and on 3G with these prices and we are still able to push over five million smart devices every year to the market

with these prices. My conclusion I just maybe have to talk about three things, maybe I should drink water before the WOAN. I think the main point for us is please don't over regulate the industry uuh...we have a plethora of past cases around when you got too much regulation please let me be very clear that is

5 why we are saying over regulate everything have to be regulated. Okay, I am not going to talk about the OTTs. We believe the level of competition from an infrastructure perspective, from a service perspective, prices going down, coverage increasing, quality networks in the country, innovation in the country we believe it is basically working however it can actually improve. The biggest

10 issue that we have to deal with is that of spectrum which the next point is. I think I have to commend Minister Cwele that finally we are waking up next year I think before the elections we should have spectrum what the research had said and for me I basically have to trust them because I need the spectrum so that I can prepare myself. But we can not to delay on the 5G, American already

15 launched 5G, Verizon launched 5G, ATNT laughed 5G, BT in the UK in London launched 5G. We cannot waste another seven year trying to figure out the spectrum on the 5G we need to license the spectrum on the 5G straight away the again to Shamir's point one of the main reasons why the rich households they tend to have cheaper data than the poor households the rich household

20 have got access to fibre, the cheapest way to consumer data is to have fibre, it is fast, it is unlimited I think you have these kids say what is Wi-Fi, I said to my granny's house in orange farm to ask for Wi-Fi so 5G will help us basically leap frog the situation and another important point the world is not going to wait for us, what happens if we keep on deterring on these things we will just get left

25 behind. This is the country when it comes to 3G, when it comes to innovation

and affordability I think our previous speaker spoke about who invented the prepaid, it was MTN and Vodacom. We can invent a lot when we can get this 5G now there is six of us imagine in 1996 it was only the two of us so give us 5G so that we can actually deliver the fourth industrial revolution so that this time around we can play a serious part unlike the previous ones who ended up as colonies. Then the other point is on the state of the completion on my conclusion we believe and we've got the evidence that the rates are actually falling, double digit effective rate 27%, MTN the half of this year, the broad band coverage is actually scaling up, 4G by the end of the year is going to be 90% I am pushing these guys that in tow year time I know the ICASA guys are not here, oh they are here when ICASA has given us spectrum in a years' time we should be having everyone being able to have 4G in this country and with all due respect if you ask Telkom or you ask Cell C who are actually on our network today we don't discriminate we give you 3G roaming, 4G roaming which is up to you to choose. which you would like the 4G roaming because it is cheaper to deliver than the 3G roaming because even with the spectrum it is for 4G it doesn't help you a lot with the 3G and the also the proliferation of consumer choices and the personalisation there of Dr Mncube just to illustrate this point today on the MTN network in the middle of the night until the morning you can buy a gig of data for 10, if you have got a yellow simcard and you are on prepaid where the poor people are please dial *141*2# it's there. On the same network you can buy a gig for a day for 50 bucks or you can buy for a 70 bucks for the week or you can buy it for 149 for a month. I know there is a lot of debate why the 149 price is not changing. The thing that we play with in this industry is what we call elasticity where do you find the biggest response and

we do a lot of simulation on this, the most expensive salaries that we are starting to pay is not on the engineers it's on the data scientists and the actuaries that we are actually hiring. So the whole thing of customer value management, the whole thing of artificial intelligence, machine learning, big data we are using that to basically create pricing to create specific personalised offer you can't regulate that because this thing...even now as I am sitting here its learning and preparing an offer for me that is why I am saying it is not a simplistic situation and then the last point is around if I was allowed to ask I always ask the regulators anyway whether they listen to me or not it's another story. The first one the urgency to licence the spectrum is now, can you please get the 4G and 5G next year. WOAN, we have a position on WOAN and it is official and it is open sometime in negotiations you have to go on compromise, we agreed to the hybrid model that the WOAN can coexist with other operators. what we are worried about is that we need to preserve the incentive to compete at an infrastructure level for instance if the stories that ...I know we are still at the draft stage, if we are saying the warn to be viable needs 10 million customers then why is warn getting the bulk of 4G spectrum when MTN is got 30 million customers. If we are saying the fiscus is under pressure, I am not speculating, actually I am speculating the fiscus is under pressure and it has to raise money from the spectrum. Why would you give most of the spectrum who is going to pay the least to the as opposed to the guys who are going to monetise the best. Let me be clear we support the hybrid model, we support the WOAN we just request from the regulators the need to preserve the incentive to compete at an infrastructure level because experience tells us that infrastructure competing is critical to deliver even effective service competition

whether you go to Verizon or you go to ATNT I think snakes made the point around consolidation sprints and t mobile in the US are actually going through the regulators actually fighting for consolidation. America has over 300 million people practically they have four networks and they are trying to get into three.

5 This is a cash capex hungry industry you need to have people who can possibly plough the towers into the ground so that we can deliver the infrastructure and we need to be given the spectrum so we can have the oxygen to have the capacity so we can lower the prices. The other part is that it is very difficult to get permission to build sites in this country especially in the rich areas. The rich
10 people want the best coverage but they don't want us to build the sites. When I push back on that one I don't have a lot of rich friend but I have this guy. They say innovate, we don't have an innovation yet to deliver a network without sites so help us on the rapid deployment I know DG Nkuna is pushing very hard on that one but again we need that legislation of course it has to be done tastefully
15 (inaudible) and we have to look after the ascetics of those areas, we have to have environmental considerations and so on and so forth the solution is not to block and then I now can't get network in these areas, actually these areas are financially viable. The last one is possibly the most important one for us there is this discussion that if you own a network more than 25% you need to open that
20 one up to everyone at cost it doesn't even stop there it says that cost is going to be determined by the authority, by ICASA let me separate two issues, we are for open access unequivocally today Cell C is roaming on our network, they are even using our own spectrum, Telkom is roaming on our network so we are basically opening the network even from the fibre perspective the fibre that I
25 was talking beyond Silicon Valley we didn't just build it on our own now we are

busy building from Durban to Cape Town with Liquid so we work also with BBI so today we share like 2 thousand sites with Vodacom, around like a thousand with Telkom, another with 2 thousand with American tower and the other tower companies. There is this fallacy that there is no cooperation around
5 infrastructure sharing the only thing that is holding us back is the spectrum and the phones so we are basically asking that they actually need to preserve the incentive to invest because it is very clear if this thing is at cost who wakes up in the morning drive through traffic sweats and build stuff so that we can say it is at costs, it's a very communistic idea and I think we all know were communism
10 ended in this world. I think that should be my last slide, I don't have a thank you. Thank you, okay I was expecting a thank you slide so but thank you guys.

CHAIRMAN (MR MAJENGE): Yah but thank you very much Mr Motsa I am sure Dr Mncube will listen to you and switch to prepaid.

MR MOTSA: The tariff is actually lower than on post paid

15 **CHAIRMAN (MR MAJENGE):** Mr Aproskie.

MR APROSKIE: Thank you, uuh...I am sure you had a few of my questions already from the previous presenter uuh...I suppose the first thing is on our first question of are prices higher than they ought to be is it then your position my understanding is that given all the conditions and the constrains that you have
20 identified the fact that it should be given a context that MTN operates in your position is the prices are not higher than they ought to.

MR MOTSA: Yes, sir.

MR APROSKIE: Okay, and then if I am also understanding you correctly from your presentation and what you have said the drivers of prices in South Africa and the constrains that you see or the things that drive us to the price outcomes that we see are all cost or regulatory issues from your perspective you are
5 saying that there is no competition issue because you say data prices are competitive within the current conditions.

MR MOTSA: Definitely, Jason the other area you can look at....

MR APROSKIE: So maybe just a bit closer to the micro phone.

MR MOTSA: Yah, I am saying you are right I was just saying the other area that
10 you can look at look at our EBITDA margins its 34, 35 percent that is actually the bench mark for you to be a viable operator I know I can't quote Makinzi now but that is really the benchmarks that are used all over the world, you need like a 35 percent EBDA margin of course other things that you think about for you to be a proper (inaudible) that is the bench mark, that is where we are, we are just
15 holding on there so we are not making super normal profits I can assure you about that one anyone who can read an income statement on the MTN South Africa, a publically listed organisation MTN South Africa we are not making super normal profit, we are profitable, we are viable and the price we are delivering is actually based on the dynamics that we are dealing with.

20 **MR APROSKIE:** Okay, thanks and then you also talked about your effective rate, so your effective prices are coming down by so much and you mentioned that 27 % in the first half of this year I think you said. Can you please give us a sense of what is driving that and where is that coming from because and you already alluded to it but we see the headline price for a 1GIG bite 30 rand

bundle hasn't changed so where does the effective prices if they are coming now what is driving that, what is the reason for that.

MR MOTSA: Thank you man, I think I just have to explain what is happening to the internet market as I think the previous speaker has mentioned we used to
5 not have the in bundle and out of bundle now we have the in bundle and out of bundle so what we have done at MTN December one last year we also reduced the out of bundle to 29 cents, we also reduced in the rest of the base but it is segmented there so that was one part. So what has moved the niddle is the in bundle, the in bundle is also changing traditionally we used to buy naked data
10 like R149 for gig valid for 30 days. What the customers are doing today the time they spending on the internet is different, social media is addictive people spend a lot of time on Facebook, a lot of time on Instagram what the competition has done they basically started introducing different pricing so pricing by social bundle so we are seeing a huge reduction so that is why I say then if you look
15 today the naked data at MTN is at 149 rands but if you look the bundle on WhatsApp its 30 bucks for a gig same time, it is the same thing at Vodacom its 29 rands, at Cell-C its actually 17 rands I heard Telkom has laughed at 15 rands so again it is not cheaper to deliver a Facebook bundle or Instagram bundle than generally internet so all those things are actually driving it so pricing for
20 video, pricing for social bundle is differentiated now from the normal data pricing and that is actually accelerating the decline. But over and above that it is putting more strain because you remember Facebook before we didn't have a lot videos but today it is basically very video intensive yha so that is why I am saying the prices are going down and then the spectrum crunch like us we are
25 really stuck there and the we've got the capacity problem but we still able to

kind of like mauve and basically find ways to reduce the prices. But it is driven by competition but the competition has been smarter and say you know what let me just target social bundle, let me just target the You Tube, the DSTV now the Netflix as well as the show max that is how it's going because if you look at the
5 predictions the future of data is video but how do you price that so we are still experimenting with all these different things.

MR APROSKIE: So I suppose my question is why do you respond on things like the social media bundles you seem quite aware of your competitor's prices and the responses that you might have to make and it seems like you respond
10 on bigger bundles because people are changing their conception patterns with more demands and they are buying bigger bundles or consuming or data but why is there a responds on most of those things and not a response on the most talked about 1 gig bite 30 day bundle that everyone seem to use but no one seems to wants to change. Why is there no response there?

MR MOTSA: I think the people who have got the mic are the ones who are talking about 149 because the majority of the people on the yellow network use the hourly bundles, the day bundles and the weekly bundles and the weekly bundles are actually cheaper than the monthly bundles but what it does for us from a network perspective provides better planning because as I said the traffic
20 in the network is different all the time if you can get someone in for an hour at least you know it's going to be on the next hour but if I had to reserve capacity in the network basically for 30 day it's actually a bigger cost for me. So in our network there is actually a difference delivering the megabits with a different time period and time durations as an example you have the network at night, at
25 night most people are sleeping which means the network is empty it has got

more capacity what do we do then we drop the price to 10 rands a gig it's on that *141* that I was telling Dr Mncube about so that is what we do because to be honest it's like a hotel peak season of season if we drop the prices at like during the day we almost have to build three times the size of the network, we
5 don't have the money and it won't make economic sense there won't be return.

MR APROSKIE: So you mention planning with the smaller bundles or the smaller time bundles those are still available at any time of the day right so if you have got a one-hour gig bite bundle you don't know that the consumer is going to hop on in the busy hour and buy that one gig bite for an hour. So how
10 is that help your planning?

MR MOTSA: So Graham I am not allowed to say this but I think I have to say it so that I can answer the question the pricing now is moving to dynamic pricing you may see it for instance you have to get the MTN simcard you go to the *142# and then you got what we call my city offers what we are starting to do is
15 hide some of the offers when the network is busy. So that we can make sure...when you look for it you won't find it there it's almost like the happy hour...let me not go to the happy hour because it has got many connotations. You look at the airline industry of the hotel industry that is what we can give you as an example but that is why as I say with the investment on the gig data, on
20 the machine learning on AI...because the simcard is always is always on your phone we just looking at the traffic and we understand how the consumer behaves and then we personalise it for that so you will not be able (inaudible) but still if it's basically one-hour (inaudible) the whole month still accommodate the other mix as well.

MR APROSKIE: Okay, you were talking about the one gig bite bundle that it is not necessarily what we think it is but doesn't Telkom's behave in reducing the price of that one gig bite bundle buy so much doesn't that suggest it is something important, there is a point of competition unless you and Telkom
5 have a different idea of the importance of that bundle.

MR MOTSA: Telkom has been very successful in terms of recruiting customers and a growing traffic and also doing a good job pushing the competition. We normally test these things like the 149 that you are talking about we will run simulations, we will see the responses from customer, we will see the
10 responses from the network perspective from those kind of analyses we decided we were going to compete the different way. The other philosophical of looking at this thing from my side is as I say I started my career at MTN in the mid-90s I used to be an intern here in South Africa and then I went work in FMCG companies like Coca Cola and Kellogg you have got what you've got
15 what you call the KVI so you have got a popular product that you choose to sell at the lower price there is also that if you go today and look at a price of a 500g of a Kellogg cornflakes it will not be the same at Pick n Pay and Shoprite people will price it differently because of the different dynamics at that point. The telecom products is a fast moving consumer good it moves faster than Coca
20 Cola, it moves faster than Kellogg, it moves faster than cigarettes because people are with this most of the time so that is why we really need to have that flexibility to make sure that we can change things.

MR APROSKIE: And just the last question on this particular point it's a similar question that I asked Vodacom, is if you do get spectrum, spectrum is released
25 or you allocated more spectrum and your scarcity issue are resolved how will

that affect your pricing, will we then see headline prices coming down or is it still going to be a mixed strategy I mean what is MTN's view on how your pricing across your products is going to be affected by the release of spectrum?

MR MOTSA: The headline prices will go down what I can't tell you is by how much because I also don't know but remember it's going to be a build up as well because for instance if you look at the 2600 when you get it, it's not going to happen overnight but I can guarantee the nation, I can guarantee everyone the prices are going to go down when we get spectrum, they are going down at the moment but with the spectrum they will go down faster and we will be loved again. My colleagues here maybe want to add something on pricing pressure.

MR CHETTY : Sorry I mean obviously you know I think Mr Motsa spoke earlier about there is a massive concentration consumption and spent in this economy across all sectors right it is the same as in the telecom because of that concentration and spend if you reduce for the top ten percent spenders your headline pricing by one or two percent you've got to get something like 20 percent elasticity in the other 80 percent to compensate to break even so you have to balance that and today if you like at the private pricing we do the zone pricing that we do that is which is kind of capacity based the results is that the people at the bottom 80 percent of the spender get the lowest effective rate today on the MTN network.

MR APROSKIE: Sorry just say the last part again I am not sure I understood that.

MR CHETTY: I said because we are using private pricing to kind of balance what you effectively have is because of private pricing to lower end users in less

urban area we have a product called zone where you price by site based on usage so the higher the usage the higher the price the lower the usage the lower the price, the lower the spare capacity the lower the price effectively what you have is the people on the bottom 80 percent have the lowest effective rate
5 on the MTN network.

MR MOTSA: If I might just add, we are bringing the MTN mahala calls actually we have brought it back this month, when you are in an area that is less congested and you not now going to get the up to 99 % discount you will get free minutes that is allocated those minutes are allocated for a specific hour
10 because we've actually understood that in that hour we will have capacity then we deliver to you so its discounts plus free it doesn't get better than that I know we are talking voice now but its cost of communication anyway it's just that its data that we are mostly taking about.

MR APROSKIE: Okay I just wanted to press on that statement just because
15 people will pick up on that and maybe not necessary understand that so I think it is worth driving into that so you are saying the lower volume customers, the lower spending consumers are going to be getting...do get the lowest effective rate is that just in particular instances can you just dive into that because that seems to contradict what we have had.

20 **MR CHETTY:** I obviously (inaudible) to the discussion that you had with the Vodacom delegation but what it is, is because you are doing a lot of promotions, lots of private pricing in less concentrated areas effectively the rates you get so if you look at some of the charts that Vodacom has put up they talk about effective rate of 3 cent in one cent a lot of that is a result of private pricing, it's

not about headline pricing so because what you try and do is balance this duality of your base of the concentration of spend at the top but the need for access in less urban areas so the effect of that and if you look at some of the initiatives we have put in place like zone and mahala and the stepper plan they
5 are paying the most expensive out of bundle which is 29 cents and then with mahala depending on the capacity of the network you can go down for free.

MR APROSKIE: Okay, how wide spread is this you are saying it is in certain areas...

MR MOTSA: Can I add maybe on this one because we have capacity
10 constrains if you are poor and...I live in Kayalami and our nearest township is Olievenhoutbosch, you live in Olievenhoutbosch let's say the network in that area is also got a rich neighbourhood the people in Olievenhoutbosch will not get it because you have got Kayalami as an example which means that it gets isolated to very small areas so that is why you are not seeing this in wider areas
15 and it might basically feel like we are contradicting the intuition that we have seen throughout. But again I am going to the spectrum story, if we've got spectrum...the most spectrum stuffed areas are the high capacity areas like the rich areas so we lay it there and now we can actually provide something for the guys in Oliven not bosh because if I drop for my Oliven not bosh neighbours the
20 guys in Kalayami will not have access even them it won't have a quality network because it will congest. However, if you place it in the isolated areas which is not the dynamic in reality there you get it but nationally you can't get it in the main areas. I wanted to clarify that.

MR APROSKIE: Its greats it sounds like it is particular instances or areas where it works it's not necessary something that is universal not to discount it but to understand it.

MR CHETTY: So Shameel spoke about what they call Vodacom for you or just
5 for you if you go on to use (inaudible) *142# because of people spend what we try to do is differentiate...you essentially you the AI technology spoke about and the machine learning tools to price for the customer of one so if you are spending 10 Rands a month in data what we will try to do is scratch you to 15 rand but for that we could give you a gig right because it is an effective spend
10 that we will try to persevere than a rate per megabit the problem if you do that on headline price and you dilute on your top 10 you especially need a factor of 20 elasticity on the bottom end to compensate that revenue.

MR APROSKIE: Okay, then just in terms of competition element so we spoke briefly about it earlier but your position was the market is competitive Vodacom
15 and other players in the sector say that the mobile market is not competitive, you have got two large players, you have first move advantage that you don't see the response to some of the price changes that have come, market years are consistent over time or at least not moving a lot I think you heard some of the things that have been said. Why would you say that this market is
20 competitive particularly with the one slide that says MTN has got the best quality network in Africa which I presume is a big competitive advantage for you. Why is this market still a competitive market?

MR MOTSA: Can I maybe clarify one thing as well because I know we always blended together with Vodacom. Vodacom makes more than 50 % more

revenue than MTN, Vodacom got almost double the profit that MTN have in South Africa I am just trying to say one thing maybe from the network perspective we are similar but in the bank we are not, these number are published guys go check and go to the websites you will see that and then I go

5 to the next point, why do I see this industry as competitive, its competitive for me at two level both from an infrastructure and also at a service. Let me start with the infrastructure, there are six players but to be honest with you there are two strong players, it's us and the red guys. However, even in an infrastructure level we can compete I am using an example with Cell C that roamed with the

10 red guys for 18 years and the they didn't just walk into with us, there was a process, there was competition, there was pricing negotiations and they found a better deal with the yellow network. I will go to Telkom; Telkom is with us today but every time we have to be negotiating with Telkom ton stay with us. I go further on the ISPs with Afrihost, but Afrihost moved just to get Rain so we are

15 losing customers just at an infrastructure into Rain. You look at the MVNOs FNB is not with MTN I think Shameel mentioned the point that Standard bank is shopping around I was not aware that they settled with Cell C but let's say they have but these guys they go around looking for the best deal but the cost is a cost. I do not believe that we can squeeze anything we are doing it every day so

20 that this guy can deliver the maximum capacity at a lowest price and that lowest price is not just for MTN is it's also for the guy that wants to use the service. I go to the service level the Telkom guys are able to sell a gig for 99 rand a month, I go to MTN we are able to sell 50 megs for the poor for only two rands, I go to the Cell C people they are selling a gig or 1.2 where they combine Facebook

25 and WhatsApp for 17 rands. There is a lot of differentiation all you do is you run

your assimilations and the they tell you what the customers respond to and the you basically speak to your engineers what you can deliver and then you talk to the accounts last and then you deliver so at the infrastructure level and the service level, I would be worried if all the prices where the same then I would
5 say there is no competition at a service level you look at the prices that the Rain is charging they price so low that they ran out of capacity by the way again there is spectrum coming again and then...let me stop there.

MR APROSKIE: Let's move on to some of the submissions that we received yesterday just looking at some of the numbers I know we have talked about
10 some of the dynamic offers or specially pricing or personalised pricing or private pricing but if we look at one-month bundle on MTN site ten mega bite bundle that is valid for a month is costing four rand which is 800 rand gig bite, you get a one gig bite bundle that cost R149 that is actually R150 per gig bite maybe just a general question is why do you think we are here as a mobile market, why do
15 you think we are in this situation where we've got such a large disparity between headline prices and typical bundle pricing why so you think drives that and then perhaps you can move to some of the competition that you have been seeing because you mentioned that you compete with Telkom at an out of bundle but maybe just start with why such a large price differentiation in the
20 market that is competitive as well.

MR MOTSA: I think to be honest you are right if you look at the monthly offers especially across the networks they don't make sense my view is the expensive entry level price point shouldn't even be there because nobody is buying them, there is no sober person buying at that rate when on a daily basis...if you buy
25 the daily ones or the weekly ones or the hourly ones you get easily ten x of the

value, we have to basically clean it up because it is driving a lot of confusion. I just have to be open the industry has got a lot of complexity and this confusing customers so that is why for us we really believe that moving forward we are going the private pricing, you will never get the same price as the person
5 working for you at home, she will cheaper, you possibly going to get something as well but it won't be the same price so we have to clean it up because it doesn't make sense. Does it worry me; it does worry me because there is no one buying it, there majority of our customer they are buying the hourlies, the weeklies and the dailies and that is where the revenue and that is where our
10 customers are but we must just remove them so that there is no noise. You can still argue why it is R149 monthly when it's basically 30 rands on an hourly basis. It's not like I want to hog the mic, guys there are people who are price sensitive and there are people who are not price sensitive, I really believe that if you are rich and you are not price sensitive you shouldn't be my first focus, my
15 focus you have to be poor so that I can get you on the game or you have to be at least price sensitive I must offer you something. I said to you I worked for Coca Cola the king size the baby Jake the price that you pay there and the can that you pay there and the two litre that you basically getting at Checker Hyper it's very different even if you are a smoker what you pay for a stick I don't know
20 what you call them, the loss and the packet it is very different. Even if you are at Kellogg you buy the 300g and the 1 kilo the more you it basically becomes cheaper but what we are doing in our case because we are in the capacity space we have to get that thinking and we have to get the hotel thinking and the we have to combine the whole thing and it becomes confusing. So we have a
25 responsibility as an industry to simplify the price and we are giving the

commitment we will actually do that and thank God we are not waiting for spectrums to do that.

MR APROSKIE: I hear you, I suppose the question then is this is almost the same as a simplification issue that there are products that are not the products
5 that people actually buy. I mean its...I hear you...but I suppose the question then is we've got groups like right to know and the few of the consumer right groups that are coming to us and saying this is their experience from survey, from talking to people, from personal stories saying the cost of data for them is so high and bringing those stories I mean those people just confused what the
10 offering are or is it real, is this perception or reality?

MR MOTSA: I think for me the way I see it let me be clear not everyone in this country can afford data today that is why we actually believe that we if we get the spectrum we will be able to drop the prices so that we can increase the pool of the people that can afford the services. I also mentioned the issue of
15 complexity in the sector, it is still possible that you can buy a wrong tariff and the you had a negative experience then you call the call centres but gain when you call the call centre on the yellow network for instance you have accidentally go out of bundle what we do in our epic promise to our customers we actually take that spend we charge it as an in bundle spend base on the bundle you
20 have consumed before and I think also the regulations that we also have now with ICASA on data pricing is pushing us towards that area. So the issue of out of bundle and in bundle if we were still talking about it we would have done a really bad job unfortunately the industry hasn't been fast on that one and the ICASA had to start (inaudible) so we can actually get into that so I do respect
25 where the right to know is coming from and I think with the proposal that you

actually put on the table it should address a lot of the issues around simplifying the offers , being dynamic and also removing the redundant plans and the n also making sure that the out of bundle and the in bundle electric fence situation is dealt with.

5 **MR APROSKIE:** Okay, it is then your position that spectrum is also affecting you at the bottom end of the market, the low volume consumers

MR MOTSA: It is the Olievenhoutbosch story is the clearest one if you are on the MTN zone tariff and then you happen to live next to a rich place you are screwed because the network cannot cater for lower price and I am sorry Dr
10 Mncube I am not supposed to use these kind of words. But we are in a tough situation until we get spectrum and we can have capacity then we can play with sectors and the technology is improving.

MR APROSKIE: Okay, last couple of questions on this point you would have had me saying this or being briefed by your team that some of the proposals
15 that were brought yesterday so one of the proposals is to have prices flatten or have less discrimination across different volumes and there was also a proposal doing zero rating for certain Apps where they will be funded by out of the SED obligations for operators. But perhaps the first question to answer is how would MTN react to any kind of regulation that would flatten prices even for to a flat
20 rate for data or something which reduce the disparity between low volume and high volume. What would your reaction be in terms of pricing strategy and operational strategy?

MR MOTSA: I think it would be a very dangerous idea this thing is extremely complex the guy who is sitting on You Tube I think a lot of us has been to You

Tube and there is a lot of content on You Tube and the kid in Parys who is doing his homework and his researching on google you are telling me that these guys should get the same prices because that is what we going to end up doing. It's trying to be simplistic that is on something that is complex and its very
5 danger and to be honest with you will also fight back because with all due respect I think we mentioned this before maybe it doesn't get demonstrated a lot we are a very social conscious organisation we want a South Africa that works, there is no other place that we can go, everything converges here for us, we are owned here.

10 **MR CHETTY**: Can I just punctuate that statement, if you have a flat rate you would not be able to offer the ten rand a gig to the most vulnerable customers because right now what we are trying to do is on people who are wealthier you are recovering for the areas were you actually spending capex that is not fully utilised that is how you recover your 10 billion rand K-pax investment if you put
15 a flat rate you essentially subsidising the better of people so you would have to price higher for the lower (inaudible) pricing you know I will give you an anecdote it's the fee must fall, so colleagues of mine in my last company he is saying this legislation is fairly stupid because the people benefit the most are my selves, I can afford to spend R200 000 to send my kids to varsity all of a
20 sudden all its kept now. What you do need, the kind of varsity that I went to had needs based pricing it said you submit your parent's tax returns and you are given a price of what you are going to pay. Richer people paid more for education poor people paid less and that is essentially how our prices work, if you going to flat rate it you have the invert effect of what you are trying to do
25 and I think that is very dangerous.

MR APROSKIE: Okay, maybe just the second last question just on this point so uuh (unclear) yesterday had a proposal of offering certain apps public benefit organisations they call them (inaudible) what was your response to that proposal?

5 **MR MOTSA:** I think it a cool idea by the way we are actually doing a lot of these things, we even did free tweeter for free for four years, today we are giving free Facebook of course it has got some conditions and we've got millions of customers on that one but also from the educational perspective a lot of apps are actually doing this. So for me the sweeter for me we are actually getting
10 ESD points and then it can get us from level four possibly higher because our ambition is to get to one if I can get all these ideas I am game.

MY CHETTY: And today we have got policies (inaudible) all educational institutions we have a policy that we will zero rate those so we do that for a lot these at the moment, D6 communicator most of the South African universities
15 right now their website are zero rated.

MR MOTSA: And there we don't discriminate my kid goes to a D6 stuff and I was angry with him why is my kid being subsidised by saying we are subsidising education and we don't discrimination.

MR APROSKIE: Thanks the last question on the WOAN, what is your
20 understanding terms of how the WOAN will be carried on your infrastructure, what investment or practical changes would need to be made in order for that WOAN to be carried on the MTN structure, on the frequencies that have been allocated on the WOAN.

MR MOTSA: I think the WOAN the way we understand it is that the WOAN is an infrastructure player, there are lot of people who are saying the six in combats (indistinct) if I can call them that are not providing competitive offers so when the WOAN comes they will reduce price of infrastructure access and then

5 our commitment to Minister Cwele was that we don't think that is going to actually work but we can support and one of the support that we are going to give is we will buy capacity from them and they have to go and raise money. I saw an estimate from one of the economists saying that they had to raise a 100 million rands I don't know over what period to get the coverage obligation

10 because if you get spectrum it comes with coverage obligations. They have to raise the money, they have to build a network, they have to make sure that the network that they give to the service players is as competitive in terms of quality and coverage as our network otherwise I will be surprised why we will actually go to them but over and above that we will buy capacity from them and for us

15 buying capacity from them of course we are going to have our own quality requirements as well. I don't know a lot about the WOAN to be honest with you because I can't find a lot about it the only thing that I hear is the principle, lets introduce an infrastructure player and then let's make sure that you guys who have been in the industry for long time you support that and with due respect

20 MTN and the red people were built on the back of Telkom maybe Telkom can argue that Vodacom was part of their company .But by the same token Telkom was built by tax payers, the people who were working in the mines it want just the guys who were supervising the guys in the mines.

MR APROSKIE: Okay thank you, that is all from me.

25 **CHAIRMAN (MR MAJENGE):** Mr Mahuma

MR MAHUMA: Earlier on in your presentation you made a point that not everyone is currently spectrum constrained and to borrow your word you said some of the people are sitting on spectrum and by that it almost seems to imply that those that are sitting on spectrum should then give over the spectrum to those that are capacity constrained if that understanding is correct aren't you not limiting those that are sitting their growth if you take over the spectrum going forward so if you now saying those who are capacity constrained should almost take from those who are sitting on the spectrum going forward they won't be able to grow because they will face the same constrain that you are facing now with the other operators the red guys.

MR MOTSA: My brother some of the people have been sitting on the spectrum for over a decade I am not going to mention names because Jacky is here and she keeps me straight, but you can just ask ICASA who did they license, how much spectrum, how many customers, what coverage has been delivered by these people. My view is that the country needs...and with all due respect if my understanding is correct, correct me Graham if I am wrong I think ICASA has got use it or lose it policy surely maybe the simplest way that policy is enforced, am I correct, he is nodding. So I am not saying they are doing this but I have seen the market for instance I am going to go in the great lakes where people, get spectrum, sit on it and then they speculate that we are going to come and buy at them at insane prices. I can give you a simple example as well closer to home, people buy land, sit on it and then hoping one day they will profit from it. There is spectrum speculation I am not saying it is what is happening in South Africa but in the continent we have that of course prove who is speculating and who is not until you try to buy the spectrum and you ask the person how much

did you buy for the spectrum, you work on the difference and you realise. So that is really my view, let's just enforce the ICASA, use it or use it.

CHAIRMAN (MR MAJENGE): Dr Mncube?

DR MNCUBE: I have questions and they are related to your slides, if we can go
5 to the slide that is titled "are people spending all their money on data". I am interested on that slide. My question is in other countries where MTN what is the spend or what proportion of the spend is constituted by communication relative to all the other...

MR MOTSA: I will be honest with you my lawyer told me if I don't know the
10 answer I should say I don't know. I don't know, if I look at the neighbouring countries working on my guts I would say that putting this thing in Botswana it will be the same, Lesotho it will be the same, Swaziland it will be the same, Namibia it will be the same, the SACU countries I think it will be the same I can't go beyond Limpopo I think I will be playing God.

15 **DR MNCUBE:** Okay, then let's move on to the other slide I think its titled network investment more sites in rural areas. I wanted to find out whether rural areas are equally capacity constrained in terms of spectrum?

MR MOTSA: I will put answer it in a technical way and my engineer would add
20 a bit more. What we see in the Eastern Cape where we are a market leader and you can see a proper dynamic there. If you go to a site today you will find 2G, 3G and 4G even in the rural area, the 4G phone can work on 3G and it can work on 2G.the 2G phone can only work on 2G and a 3G phone can only work on 3G so because most of the people, in the rural areas are poor the majority of

them tend to be on a 2G phone which are basically cheaper phones and make a lot of voice calls and the spectrum there is extremely constrained so there is congestion in the rural areas on the 2G and 3G networks and if you can run the tests you will see that all the rural areas are suffering from a capacity constrain.

5 Where we don't have a capacity constrain in the rural area is on the 4G layer because the phones are expensive, they come with taxes and sometime they tend to be lagers in terms of adoption on the new technologies. So simple answer yes there is constrain in the 2G and 3G were they are but in the 4G layer there isn't.

10 **MR CHETTY:** So if I could just add as well just to take a step back when we launched LTE it didn't come with incremental spectrum the spectrum that we are using is spectrum is spectrum that is re-farmed from allocated spectrum for 2G and allocated spectrum for 3G. so when we look at some of the rural areas I think Godfrey spoke about the device ecosystem and the mix you find mostly
15 there are GSM only devices in the rural areas but there is a balance between GSM only, 3G and 4G now the opportunity cost of not catering for 4G guys is that you put them on the 3G network or GSM network and they get a sub optimal experience so the way we design these networks is we start by defining a minimum service level and then we understand how traffic management
20 needs to be done in order to ensure that the GSM guy, the 3G guys and the 4G guys gets a minimum service level that is adequate linked with the experience so in these areas because of the device ecosystem we are not able to provide the spectrum allocation to the right allocations to the right technologies and it comes at a cost. Right now not in all areas but a lot of the areas we do need

this spectrum because providing and taking care of the 4G guys like Godfrey alluded to creates some issues on GSM and 3G.

MR MOTSA: And some people would stay on 2G and 3G for a long time that is why at MTN we have a dual data strategy so the imaging markets focus on
5 moving people from 2G to 3G and then on the value part we basically moving them to 4G and if we get the spectrum we will focus on moving them to 5G. yes, dynamic will stay with us for a long time and once we get the spectrum from ICASA and Minister Cwele these guys are clever guys they will be able to reallocate the spectrum and do the reforming and all the dynamic allocation and
10 then we will be able to fix the situation, the rural communities are actually suffering from a spectrum crunch.

Dr Mncube: And lest move on to the slide that shows data pricing, the effective rate has fallen. I want to invite a comment on this one and this is because Vodacom has chosen us a similar picture of the effective price going down over
15 time. And the question that arose to me was how does this compare first to Vodacom in terms of prices going down over time. Then the second one was how does it compare to what we saw yesterday from uuh... I think you know the work that is done ICT Research Africa which suggests are totally different picture and did not give a picture of pricing going down.

20 **MR MOTSA:** I haven't seen the ICT study but there are two things, the ICT people don't work at MTN or at Vodacom so the stuff we are talking about are the private pricing and they don't have access to that, they are possible looking at the headline pricing and it not stepper as this I am kind of like giving logic. But the easiest thing if you do not have that information look at the data revenue

and look at the total traffic and then you divide you will be able to see the cost per gig of what you are making I don't know how that did their methodology but to give them the benefit of the doubt I would argue that they do not have all the information to arrive at that.

- 5 **MR CHETTY:** I mean these are published numbers so if you go to our annual report, go to Telkom annual report and Vodacom's annual report you will see that data growth in South Africa is an excess of 60 % out data revenues, Vodacom's data revenue grew between 12 and 15%.

DR MNCUBE: Then I have one last question which is on the regulatory
10 environment, I want to invite a comment if I can get a sense of whether today to you feel that the regulatory environment has supported low pricing structure on data?

MR MOTSA: It's a difficult question but it is still a very good question, when you engaged with Chairman Rubben and also Wellington and the Councillors at
15 ICASA they are very responsive to the needs of customer, government and the operators they told us under certain terms time for playing around not like we were playing around so they actually want the prices to go down, they want the coverage to improve, they want the quality of the networks to be proper I would say that they are supportive. But its more complicated than that we all aware
20 that in 2016 ICASA issued an ITA around the allocation of spectrum but there was no alignment with Minister Cwele, every time we've got disagreement okay maybe not all of us but we basically rushed to courts and the whole thing got stuck the for the long time and we lost a lot of time. What did we do in the process we had to densify the network, densifying means we had to add more

costs if we had got the spectrum two year ago we would be talking a different language today. I think their hearts are in the right place but sometimes the action doesn't not match the speed where would you like to be sounds like I am trying to hide but these are guys we can trust is this is what you are asking at the end of the day. We believe that we are pushing in the same direction as them of course there will always be disagreements if the operators they agree all the time I would be worried. We are looking for the same space; we are all trying to get to the promise land.

CHAIRMAN (MR MAJENGE): just two questions from my side they relate to the other slide that Dr Mncube took you to which is a slide talking to expenditure by consumers on data. Are people spending all their money on data? And your answer in the slide is no and in right hand of the slide on the same slide or the slide dismisses the concern that lower income and rural households spend a significant proportion of their income on mobile communication and your slide dismisses this as a claim and you see that...I think it's a bit uuh...it took me back and I would like to take you to a submission made by the right to know campaign, I have highlighted a specific portion of their submission and in this submission and I quote the right to know campaign submits that the experience of mobile communication of the majority of the participants in their research was limited to making calls, receiving calls and sending or receiving sms and instant messages and even engaging in those activities was very limited. Few of those participants living in low and very low income household experience the wide area of communication services and mobile internet communication that are on offer because the price levels are out of alignment with household income levels despite the high price for communication relative to house hold in come the

majority of participants use private access not public access. This indicates the limitations of private and public access to mobile communications and the internet for those income groups. Most focus group participants expressed the need for a low cost mobile communication rather than free airtime packages which their design often don't meet of these consumers and this is a constant 5 reframe in this submission so it would seem at least from this submission that the concern is legitimate and cannot fairly be characterised as a claim.

MR MOTSA: Bukhosibakhe it is really difficult for me to comment on this because I don't have the numbers let me go to the essence of the question are 10 people in rural areas, the rural poor even though the urban area has poor people getting a row deal from network operators I can boldly say that answer is not true. We actually subsidising more for the poor people than we are for the rich people of course there are also other dynamics that actually come to play as I say unfortunately if you are on the zone tariff and you are next to the urban 15 area you can't get that. The issue of free again we cannot remove the free stuff from poor households because people cannot buy data when they don't even know what data is. So what we tend to do we give...like now we are running a special where we are giving 500mgs of data for like a year when you were buying a phone we were giving you a gig of data so you can sample the internet 20 and then we introduced the pricing again because of all the customisation we give you the price that is fit for your wallet. I want to refute the view that we are scheming the poor and we are subsidising the rich that is not the case. The people in the rural areas...like now why do we have ten million people in the MTN base not using the internet. It is not that you can't buy the stuff it's 25 because the phone that you have is a dumb phones and mentioned earlier the

entry level phone is around 160, 170 rands at Pep Cell to just get to a proper internet experience you need a 3G phone that jumps to 399. We need to deal with the eco...for me there are two elephants, it's the spectrum and it's the affordability of devices that's it. The competition in the market is adequate
 5 enough, the sophistication is improving all the time, we will be able to deliver affordable data to every pocket.

CHAIRMAN (MR MAJENGE): But do you accept that the costs for these low income groups as a proportion of income I mean it is still disproportioned.

MR MOTSA: I don't know what the figure is, my view is that I am looking at 2.7
 10 % here and it is not out of work but there is another thing that you have to understand is that this thing is indexed against GDP so normally (you will find poor people they actually have lower income but from the paragraph here when I don't have the numbers I cannot really support their view what I will do I will go to stats SA that is why I was not going to put this slide if it was coming
 15 elsewhere it had to come from proper, reputable South African who understands our environment.

CHAIRMAN (MR MAJENGE): Yah but obviously this slide is not telling you the reason why usage is at the current levels and the submission indicates that actually there are these constrains to usage if you turn the page in the same
 20 submission in the right to know campaign under the heading "understanding the leaf costs" just the first sentence under that heading says and I quote "at the time of research individuals and household were paying between 120 rand per month for 40 calls and 300 rand per month for an unknown quantum of calls and smses. This is relatively high cost against a household income of 3500 per

month the top end of the household income for the majority of focus group participants so the submission is clearly referencing the constraints which appears to be consistent with... (inaudible).

MR MOTSA: Yah, I think if you look at these numbers 120 rands out of an
5 income of 3500 rands spent on telecommunication it's a very high figure it
should happen but from what we are seeing were we don't have one person
we've got 30 million people and I can argue 60 percent of them can easily be
classified as emerging markets and poor and we are not seeing this and at an
aggregate level for the whole country this is what Stats SA is showing us, I
10 respect the diversity of opinion but we can't be entitled to selective, cherry
picking facts we need to really look at basically...I am happy to engage with
these people, if they've got more information that we are not aware of we will
(inaudible) what we currently have but the evidence that we see from our
network, every day we are billing and every day we are trending this is not what
15 we see and most as I say the most people that get free stuff are the poor people
(inaudible) I have never seen this but as I am saying I am willing to engage with
the author of the research so we can actually understand maybe there is an
insight there we are ignoring people, maybe we are overlooking people because
of lack of information. I am not claiming to be an expert on poor but I grew up
20 poor like most of the people in this country. so I know what poverty is, I have got
relatives in rural areas and struggle settlements but as I say working on my
social intuition and then looking at the data that we have looking at stats SA I
cannot really find something that corroborate this.

MR CHETTY: This is fact we've got 30 million customers in any nighty day
25 period, 80 % of those people spend less than 50 rands a month.

CHAIRMAN (MR MAJENGE): Uuh...I just want to take you to the next point I think you have foreshadowed the point by submitting that the market is competitive I just want you to take you to the research done by ICT Africa, I have highlighted the relevant for you its paragraph 2.10, figure 2 which reflect
5 the market shares of the mobile network operators since 2010 to 2017. This picture seems to be indicating burring for some variations stability in market shares over time and this is not the picture that appears to be consistent with the claim that the market is competitive if you have this stability in the market shares it's almost like the cement industry everyone is cemented in his own
10 way.

MR MOTSA: Bukhosibakhe we are not cement; we are far dynamics than that. I will presume that this is customer market share I think so because I look at the MTN figure it went down and what actually happens is first of all if you want to maybe to talk about the stability or lack of change in the...dynamism in market
15 share...you have to look at revenue market share for instance at MTN we changed the definitions on customers because we had a lot of people who were receiving smses and then we were calling them customers that is what the industry has been doing for years. They have to look at revenue market share, if we look revenue market share you can argue that it's a bit stable but I would
20 say that Telkom is actually growing and its taking share from all of us and also Cell C if you look at their service revenue I think they reported double digit service revenue in such a tough economy so Telkom as well is basically growing so I don't think that the market share is stable but this doesn't tell the picture because one it is using customers and the operators have a different
25 way of viewing customers and then you have to look at where the money is, you

have to look at service revenue because revenue you also include the devices that you are not making profits from so I believe that it is competitive, I think there is no proof from the market perspective that it is not stable.

CHAIRMAN (MR MAJENGE): Dr Mncube, Mr Mahuma?

5 **MR MAHUMA:** Okay, can I just take you back to the slide where you showed that MTN had got the best quality network and the background of the question is from some of the submission we have been told that some of the customer's care more than prices and one of the things that they cited is quality of the network so given your (inaudible) that MTN has got the best quality in the
10 country one would expect that MTN will almost have the biggest market share either by revenue or by customer so the context is that you must look beyond prices that customers care more than prices, quality is important and given what you say here under that logic you will expect that MTN would have the highest market share can you give an explanation for that.

15 **MR MOTSA:** You are spot on this one, I think this question is for Enzo because I think you are already telling him that he has to monetise this best network. I think just for context this is just for this year if you had to go back in the last five years we wouldn't be making this claim this is coming mostly at the back of the massive investments because we have been through a lot. One of the
20 realisation is that we under invested on the network and we thought we could actually do something...because we have got the (inaudible), you have got the network, quality, and coverage, you have got the price, what you do with the service and your customer service and devices. We realised that it was not enough we increased what we call the capital intensity (the amount of money

that you invest in the network compared to the revenue you make) and the what basically came it's this normally this becomes the lead indicator for market share acquisition but immediately you deliver this and the Telkom, cell c, Vodacom are here some of the are going to say we are going to undercut them price wise it helps us but it won't get us to the top it is not just a unitary variable that you look at to solve these problems it's a mix I am not trying to cut of people who are not working in the industry to say it is complex but really the reality is that we drive to work every day and we make mistakes I know I am digressing but I hope...yah.

10 **CHAIRMAN (MR MAJENGE):** Dr Mncube?

DR MNCUBE: I think I have the last question from my side and I am inviting a comment, suppose we believe that the claim is true that we have the high data costs in South Africa. The question for me or the comment that I am inviting from you is what would be the solution today?

15 **MR MOTSA:** The most obvious solution today is give us the spectrum it will basically notch the stuff down, reconsider the imports duty taxes on the devices, allows to go the rich places we can build sites in Kayalami so that I can have more capacity so that the guys in Olievenhoutbosch can also get more capacity. It's a game of capacity so the enabler as I say we spoke about rapid
20 its deployment, we talk about the spectrum and the we have to do something on the devices. So for me three things, spectrum, the taxes on the devices and rapid deployment because where we are actually getting blocked it's in the urban areas. Think about this, the people in Sandhurst they do not basically wash their dishes they possibly get the people from Alex to go there so if you

are an MTN customers you are in the MTN zone you happen to be there all the time you will get the rate of those guys because it's those places that are capacity constrained, I am not trying to be dramatic I am just trying to simplify what is actually happening in reality especially for the poor.

- 5 **CHAIRMAN (MR MAJENGE):** Thank you very Mr Motsa and your team for your time as well as for your submission you are excused.

MR MOTSA: Thank you very much.

CHAIRMAN (MR MAJENGE): We will take a short lunch adjournment and we will be back at 2 o'clock to take the next submission from Telkom at 2 o'clock.

10

END OF RECORDING

Telkom

CHAIRMAN (MR MAJENGE): Welcome gentleman. Thank you very much for coming. If you could please start by stating your full name and surname just for the record.

5 **MR MASEKO:** Sure, thank you thank you very much Chairperson of the, of the inquiry. My name is Siphon Maseko, I'm the Chief Executive Officer for Telkom. And you introduce yourselves or do I?

MR MAHLANGU: My name is Siyabonga Mahlangu, I'm the Group Executive Regulation at Telkom.

10 **MR WILLIAMS:** I'm Mark Williams from Berkley Research Group at helping Telkom.

MR CANDIOTES: Good afternoon Chair and panel members, George Candiotes, Group Exec Legal Services, Telkom.

CHAIRMAN (MR MAJENGE): Thank you Mr Maseko if you could take the oath
15 or affirmation. And please switch on your mike as you do so.

MR MASEKO: I just need to find it. [intervene]

CHAIRMAN (MR MAJENGE): Your competitors probably took it. [intervene]

MR MASEKO: They need a lot more oath. [intervene]

CHAIRMAN (MR MAJENGE): But I think we'll do it traditional way then.

20 **MR MASEKO:** Sure.

CHAIRMAN (MR MAJENGE): Will you take the oath or the affirmation?

MR MASEKO: The affirmation.

CHAIRMAN (MR MAJENGE): If you could then indicate that I.

MR MASEKO: I.

CHAIRMAN (MR MAJENGE): Siphon Maseko.

5 **MR MASEKO:** Siphon Maseko.

CHAIRMAN (MR MAJENGE): Affirm that.

MR MASEKO: Affirm that.

CHAIRMAN (MR MAJENGE): The evidence I will give.

MR MASEKO: The evidence I will give.

10 **CHAIRMAN (MR MAJENGE):** Shall be the truth.

MR MASEKO: Shall be the truth.

CHAIRMAN (MR MAJENGE): Nothing else but the truth.

MR MASEKO: Nothing else but the truth.

CHAIRMAN (MR MAJENGE): I affirm.

15 **MR MASEKO:** I affirm.

CHAIRMAN (MR MAJENGE): Thank you. You may then take us through your submission that will then be followed by questions from our side.

MR MASEKO: Yeah. Thank you, thank you very much for giving us the opportunity to take you through [intervene] our, our presentation as, as Telkom.

20 And I think just as start we will cover broadly four themes and through that, share what are perspective is. Number one, our view is that we will, a broad

view on what access to data is, is one of the themes that we'll present. Which will cover broadly then the entire ecosystem, which would include devices, network, equipment, operators, distributors and retailers. The second dimension of our perspective is that, mobile is overwhelmingly the most widespread means

5 of accessing data services in, in South Africa. Number three the, the fixed business is small compared to mobile and not only is it small but it also it's highly competitive. And number four, which is our further perspective is around what we call the mobile challenge. We have been [intervene] an aggressive challenger in the market through lower prices, better value for money,

10 innovation and even with all of that we have found it quite difficult to close the market share gap that exist between, between ourselves and the larger dominant players in the, in the market. So having said that is our perspective, one of the things that you will hear from our side as our proposal, is the following five points. Number one, regulated access to in relation to dominant

15 mobile operator infrastructure. Number two, the improvement of the mechanics that underpin number portability. How, how efficiently can it be made to be, how quickly can it be made to be. How less onerous can it be, made to be, the consumer to the user. Number three, equitable access to spectrum and for us we underline the, the, the word equitable, especially sub 1 gig spectrum for

20 Telkom. And thus driving a more equitable assignment on high demand spectrum. And, and the last two points relate to what we consider to be bottle necks in the airtime distribution model and also some of the taxes that are visited on as in particular lower and smart phones, which also would be a barrier to driving and narrowing the digital divide that exist in the market . So

25 starting with a broad view of [intervene], of, of, of the data market. So the way

we tried to think about this, is to look at the entire ecosystem and the ecosystem is made up of as a start the infrastructure vendors. Before you start a mobile business you need to build up base stations, you need to have the right equipment, you need to be able to have a, a knock and all of those sorts of things and you can see who the players are. It's a broadly a four player market around, around the world. You then have telecoms providers, which are conventionally known as the operators, as we speak now this probably broadly four of them. We then have device and hand set manufacturers in the form of whether that's laptops and phones and, and tablets. We then have regulatory stakeholders, because they also play a very important role in the ecosystem. ICASA, Competition Commission, the policy maker in the form of DTSP. We then have content providers, because all of these technological advancements mean nothing if there's no content in them and, and we have them listed that out there, Google and Spotify and all of those sorts of people. And in our view then that sort off competes the ecosystem. You must have infrastructure providers, you must have telecoms operators, you must have people that make devices available, you must have the regulatory structure that is balanced and equitable and encourages investment and innovation and everything else that goes with it. And then you have content providers, who obviously participate in the ecosystem in one form or another. They, this slide is really meant to indicate just how complex the data services supply chain is. And you can look at it from, the left of your screen to the right or from the bottom, from the bottom up and maybe let's look at it from, from the bottom up. So if you look at mobile and fixed and starting with the fixed business, on the right hand side, part of what you will see is that at the wholesale level, we have quite an array of participants

in the market. You'd have Openserve, you'd have DFA, all of them participating at different levels of the, the of the market. You'd have people like Broadband Infraco, you have other access network providers that have been pretty active in the last couple of years. Vumatel and, and a whole lot of other people. And then

5 you have other broader infrastructure providers who provide both wholesale and access services. And to some extent a bit retail services in the form of Liquid, et cetera. And others who participate, across the totality of the value chain. So, so if you look at the retail, at the, at the fixed market and so far as the metro network, the access network and even Internet service provisioning, you will be

10 able to see the participants. We and there's a lot more of them, we couldn't fit all of them there. You characterize it as intensely competitive and it's been, it's been, it's been opened up. Whether you choose to be a person who participates and builds out a network only in Hatfield, you can do that. Or if you want to be just a regional player by province or you want to be a national player. And we've

15 seen different types of participants coming through. And then in so far as at the retail level in terms of resellers and virtue ISP we have an array of participants who, who, who are there. On the mobile side, it's slightly different picture. I think the players are a lot more fewer at wholesale, at wholesale level. There's a couple of people that who are resellers of mobile services at a retail level, but

20 the sum total of, of the message is that we are trying to present here is that on the fixed side, there is intense competition. Essentially the barriers to entry is very low. There has been a lot of new participants that have gone in to the market and I think they have really shaken up the market in a very good way. What has not happened is that in the mobile side, has there be as intense and

25 as dynamic competition as you would've seen in mobile, fixed rather. It is

important to note as well that all elements of the eco system contribute to data prices, all right? Devices I think I indicated earlier on are essential for accessing data. Which is a key contributor to the total access costs that are important as we think through the different options. Distribution and retail channels to make
5 sure that people are able to get the types of products that they need. You need to set up a distribution channel, a retail channel, a wholesalers, retailers, this whole lot of different players in this area. The banks have become one of the biggest distributors of airtime and data. And, and, and that has brought about both costs in the way which the process is driven through. Network equipment
10 manufacturers, quite a lot of the equipment that is brought into the market as part of the investment has a massive exposure to, to exchange rate volatility. At these exchange rates of I think about 14, 15 rands to the dollar, is one of the things that we need to constantly factor in. Operators that have businesses in South Africa only face higher costs when, when procuring devices and network
15 equipment given the forex, forex exposure. Taxes the excise duties on devices and VAT contribute to the overall higher cost of accessing data and obviously the overall capex requirements that are related to both equipment and, and device costs. So all of these things in a sense require, you know good, good analyses scrutiny as well so that when we, when we looked to address the
20 whole issue of access to data we access it in a very holistic way to ensure that all of the participants in the ecosystem can, can be able to respond in the same way that operators, telecommunication operators as well need to respond. What is clear though is that the primary means of communication in South Africa is, is mobile. South Africans, the majority of them rely exclusively on mobile to
25 communicate, close to 90% of households in South Africa rely exclusively on,

on mobile. So that's, that's very elevated number dependence on mobile is a lot more pronounced in rural areas and low-income households but one of the things that is pretty interesting is that even in the densely populated metros, where while our networks are available, mobile still dominates. And you see that whether it's in homes or even in businesses, when people want to make a quick call, the propensity is not to use the fixed line box that's by the desk, is to actually take a handheld device, whether they are seeking privacy, whatever the reason might be, but that the sort of bias that is, that is there. I think what we've tried to do is to illustrate using the stats SA graph, just what the distribution of mobile only households look like across the different provinces and obviously the average in South Africa. And what is clear is that as per the last, I think 2017 survey, about close on to 90% of households rely on mobile. So mobile dominates. Mobile data continues to grow and looking at newer technologies, essentially the penetration is getting deeper and the speed are getting better. If you look at just the extend of total subscriptions, in thousands I think, South Africa broadly has about 92 million sims there or there about. You know there are other that's got two three sims at a time, you know maybe you can exclude I think the last statistic was that we have almost a 105% penetration, so if you exclude probably very old people and babies you'll probably get to an effective penetration of you know, eighty nighty percent. So, so, so the levels of penetration are very, very high. Obviously pre-paid dominates given just the nature of the, of the, of the market that we have and even in a world of converge communications, mobile still plays a significantly higher role in the success of the modern South African Telkom. If you don't have mobile, you will not succeed in terms of having a meaningful participation in the market. Mobile

will experience good growth going forward, you know, a [inaudible 00:16:09] growth of roughly about 2%, that's the forecast. And as technology gets better with 4 G LTE we seeing quite a lot of growth that is coming through there as well. And mobile voice is in decline. And if you can, if you, if you recall most of the mobile voice is largely centred in the area of spectrum which is called 2 G and that's where most of the mobile voice is at. And that decline is accelerating at about upper single digits and the forecast is that it will continue to decline. I mean a couple of things just to highlight on these slides. Number one, high levels of penetration. Number two, the role that pre-paid plays. Number three, that mobile data revenues have now crossed and are higher than voice revenues. And therefore that becomes very, very important when you start to have a discussion around the efficient use of spectrum. The propensity is to talk about spectrum in terms of in a very, very bindery way. Do we have it or don't we have it. We also need to look at do we use what we have in an efficient way, so that we can be able to carry the services that are required from now going forward. Rather than being able to carry services that we have been carrying over the last 20 years. I mean this is a very different representation of, of the same theme, mobile broadband, I think about 94% which essentially indicates the extent to which mobile dominates in the, in the South African market. Fibre, still under 1%, there's a lot of capital that has been thrown into the development of in the, in the modernisation of the network and, and deploying new fibre networks. But that's still about 1% of the total broadband market. DSL is about 2% and what is interesting is that fixed wireless which is a much later development even to fibre and DSL has already surpassed DSL in terms of broadband penetration. Largely there the last mile propagation is wireless, so

you may use much of the fixed network as possible but last mile propagation, you use wireless. Households experience very very compelling download speeds of up to 20 megabits per second and that's how some of the spectrum is being used. In a sense actually you can almost even bundle fixed wireless with

5 mobile broadband, because its all wireless technology that's being used for access. And those two a kind a tend to go together. But that is the core representation of, of the dominance of mobile. Now if you then transition from looking at them, the, the, the role that mobile plays in the sector and then you look at the participants, 75%. Mobile is about 94% of the mobile market, of

10 which 75% of all broadband connections in this country belong either to Vodacom and MTN. So, so, so, so the majority of South African consumers access the Internet using either Vodacom or MTN and therefore consumer perceptions on data costs and the cost to communicate would almost invariably be informed by largely the network that they're on. And if 75% of subscribers

15 are on those two networks, invariably therefore that perception would be formed by what they experience on a, on a, on a daily basis. So, so that's the sort of flavour the market, the rest of the other participants in the market have roughly about, about 20% and there's a bit of a piece that is attributed to fixed wireless access. I mean just before, [intervene] just to get into the slide, I guess the key

20 point around the next chapter is that firstly fixed is small and I think you saw earlier on when we were trying to break out the primary, the primary access technologies, that households were relying on to access the internet. So fixed is very, very small. DSL is about 3%, fibre to the home is about 1% and not only is it small, but it's very, very competitive. And as it were you'd see that entry has

25 occurred at all levels of the fixed data services supply chain. So international

connectivity, you know international connectivity now is a commodity product with significant access capacity and very, very, very low prices. If you look at national transmission and the metro, there's been significant entry which has brought lease line prices down over time. Not only that if you look at both

5 Vodacom and MTN in the big metros they're probably up to 80, 90% fully self-provisioned. So, they manage their own transmission, most of their own backhaul. So in a sense actually it's been a very, very, very vibrant and competitive area, which has been accessed at different elements of the value chain. There has been intense competition in the access network as well,

10 especially in fibre. Every new entrant whether in fixed wireless or in fibre, essentially are looking to migrate customers from copper, so there's been a lot of competition there. You just need to drive up in the different suburb whether Pretoria, Cape Town or Johannesburg and you'd see the different FTTH providers that has mushroomed over the last three, four years. And on the retail

15 side, there has been a growth in ISP's. So, so entry at all levels and very, very competitive. And the vibrancy of that competition has had the effect of making more quality services available bringing prices down and forcing quite a lot of efficiency improvements as well on our side. Because as consumers migrate to lower priced, lower priced services we can't, we can't just be, be distraught and

20 sad about it, you know. That's the nature of the market we therefore need to improve our services, we need to improve our pricing and in some areas we need to actually reduce even our costs, including people cost, so that we are able to cover the cost of providing the service and be able still to generate a margin going forward. And that's what one might call the unintended

25 consequence of this intense competitive environment in fixed. A lot of new

players, new services, prices has come down. To some extent some of these prices came down at the expense of jobs because as new participants come into the market and they can provide a service at a far lower cost than what we were able to provide. We need to be able to respond to that and look at every

5 nook and cranny of cost in our business so that we can be able to respond responsive and be equally competitive. Yeah, I think this slide probably just illustrates a lot more on what has happened at the level of pricing on international connectivity over, from 2013 actually interestingly. Just when the market price has been for a 10 gig link with the UK, but also at the same time

10 what has been happening to the traffic. So prices has been coming down, traffic has been increasing and those are the participants that you have. You have Openseve, you have Liquid, you've got Seacom, you've got Infracore, so, so that competition has contributed to both bringing cost down and as indicated earlier on, drive driving the volumes up. Same kind of story really holds on the

15 transmission in terms of price reductions over the last, from 2013 to date, so lease line prices have come down across the different speeds from five to thirty. And you know the highest differential between the highest and the lowest, that gap is narrowing quite a bit. And I think if you look at, if you look at just the extend of the pricing evolution, that from a Telkom point of view, we've driven

20 over the last four five years, we've brought transmission prices, lease line pricing dramatically down, at least 80, 90% price reductions over the period. Which means that as your volumes come up, you need to generate probably 12

yeah, 20 times the amount of volume just to stand still, to make up the revenue and the margin loss that you'd, that, that, that you previously had. And that has

25 been a big, big challenging period, period for us, but it's inevitable. I think it's

important as well just to really make the point that again that Telkom lease lines really do not impact on competition in mobile, alright? For a whole lot of reasons, firstly there was an industry wide trend around self-provisioning where in essence especially the two dominant operators, drove a big, big drive to be
5 independent of anyone. And have their own destiny in their own hands. So, so really drove provisioning backhaul, metro and longhaul, I think Vodacom if I'm not mistaken they've probably backhaul their own traffic to about 92% of their sides. The competition as well from new network operators is further reducing the costs of transmission services and putting a lot more pressure down. And
10 when we created Openserve a couple of years ago, one of the reasons that drove Openserve, I think we came to these, this very building to take through the Commission why we doing it and amongst other things we, we, we, we drove a principle of open access on the same basis of access to all the operators. So none of the Telkom retail businesses would have preferential
15 access and we've been very, very transparent about that. Not just in terms of how we report financially, but also making ourselves available to be audited. Independently audited that we further, we are bringing our pricing down, providing access on a, on a, on an equivalent basis to the rest of the market. And it's a journey that we remain committed to a over, over, over, over the long
20 term. I mean if you look at Openserve's lease line revenue, it's probably come down by just under 30% between 2014 and 2018. And one of the reasons why that revenue has declined, is largely been driven by the fact that the big, the big dominant operators were self-providing as they were moving their traffic from Telkom to their own networks. That revenue decline was certainly there, there's
25 a portion of it obviously driven by our own price reductions as well over the last

couple of years. So, so in a sense therefore transmission accounts for a very, very small proportion of the total costs of running a mature mobile network. And we thought it's very, very important that we kind of put that as well on the table. I think I've really addressed myself to this, the intensity of the competition in, in, in the access providers of fixed in the market. Fibre to the home service providers, there's quite a lot of them, Vumatel, Frogfoot, all sorts of people. And several, several fibre providers are now in the market including the mobile network operators actually and growth depends on geographic expansion and significant capex. A lot of the things that are very, very interesting actually is that almost to a man actually, all of their new fibre providers, none of them have chosen a place like what man, Meadowlands or Ga-Rankuwa, all of them go to Waterkloof and Houghton and Saxonworld and all of those sorts of places and therefore it's kind of where for a whole lot of reasons they're high income areas, their spend is a lot more higher and so forth. And even in those markets you'll find that you have a street which probably can have two three fibre service providers and you can have migration from one service provider to another, even on the same level of infrastructure because of the different pricing regimes that are introduced and which kind of creates a lot of vibrant competitiveness. And what we see is that there is a massive shift over from copper, DSL to fibre. So, so just to summarise that, all right? The fixed segment is where all of the entry in telecommunications has happened in the recent few years, the competition there is, is ferocious, all right? The competition there is ferocious and that has resulted in declining wholesale prices and declining retail prices. And I don't think competition will slow down anytime soon. So, so it's very, very competitive. So perhaps maybe for now we'll want to move to the mobile

challenge. So the mobile challenge is probably captured very well in this picture. The mobile market shares have been static over a long period of time and we've come and gone back to 2011, but you can go back to the beginning of time, back in 1993 et cetera, 1994 I think when it's kind of when mobile started.

5 So, so the market shares have been static. And these market shares were actually attained, were actually attained fundamentally through a couple of things. Firstly up until now there has been an asymmetry between fixed and mobile and there is symmetry has effectively funded the mobile growth in this country. The cemetery was roughly about R1 per call that is terminated

10 originating from a fixed network to a mobile network and their symmetry lasted up until now. It's kind of narrowed in the last five years or so, but probably for a solid 20 years that are symmetry was essentially free cash that flowed from Telkom to the dominant players which essentially amongst other things, enabled them to be able to invest. And meet the customers' requirements with

15 regards to coverage and quality. And if you look at what Telkom Mobile has spent in terms of capex, you know we spend in excess of 11 billion rand in capex over the last few years that we have been in. But we've been able to only get for about 5% so it is not entirely correct to attribute the success simply to investment. There's been quite a lot of regulatory support that was provided to

20 especially the dominant players of Vodacom and MTN from the beginning of time. And which made sense, Telkom at the time was the only game in town it was the only network provider that provided telecommunication services. You needed to bring competition into the market and the two operators provided the best possible form of competition and they then received regulatory support and

25 that support was meant to deconcentrate at the sector drive lot more

competition and which is translated in market shares of that nature. I mean if you look at Cell C, Cell C subscriber share has grown just by 2 percentage points since 2011 all right? Rain entered in 2017, but remains very very small and despite all of the investment that has been made because it's I have
5 believed notion that you know everyone who small does not invest. Despite all of the investment that either we would have made or Cell C would have made, the subscriber market share has not largely changed. And I think we really need to interrogate why is that alright why is the subscriber market shares not changing, despite quite a lot of effort to append the dominant structure of the
10 market. And, and, and part of one of the things that in our view has happened is that that the dominance of the duopoly operators invoice has further been leverage into mobile data. So, so remember that market share picture because it's look like that for a while and I think and we need to go behind it as to what have the drivers of that picture look like. You know the pricing of Vodacom and
15 MTN is not sufficiently constrained by the competition and much as with done the best that we can as Telkom and, and, and Cell C to bring up pricing down. If you look at just our tariff plans, I think we are broadly about 25% better and prepaid and probably about 40% or better than Vodacom in post-paid and about 30% or so better than MTN. But even with that I mean we've really and we
20 we've operated on a very, very strict and, and, and tough diet. You know, we've had to give up thousands of people, so that whatever savings we have, we are able to re-invest it in growing the business and also remain competitive on the fixed side. We, we we've looked to grow our, our, our base station as best as we possibly can. When a per subscriber bases, you know against what, five
25 million or so subscribers are capex are about 2 billion. So, so, so per subscriber

think, we continue to really invest to make sure that we can continue to grow this business, but I think it will need a lot more, a lot more than that in order to get a lot more competitive structure in the market going forward. Yeah, I mean precisely because most of the broadband access is mobile based and because

5 the mobile market is dominated by broadly two players, you will get higher prices and precisely because of that. And, and, and this we've picked out of the solo terrific global benchmarking study back in 2017. So this is not us it's a third party who who says this mobile plan, price in South Africa are very high, compared to other countries with four operators. And I think I've made the point

10 as to what are the drivers of high prices, it's the extent of the pervasiveness of the duopoly and, and because of the large subscriber bases that are there in the duopoly, it will it will translate itself as higher prices in the marketplace. So, so, so the issue of it is a structural competition issue, how do we enable a lot more competition because that's what we are up for. So that indeed actually

15 none of us trades of a historical position but actually all of us can be able to compete with the best possible instruments that we have in front of us now. And this picture basically sort of says the same thing and if you look at that brought it be the margins that we that, that are reported, you know. I think Vodacom is the margin over the last 3 years is roughly 40% plus and if you compare it with the

20 peer group of the other op course in the same group, they probably would have the highest EBITDA margin. And EBITDA margins are indicators of high levels of profitability and thus the uneven distribution or in terms of the structure of the market. South African spend a lot more higher in many countries in mobile so mobile is a key item in the household expenditure whether it's airtime or

25 megabytes and therefore it is the way in which the competition needs to work.

In order to provide support for the South African consumer the South African household. So, so there's a couple of things which entrenched the dominance of, of both Vodacom and MTN and, and you know, the first mover advantage, so customer acquisition was very easy and there was limited competition.

5 National coverage and economies of scale and side access advantage. The retail dynamics, the ineffective competition in the wholesale market and spectrum, you know. There's the notion that we have a lot more spectrum than others, but actually we are the only ones that don't have sub one gig spectrum. Now, if you don't have sub one gig spectrum, your roll out costs are a lot more

10 higher because you need to build sites a lot more closer to each other and you have to rely a lot more on roaming in so far as getting in build coverage. Now roaming works but doesn't work, because, because the quality of the roaming is where the rubber hits the tar. One of the big challenges around roaming is what we call seamless handover, so if I originate a call from my home network, I'm

15 not able to attach to the network that is hosting me, without dropping the call. And from then on essentially, I then originate the call from their network, increasing my roaming cost. So, so in name it's there, but actually it's a big area of scrutiny so that it can be as, as, the experience can be as good quality for a roaming customer, as it would be for, for, for a customer who, who, who is not

20 roaming. It's like trying to discriminate people who are in the same plane, all right? So they're both flying to Durban and you kind of think, you know what, the other guy will kind of half open the window when the plane is flying to Durban and the other guy will be insulated from all of the tempers that they have to deal with and it is not the same actually, it is not the same. So, so just to summarise

25 the mobile challenge market shares in mobile have been unmoved over many

years. Ourselves and, and Cell C have not been able to build significant market share, despite being aggressive price competitors. In fact actually the duopoly of Vodacom and MTN is able to sustain high prices even without having to lose market share, thus making the South African businesses very, very profitable.

5 And the enduring barriers of entry and the historical regulatory support have been in a sense you can kind of call it the mode which has been built around the thriving and the success of the duopoly. I think just to conclude, and I couple of thoughts around, around remedies. I mean our view is, we need to promote competition to resolve the mobile challenge, all right. So promoting competition

10 is, is, is important and I guess in a, in a, in a South African economy that is also not growing part of the challenge we have is how do we de-concentrate the economy? Have a lot more competition because competition in itself tends to drive growth but when the economy is concentrated it leads to very, very pedestrian levels of growth, if not negative growth. Remove the impediments

15 preventing smaller players from becoming effective operators. And properly functioning competitive forces that regulate the market in consumers interest and competition over time is probably the best possible instrument that does that on behalf of consumers. And the more competition you have, I think I've made that point, deconcentrate the market. It will bring about a lot more

20 pressure to bring prices down, so better value for consumers. And it will bring about both price levels that are on the one hand give you sustainable returns and on the other hand look after the welfare of consumers. And, and it's a humble submission that the mobile sector does not necessarily need more entrance, I mean not that we don't think there should be it's not for us to call it, it

25 does not need more entrance nor retail price regulation it needs actually to

allow small operators to compete on an equal footing with the bigger players who have benefited from the structural advantages as I've indicated on one of things like termination rates and also other benefits of being first mover. Promoting sustainable competition so, so, so an effective competition delivers value to customers and once you have an enduring dominance of, of two players that is detrimental to consumers and also in the long run, it's detrimental to competition. Effective competition must also be sustainable, so continuous investment required to ensure coverage service quality and upgrades to 5 G, 4 G now other people are starting to talk about 6 G. Operators need sufficient return on investment to justify ongoing network upgrades. I think as a quartet of network operators broadly we invest about 26 billion or so per year, you know, give or take. So, so it's a lot of money that guaranteed goes into the market and that's our view that enquiry should focus itself really on ensuring effective competition that is sustainable in the long run. The targeted remedies from, from, from our perspective, focus on improving sustainable competition in mobile so, so the, the competition problems that support both Vodacom and MTN that are enduring in the market I think that's kind of look at that. The wholesale market you know improving number portability regulated access for on with regards to operator infrastructure. Spectrum assigning sub one gig spectrum to operators, who don't currently have it. So don't, don't make the strong stronger and, and get the weaker ones to die. So make sure that those that are weak can become strong, but don't make the stronger guys become even more stronger and invincible. Equitable assignment of high demand Spectrum. De-bottlenecking the distribution channels and we think some of the areas around taxation especially lower end devices, could probably be some of

the areas that could contribute towards increasing competition but also the same time and increasing access to data services. Yeah, on that note I think, thank you very much.

CHAIRMAN (MR MAJENGE): Thank you, thank you very much Mr Maseko. Mr
5 Aproskie.

MR APROSKIE: Thank you very much. Sorry just one second. Sorry the page reference I had doesn't make sense. So, in Telkom's submission, my page reference doesn't make sense. Telkom gave us some submissions in terms of price comparisons and price benchmarking and, and those kind of things and
10 Telkom indicated based on Tarifica data and I've got quote here, but unfortunately I can't find it, your reference in your submission and Telkom is being consistently and significantly cheaper than the other three operators of a most of the period especially Vodacom and MTN and this is based on Tarifica data. And what we've got from Vodacom and one of its submissions is saying
15 that Tarifica exclude bundles with a validity of less than 28 days. So Vodacom's responses is to say that Tarifica data is only limited to 30-day bundles and but if you actually look at these comparisons for the small of the lower validity periods you might have a different picture. And does Telkom at any sense of how it compares against Vodacom and MTN? When you look at the lower validity data
20 bundles, when I say lower validity, I mean the smaller time period validity data bundles?

MR MASEKO: Yeah, I'll have to come back to you on that data a lot more and you know what we all lean on tariff well, we rely on them whether the data suits me or doesn't suit me. So there's a lot of other things which they say Tarifica

that we don't like, but you know what, that independent, we think they strive to look objectively at the same kind of information across all of the players all that we will say though is that part of what we have done to simplify tariffs. We have the same tariff plans with her free me product for both prepaid and post-paid, 5 it's exactly the same. We, we, we, the, the, the usage of I mean at a usage level, you know, that usage level are prepaid packages and even the lower packages actually almost get the same value for money as the post-paid guys in fact is the post-paid guys the bigger bundles who probably don't use a lot of it who made who may have expiry issues. But at the lower level it happens very 10 seldom that we have consumers who don't use that data they, they use the data in fact they shop around that it's a very, very intense intensely competitive area. And if you are not well priced for this month, you will see whether migration of customers away from you to somebody else. And that's how intensely competitive the lower end of data market is and, and, so, so that would be my, 15 my take on it. [intervenes]

MR WILLIAMS: So one thing that we've highlighted in this submissions that these crossed operator and cross-country tariff comparisons are quite difficult just methodologically they are quite difficult. So, what we've suggested is that rather than, first of all, don't throw them out all together and ignore them. But 20 approach them with caution because I think as we've heard today, it's possible, first of all it's a complicated retail tariff landscape is also moving very quickly. So the picture that we've been described to you that today may be different in a week or month or a years' time, so we would issue as a health warning around these, these tariff comparison and what we tried to do it in the submissions is 25 we said well just stepping back from all of the details of you know this package

that package, if you just look at the bigger picture there are some consistent patterns that come out. And one is that Telkom mobile's data prices are consistently cheaper than those and I think whichever bundles look at time of day and all the rest it, if you look at the broad picture, now whether that's 30%
5 cheaper or 25 or 35% cheaper, we wouldn't want to, you know, we can look at the details and come back to you, but the broad picture is consistent.

MR APROSKIE: Ok thank you and then you've covered, and you would've heard some of the debate early around the level of competition and the mobile market and your position is clearly that, that there is insufficient competition in
10 the mobile market that you have two dominant operators and the smaller operators struggle to compete or struggle to discipline their pricing. I just wanted to, before I ask a few specific questions I suppose I wanted to ask if you'd heard any of Vodacom and MTN's responses to, to some of these arguments today? And if you have any response to what they've said? I mean, a couple of things
15 that have been said this morning one is that, a company like Telkom doesn't have a spectrum constraints so they are able to deliver large volumes of data and therefore be more competitive than someone who's more spectrum constrained. We've also heard submissions that Telkom has been growing at, even though its market shares low, still been growing at 30% figures year on
20 year. Those are the two that come to mind and I don't know if you have been briefed on anything else that being said but what is your response to I suppose both Vodacom and MTN who've come out and said no they still believe the mobile market is competitive?

MR MASEKO: Yeah, I'll start with the latter one, I wasn't here but my, my
25 colleagues did brief me on how, how some of the conversations went. I'll start

with the second one around growth, so indeed I mean I think we've been growing 40% data revenue year on year, but it's also very low base. So I'll trade off my 40% growth of a low base to 2% growth of a very high base that Vodacom has. If they want to swop, I'll swap them right now which [intervene] I don't think don't want to do. So, so it's of a very low base, good growth and I think around the issue of spectrum, it's, it's the, the market itself is spectrum constraint. And we prodding to go back a little bit not all spectrum is the same number one, not all spectrum is the same number two, some of the spectrum for instance in 3500 has not been signed off yet probably until next year at the Global Teleconference Council, the ITU at cetera as high demand spectrum. So it is there but nobody can use it. So, so that's the one point but I think it's important as well to reflect on whether, are we using the spectrum that we currently have efficiently? Because if I have sub one gigs spectrum, that currently I'm using it to carry voice and I obtain a very, very good margin from the voice revenue that I carry off that spectrum and I don't want to bring the price down because, you know that's my profitability right there. I don't want to switch off 2 G voice and actually give the same spectrum a 3 G or 4G, I'm not using the spectrum that I have efficiently. So, so even before we look at who has who doesn't have? Are we using what we having efficiently, and I think it must cut across I think we also need to be looked at as to whether are using a spectrum efficiently? Alongside everybody else especially in the context of a digital economy, a data lead economy, we should not be carrying a lot of analogue services are going forward because the future competitiveness of the of the economy will be dependent on, on, on how we grow data and how we make it a lot more pervasive and how we make it a lot more faster. But we can't

have it both ways where we don't want to give up I voice revenues, and want to preserve that spectrum and on top of that we want additional spectrum in order to carry data services. So, so, so efficiency use of spectrum and the spectrum that is probably the most valuable is not the spectrum that we have. So sub one
5 gigs expect that gives you indoor penetration and so forth is not the spectrum that we have so which means that our built cost is higher, because we've got to build a lot more cells to be able to carry the same amount of traffic whilst our competitors would not have that sort of constraint. So, so the, the spectrum conversation is, is a bit of a red herring actually. Because it detracts to it
10 detracts from the competition issues that are very, very structural, the very fact that others have the spectrum that others don't have, create a structural competition problem. And I think those are some of the areas that we need to address as well.

MR APROSKIE: Any other comments based on the submissions that have
15 been made this morning on this point my MTN and Vodacom?

MR MASEKO: Yes sure, I missed the, the, the MTN bit. I think I tried to cover the, I tried to cover the transmission points, you know the, the, the big dominant operators have largely self-provided the transmission. So it can be a big input cost into mobile data pricing. I think I've dealt with the, with the, with the capex
20 issue and I think I've dealt with a competition issue. And for us there for the solution lies in how do we de-concentrate the market? How do you enable a lot more competition? And you know maybe a, a very small digression we were a dominant player and part of what we have had to endure for the last couple of years is a lot more players who are better than us, who are a lot more efficient
25 than us, who provide better service and actually that's great. Because if we lose

because we are poor, just in terms of operating our business and we are inefficient, that's okay, then we deserve to lose. But, but, but we can't win and insist on winning by keeping the concentration in the market and, and therefore you know coming from Telkom the competition in fixed has really done a lot of good for us because even the way in which we think has a firm has really, really transformed. Because customers don't owe us anything and we don't believe that customers should transact with us simply because we're the only game in town. And the competition that was brought to bear in fixed has four stars and it constantly it continues to force us to become, strive to become a better operator as best as we can. And we think that the mobile market also deserves a lot more competition, customers deserve to have better choices both in terms of service and pricing. But, but one should not be structurally disabled to providing services that customers might like and that's for us is a big theme around how do we de-concentrate the market. And how do we make sure that competition and those that have the appetite, the vision, the ideas, the capital to put into the market, will not be constrained by the market structure. And that for us is, is, is key and beyond that I'll probably have nothing more to add.

MR APROSKIE: Just one more specific question around competition. There was a bit of debate this morning with both Vodacom and MTN around whether and how Vodacom and MTN responded to Telkom lowering its one gigabyte bundle price to R99.00. So the question from my side was, doesn't this show that Vodacom and MTN haven't responded to Telkom and therefor aren't constrained by Telkom because of that R99.00 price and no adjustment in the equivalent MTN and Vodacom prices. And the response we mainly got was to say that they, they have responded but perhaps in different ways through

bundles with lower validity periods or shorter the validity periods and through private pricing more dynamic pricing but not necessary that adjustment in the headline price. What is your perspective from Telkom about the impact of that R99.00 one gigabyte bundle price change? Have you been able to take
5 customers from MTN and Vodacom? Or have they responded in the way that prevented, but perhaps you can give us your side of that story?

MR MASEKO: [intervene] Yeah I'm, and I, one can't be ill modest, the, they're the growth that we've seen in mobile broadband has been decent, obviously coming off a very small base, but what I have not seen and what I had
10 anticipated to see actually, was that I will, we will have, we will have ques to no end all right? Of customers migrating from other network operators, I mean everywhere you go you know data prices are high and I mean, I have a couple nieces who were on Vodacom and MTN and you know every time they say, data is high, I would say, "serves you just right". Okay, until, until you move to
15 Telkom but for a lot of reasons all right, so where do I buy airtime all right? So where I live I'm not sure if I can buy airtime, so that's the distribution bottleneck, because they like it. I recently I was in Mafikeng and you know, some people their relatives were saying, you know we want to have a Telkom product here, but you guys don't have a network here or your coverage is very, very limited.
20 So, so there's quite a lot of things where we get you know, good demand and response from consumers but because of some of the elements that we've listed there that are bottlenecks it creates and impediment for them to be able to access the service and they probably just stay where, where, where, where, where they are. At the same time out I would want to say we've not seen
25 reasonably decent growth, would have like to see more because I think we've

been quite aggressive. I think you know we're we pulled, we threw a hand grenade in there, but we were hoping to see a lot more than what we saw. But we'll continue to push those boundaries as, as best as we possibly can.

MR APROSKIE: And then your view as an operator having done that was your
5 view within the company that MTN and Vodacom did respond in some way or did, was it your view that they stayed where they were? [intervene] And took less than you expected?

MR MASEKO: The market share, the subscriber market shares haven't
10 changed. I mean one of the things that we probably have found that has been working is the dual sim thing, so customers would then have us as the secondary sim and them as the primary sim and use us a little bit. But the headline subscriber market shares have not changed much. We, we may be the second device or the second sim, but we've not dislodged them from, from that customer base in a way in which you know one with a thought or to have
15 happened.

MR APROSKIE: [intervene] All right, so just take you to your submission on
page 23, if you have it in front of you, [intervene] so paragraph 7, I'm just checking out think there's anything confidentially here. This is in terms of some of your remedies, where you've got here regulated site sharing would enable
20 new entrants like Telkom mobile to deploy their own national networks more quickly and reduce the cost of doing so this would reduce Telkom mobile's reliance on national roaming and ultimately translate into lower retail data prices. And, so what I wanted to ask there was, in submissions you'd made us previously in the end of last year. Telkom submitted that the facilities leasing

regulation of 2010 obliges all ECNS licensee to lease facilities, but Telkom's complaint was that there's no price regulation as part of those regulations. And I suppose the question here is, is it, is it your position then that those facility facilities leasing regulations weren't achieving the desired outcomes?

5 Particularly in terms of site sharing and, and then I suppose this follow-on question is, if the ECA bill which is going to deal with open access to facilities, is that going to in your view fix that where do you sit in terms of regulations past and the legislation that's coming on this point?

MR MASEKO: So that's a very, very hot topic of conversation around access
10 to essentially access to infrastructure and what has been the challenge is that much you can be given access, but it may not being meaningful access. So you get to access a tower, but all of the collocations in the tower are not available, they are taken. So you get then get to be two, three levels down the tower, which actually is not meaningful access. So in name you might think you have
15 access but actually you'll not be able to put any of your equipment in a way that is meaningful for you to be able to provide services to the to your customers. So, so far us the big issue around access to the passive infrastructure has been around meaning full access, to that infrastructure. So for us there for some kind of shining the light in that area is very, very important, because we, you know as
20 an example we have a constraint of capex, but actually we don't have a constraint on capex. If we could have un-brittle access to sites, we'll be able to expand a mobile network. We'll be able to provide services to a wider coverage of people, but then the regulation is not able to help you get around that apparent constraint, to say well you can have access to my side but the top part
25 I've got this equipment and therefore you can't access it, you can choose

whatever location you want on the site, but it is not meaningful you might as well just go look for your own tower, build it out over time which than a has a whole lot of other implications.

MR MAHLANGU: [intervene] I think the issue is that the current discussion
5 enabling environment which also leave it leave the entire transaction between
the operators. So the facilities leasing regime does not enter into what happens
on pricing with the pricing is fair and what goes into it. So it's sort of, it would
ICASA sort of allows the parties to try and resolve these themselves, which then
in most cases results and prolong discussions. So what, what one would also
10 want to do is to look at whether there is, there is any bottleneck in in the pricing
of that access. Because as we discussed today things have evolved we're
dealing with yes passive infrastructure somehow others call it the passive
infrastructure, other call it basic RAN access. So those are kinds of issues that if
you create the current region, you have to then compare them with developing a
15 fresh site, this is that and this is roaming. So you need to work around some
form of way in which this is you're able to compete with them after they've given
you that price.

MR APROSKIE: Thank you and just I'm sure you're aware of this I think you've
been it's been noted before, but in Vodacom submissions this morning and I
20 think, I think you've aware of them making a statement previously, Vodacom's
one of Vodacom's calls in terms of removing a constraint for them to be more
competitive, is that they want access to ducts and poles, and their submission
is that Telkom restricts their access to your infrastructure, their access to your
infrastructure?

MR MASEKO: Well and it's not entirely correct, all right. It's not entirely correct there is a process and we can't deny access when the law says actually you need to provide access. And the law than also further provides that you need to it must be commercially viable and technically feasible. But actually probably

5 what they feel bruised about is that actually they didn't never sort permission they tried passed into our equipment and that's how we obtained judgement that they can't do that. It's a and from my perspective actually conversations about poles and ducts and maybe let's start with ducts. Ducts are basically trenches that you build on the ground now as I sit here I don't know what is the

10 configuration of the duct that brings all the connectivity to your campus and it may be full, it may have space. So we need to determine is it technically feasible but remember that is also not the one-line duct that duct branches off into other ducts as well. You may start off with a bigger duct and end up with a much narrower duct, which then creates a whole lot of other feasibility issues.

15 So, so far us we sort of saying the technical feasibility of it is very, very important and, and the same applies for poles as well, actually I mean I even had a simpler proposition for them, you know, for every pole I give them they would like them to give me a must, but a tower. And we can solve that problem quite easily because on the one hand when we are trying to get access to

20 masts and towers on the same basis is quite difficult and we are pretty open to have a conversation about, about, about polls. The issue is that the consistent application and interpretation of these regulations is very, very important so that yeah, our equipment should be, should be just as valuable as your equipment and our ability to access your equipment must be just as efficient your

25 accessing our equipment in a way in which it works, that's how I think it should

be working. So for us that's not much of an issue actually, we have request currently that they buy fibre from us as well, so, so it's really around, is it technically feasible and obviously the commercial viability which is the same principle you apply in terms of accessing a mast or a tower you know. When
5 they say to you well the top part is gone, it is therefore not meaningful access but for some reason you can have a sort of technical feasibility when it comes to poles and ducts when in fact actually that will be the issue.

MR APROSKIE: Ok thanks and then yesterday the focus of this submission or focus on a lot of the submissions yesterday was around the price of data for low
10 volume consumers. So submissions that were made was saying that low volume consumers are paying much higher per megabyte or per gigabyte prices than high-volume consumers and therefore the, the statement is that lower volume consumers, poorer consumers are actually paying exorbitant rates for data compared to, to the rich. And just lifted some data for Telkom here that I've
15 got for bundles of 30 days, for Telkom at 25-megabyte bundle is R7.25 which. What does that get to, actually can't work it out. 25 megabytes for R7.25, but then if you go to 500 megabytes that's costing you R69 so if you work it out you've got a rand per gigabyte pricing that is far, far higher for the small bundles for your lower volume consumers. And I suppose the first question here, first
20 question here is just from Telkom's perspective why, why is it like this? So, I assume you wanted a remark at that had some kind of market structure pricing structure that looked like this. But, have you followed the market structure? Does it make sense from a business point of view? Can you give some sense of why you pricing like this in a very similar way to the other operators?

MR WILLIAMS: Yeah, so the first observation on this is to just go a bit beyond the headline prices, because as we heard earlier this morning, it's common across all operators that not all of the data in a bundle sold, is used. So if you and actually the expiry rates across bundles various. So if you actually, what happens if you look at the amount of the price that paid and the amount is actually used, the difference in those prices gets a bit narrow. Because more data typically expires of bigger bundles than on the smaller bundles. So the first observation about this is, that the price gap is not as big as it looks like on the face value and that's something to consider. Having said that, there still is a price gap even when you control for all of those things and that's common across all the operators in South Africa and also common generally around the world. You see price, a unit price difference and there's a, one of the reasons for that is that there is a cost difference between small bundles and large bundles. And that cost differences unit, the average cost per meg and that cost difference is driven broadly by two things. First of all on the network side, a network is a very large fixed cost asset, so the more volume you've got in it, the lower the unit costs of a unit of outputs, in this case data. So, large data packages, selling large volumes of data you naturally going to generate a lower unit cost on the network side, you contribute to a lower network cost on the network side that a small unit of data. And that true of many businesses, it's not peculiar to Telco. That's the first point. And then the second element on the cost differences is on the retail side. If you think about the costs of selling a bundle to a customer is pretty much the same whether that bundles 25 meg or if it's 2 gigs. The process is involved in selling are the same, so but you dividing that cost over a bigger number of data, number of units of data on the big bundles

compare to the small bundles. So if you break all that down you actually find that the cost per unit of data on a small bundle is actually higher than on a large bundle. So if you take those two things together, you can get some way to explaining why there are differences, price differences across these different
5 bundle sizes.

CHAIRMAN (MR MAJENGE): You have a follow up?

MR APROSKIE: Yeah, I suppose the question is, is are those cost differences really going to account for multiples of 10 to 30 times, between small volumes and large volumes? Or small bundles and large bundles?

10 **MR MASEKO:** Yes, I mean certainly not necessarily, but they would be higher, all right? They would be higher and, and a better metric to look at is well a different metric maybe not a better metric but a different metric to look at is the usage metric, all right. So the person who buys 1 gig actually how much do they use relative to the person who buys 25 megabytes for R7.00, how much do they
15 use and invariably, the lower denominated bytes actually get consumed you know the usage is a lot more higher whilst the breakage is a lot more in the bigger bundles, that's where the breakages is at. I think the provisioning of the network is such that every user needs to contribute to differing the fixed cost of the network and, and the you just have, you're ability to define, to divide the,
20 your ability to allocate the megabytes of a small user over the provided capacity relative to a bigger bundle over the provided capacity, translates to the to the unit cost differential, but when you look at actual usage the differences is a lot smaller than the headline price. It is actually what is used and actually for what

is used what is the price differential of what is used both on the bigger bundle and the smaller bundle.

MR APROSKIE: Thanks and then you said a moment ago, after a few questions ago you said something like the competition at the lower end of the market is intense, so you imply that your lower volume consumers are very 5 willing to switch, very price conscious, which is not necessary something we've heard so far from the operators but also to me that would suggest that your lower volume consumers would be the prices will be pushed down a little bit closer to higher volume consumers if competition isn't tense and that side of the 10 market, unless it's just intense everywhere. But how does that statement equate with, with these differentials and prices?

MR MASEKO: Yeah, so, so the competition is quite intense at the lower end of the market I mean you just have to just have to look at a cup the number of sims that people would have in their wallet all right. And you know which sim 15 they will use at what point in time. In fact actually the Telkom mobile strategy when we started, we focus largely in the prepaid market, all right and we almost closed it down because the margins were so wafer thin, which was not providing us a sufficient return to be able to continue to invest in the mobile business case. I remember yeah, I think I started at Telkom back in 2013, just 20 looking at the even our losses, I think we were burning about 100 million bucks a month of cash. So the cash burn out for the year was 2 billion and the strategy all of it was around that segment of the market. Margins were thin, totally because also the number of people that are stacked on top of that marginal quite a lot, all of your distributors, actually the time were even a much smaller 25 player, so the distributors were, were extracting a higher commission from us

and we also had to throw in a free solo R20 airtime on top of that and you know what happened, they used the free R20 airtime and as soon as that ran out, they threw it away and went to get another sim, that had another R20. Then you were almost sharing yourself with the same customer and pouring a lot of cash

5 and them, so, so as a strategy it was unsustainable because of wafer thin margins, high levels of churn and the intense competitiveness. If you look at the average churn in prepaid especially the bottom end of the market, across all of the network operators. If you are below 50% you're doing well ,so the churn rate in prepaid at that end of the market is 50%, 60% I think some of the other

10 chaps, because just of the intensity of the competition in that in that area. So, so almost no sooner have you acquired a customer that you've invested to acquire that customer churns and for you to get the same customer back you either have to invest just about the same amount of money or more and you need to throw quite a lot of value into that into the change so, so it's, it's, it's, it's very,

15 very intense. Not just the tariff plans but also the distribution and all of the things that surround the ecosystem because all of those things kind of tend to work together.

MR APROSKIE: I've been told, we're running out of time. So maybe just the last question on mobile, then I'll ask you a couple of questions on fixed. So we

20 had a couple of recommendations yesterday from people making submissions and one of them was, it came from a few of the stakeholders making submissions was proposals or regulations to eliminate the amount of price discrimination between low volume and high-volume consumers. So coming from the complaint that the poor face exorbitantly high per megabyte or per

25 gigabyte prices, the proposal was to illumin or illuminate price discrimination

across data bundles and data products. So that was the first one. The second one that also came across was a proposal by DG Murray Trust whereby certain public benefit organisations could have apps which would be zero-rated that they paid for on the operator's STD obligations. Who, what is your response to those two proposals?

MR MASEKO: Well I'll start with the zero-rated apps, you know I think, I think there's room and space for that. I think there's room and space for that you know it's something that we obviously need to look at. Yeah and, and, and, and you may probably be taking me to a part of the conversation which is probably where we should be because, because those kind of guys actually should not be paying a lot for data all right. Those kind of guys should not be paying a lot for data. It's a, it's a, and in a sense the function the functional use of data is just as important, and you know what, and in my team, it is very uncomfortable about my comment all the time around this, because where I found somebody who has a R25 000.00 phone and wants free data, all right? I get totally gob smacked you know, it's like driving a Ferrari and looking for free fuel, all right. And, and, and the level of investment in devices and I and I always ask the guys, this iPhone 10 all right, it's 25 000 bucks all right. So, so you won't free data off a R25 000.00 phone? So, so how can I, how does it work and you and if I were, you know it's not even the apps that you have is not even education apps. So health apps, you know it's vanity, selfies and you want to send them to the rest of the world and some of it, so, so the for good conversation we need to have it, because I'm, I'm in that movie, I think those, the differential pricing is probably valid especially zero rating some of the apps. But just as not all spectrum is the same, not all data users are the same, all right. And I think we

need to be able to have a thorough conversation around that, you ok with that
Lisa? Ok good. [intervene]

MR APROSKIE: Last couple of questions from my side, so I suppose just now
this is just moving it to the fix side. So obviously you've made a submission to
5 say that the fixed market is competitive, that there's been entry at every level
and it's effectively what you telling us is that prices are not any higher than it
should be in and we shouldn't have to worry about prices in the fixed side. What
you'll find is tomorrow there a couple of ISPs' coming up who have made
submissions to us and their submissions are really around, so I'll try
10 summarises this all in one question. There submissions are around the IP
connect product and the allegation is that the product is a exorbitantly priced,
they say that Openserve charges R175.00 per megabit per second for IP
connect. And the ISP's are saying that if you compare this to two different things
it suggests that, these prices are exorbitant. The one comparison they make is
15 undersea cables which I think I have the number here but it's around R6.00 or
something per megabit per second and then another ISP compares the IP
connect service to something they call automation exchange, which they say is
much cheaper, I think R10.00. What is your comments on that if these are fair
comparisons of there something that is ISP's are not taking into account on the
20 IP connect product.

MR MASEKO: I'll give to George, his just been dealing with that matter quite
recently. George.

MR CANDIOTES: Thank Siphon, thank you Chair. Yes, I think you know this is
something in which the leaders in the business in this part of the of the business

are better place, but the basic issue is that isn't undo comparison being made between IPC and in the Telkom space. And what these some of the IPC's some of these IPC's have interact with some of them regard is compared to products from either our competitors like the smaller Vumatel, et cetera. Or what they would deem inequivalent product. You know, with respect we think there's a bipolar miss match in their understanding of the cost drivers behind the IPC. In addition IPC prices have come down dramatically over time and then that has been achieved as I understand for the business through the driving efficiencies. Telkom is a national network, so obviously the, the costs of our network input costs are far higher. You also have a legacy network which layers in a fixed cost overhead. And as you managed to drive efficiencies by converting that network, one can then move towards bringing those prices down by driving those efficiencies. And that is something which the Openserve business is looking at. In fact, I think they just recently announced a further IPC reduction to the market.

MR MASEKO: I mean just to close, I mean IPC prices have been coming down over the last few years, I think if I'm not mistaken those prices have come down by about 80, 90%. They continue to come down. The, the, the tension point at all times is, that they come down at a cost, I mean, we've had about 20 when I started at Telkom there was about 22 000 of us, all right? Now, now probably about 10 000 gone now, all right. Because as we bring prices down, we don't generate the same levels of revenue to cover the costs of the people that we have. So we sort of said, chaps, as we become more efficient we need to give up so, so, so the trade off on, on almost rock bottom data prices, there are some other social consequences of it. Because as, as we bring it down as we

should and to be competitive and to, to respond in the market we almost have to look at every, as I said earlier on, nook and crony of our costs. I mean voice is one of the areas now, which as they cost, as they recovery for the voice costs that, that we incur, begin, continues to diminish. We are not able to cover the
5 overheads just for voice. Relative to what we are able to fetch in the market. So as voice becomes more and more free, it means that the chaps that we have looking after the voice network, many of them will have to leave and I think part of what one has to rest with at all times, is how do you balance that because and I think as a country we need to balance that how do we balance rock
10 bottom telecommunication costs against, against, against jobs and all of those sorts of things and other elements. Because it is, it is quiet, it is quite linked.

MR APROSKIE: Then just the last question from my side. So ISPA, the Internet Service Providers Association one of their recommendations is the, to address data costs, particularly in the mobile space, is they say look, they point
15 to the example of Telkom separation with the Openserve becoming the wholesale provider and they're all the ISPs connecting, competing at a service level and they say look what they think should happen is that open access should be forced on the on the vertically integrated MNOs. And then they say, look you'll get some of the same benefits that you've got so much for service
20 competition and you'll have a similar result that you've had in fixed. And they are complimentary of the fixed experience. We also brought this up with Vodacom this morning and Vodacom's response was, look at a wholesale level, they carrying Cell C and the spectrum constraints, so they say they don't have capacity to do it. But Vodacom's comment was essentially to ask Telkom why
25 don't you do an open access scenario a separation that you've done in fixed.

Why don't you do that and you mobile side as it's something you considered and why would you wouldn't you do that?

MR MASEKO: Ah well, I mean a couple of things. Very good to hear ISPA say kind words about us in terms of what we've been able to, to, to achieve on the
5 fixed side. The, even before you separate, I think it's important that you get to a
fare level of transparency of how the wholesale side and the retail side
interplay, all right. And I think the current Amendment Bill that's on the table
begins to postulate some of those, some of those elements are thinking
principle, it's not a big issue to have some kind of wholesale access for services
10 and you can have a different conversation about spectrum, all right? You can
have a different conversation about spectrum. What I find though a bit
disingenuous is to say that other operators are being carried on exactly the
same available spectrum, when the roaming service and quality of service is
shocking all right. So one of reasons why I'm not able to win for instance
15 national accounts and national customers and some of them we want them, and
we ended up losing them is because they sort of say well the roaming doesn't
work that well, I keep on dropping the calls. So, so roaming is not a panacea in
itself, unless the regulation there off and shows that the party on whose network
your roaming also as obligations around quality of service and there's the right
20 level of, of penalties and, and so forth. So it's not something one to frown upon,
but normally these sorts of things you are better off doing it voluntarily, as we
did, than being forced to do it. Because then an inviting scrutiny as we did with
Openserve and, and it is not, it is not a big issue. But it must be an industry
solution rather than a Telkom solution so to speak.

25 **MR APROSKIE:** Okay, thank you.

CHAIRMAN (MR MAJENGE): Doctor Mncube.

DR MNCUBE: You have emphasized quite strongly that one solution will be an equitable assignment of high demand spectrum. I just wanted you to spell out, just briefly what you meant by that?

5 **MR MASEKO:** Thanks for the question. So, so by that what we mean is that for existing holders of spectrum, it's important that you determine who has what. And if the objective is to encourage competition, what we there for need to ensure is that those that already have come get more of what they have. Because if the point of departure is that mobile is dominant and within a
10 dominant mobile there's a 75% dominance by Vodacom and MTN. And by giving them even more spectrum you are entrenching the dominance and if that dominance is entrenched, it means that in the long term they will not be effective competition. So an equitable assignment of spectrum for us then says you need to look at who has what as a start, so that first and foremost you
15 bridge the gap. So we don't have sub one gig, they have, so what it means is that will probably have to get sub one gig spectrum and they don't get some seaborne spectrum. But we have 2 300 spectrum, they don't have. It means that we can have more of 2 300 and they have less of it so, so, so it is to really make sure that it's a very proportional equitable distribution of spectrum. Because
20 once you've assigned spectrum, you can call it back you can say oops, that's it, it's gone and you there for me to make sure that the way in which you award it, it enables competition, as well going forward rather than entrench dominance by one player. So that's broadly what amongst other things what we mean about an equity-based distribution of spectrum.

DR MNCUBE: Just one last question from my side.

MR MASEKO: Yes sir.

DR MNCUBE: I want to take you back to your slide on the market shares.

MR MASEKO: Yes.

5 **DR MNCUBE:** [intervene] Which reflects that the market shares in this market
have been a static and reached over time, we put the same proposition to MTN
using the research done by Research ICT Africa and the response was, well
this market shares because they are subscribers based. If you use a different
measure of market shares, revenue for instance was referenced as an example
10 that you'll probably see more dynamic market shares. I just want to get your
reaction to that?

MR MASEKO: I'd love to use, I actually will be very good metric as well. I think
broadly whatever metric you use it will mirror maybe not an absolute percentage
test, but it will mirror that picture. The amount of revenues that, that is mobile
15 revenues, that you cannot attribute to Vodacom and MTN, would probably even
be higher than subscriber market share revenues. I suspect mobile revenues
will probably be about 90% concentrated in the two. In fact that's a better picture
because, a picture that can accentuate the dominance would be the revenue
market share. So, so, so the picture will broadly look the same in fact if not
20 more accentuated.

DR MNCUBE: Perhaps the final question. If you can move to your slide 27,
[intervene] I think I've got the wrong number, it must be the one that says the
dominance of two large mobile. [intervene] Yes, yes [intervene] The, I want to
invite a comment from you, this morning we've been told, at least by Vodacom

and by MTN that there effective prices are coming down, so they've all put graphs which show, deep effective prices coming down in their views that to say, they are responding and prices are coming down. Do you have a comment on that? And to balance that with your slide?

5 **MR MASEKO:** Yeah sure, I meant I don't know what that means. All right, I don't know what the effective price means. I mean, I know, but I don't know in a sense because it's a, if, if, if you're not careful with the phrase of effective pricing is coming down. What it means actually is that the headline price remains the same basically so, so what you are paying as a customer probably
10 remains the same, but you might get an extra, if you previously had a 300 free minutes, they might give you extra 300 minutes. But you never use even the first hundred minutes in the first place, all right. So, so the headline price remains the same but because they've added a whole lot of other gizmos into the tariff, it then gives an impression that if your unitize that it's a lot lower, when
15 in fact it's actually broadly the same. All right, Mark?

MR WILLIAMS: Yeah, I think Siphos hit on an important point, which is there is quite a big disconnect between what the price that you see advertised and then the price effective that a customer is actually paying for a unit of the product. And I think a better metric would be revenue per minute or revenue per
20 megabyte used on the network and if you look at that, I don't know what the situation is in Telkom, I mean, I think, in most markets as technology has improved, so volumes of consumption have gone up, that revenue per megabyte has gone down. I think that's true in, in most markets, but then when you look at the headline prices they look fairly flat over time. So it's, I think, it
25 just goes back to my earlier point which is that when these two exercises quite a

lot of judgement when one looks at these things and not take claims about prices going up or down, at face value.

MR MASEKO: Look at what the customer finally pays. [intervene]

DR MNCUBE: Yeah, because indeed from my understanding there, those
5 effective prices, if I'm not mistaken were calculated on the basis of total revenue, divided by total traffic.

MR MASEKO: Yeah, sure. [intervene]

DR MNCUBE: Do you have a comment on that?

MR MASEKO: No, no I don't have a comment, but I'm not surprised. I'm not
10 surprised.

CHAIRMAN (MR MAJENGE): Thank you very much Mr Maseko as well as your team.

MR MASEKO: Thank you very much, thanks for giving us your time [intervene]

CHAIRMAN (MR MAJENGE): Thank you. We will take a short 5-minute
15 comfort brake and then we'll take the next presentation from Cell C.

RECORDING ENDED.

Cell C

20 **CHAIRMAN (MR MAJENGE):** welcome back. We will now receive the next submission from Cell C. Welcome lady and gentlemen. For a change at least I

had to say lady and gentlemen. The previous teams were all male. If we may start with the oat or affirmation and please state your full names as you do so.

MR DOS SANTOS: Then we can take the oath and

CHAIRMAN (MR MAJENGE): or who will be doing the talking? Is it Mr Dos
5 Santos?

MR DOS SANTOS: Yes chair my name is Jose Dos Santos. And we have split the presentation chair if I can just quickly take you through it. So we can take the oat and....intervenes

CHAIRMAN (MR MAJENGE): What we will do, we will do it in the traditional
10 way.

MR DOS SANTOS: There we go. Perfect, then I'll start myself. So my name is Jose Dos Santos and I swear that the evidence that I shall give, shall be the truth, the whole truth and nothing but the truth. So Help Me God.

CHAIRMAN (MR MAJENGE): Thank you.

15 **MR MACKINNON:** Shall we do it all up front.

CHAIRMAN (MR MAJENGE): Indeed.

MR MACKINNON: I Graham Mackinnon swear the evidence that I shall give, shall be the truth, the whole truth and nothing but the truth. So Help Me God.

CHAIRMAN (MR MAJENGE): Thank you.

20 **MR PASLEY:** I Robert Pasley affirm that the evidence that I shall give, shall be the truth, the whole truth and nothing but the truth.

MS THERON: I Nicola Theron swear that the evidence that I shall give, shall be the truth, the whole truth and nothing but the truth. So Help Me God.

CHAIRMAN (MR MAJENGE): Thank you very much. You may proceed to take us through your presentation that would be followed by a questions from us.

5 **MR DOS SANTOS:** Thank you very much. Just by way of background, Mr Chairman, the presentation is divided into different sectors. I will be addressing the presentation from page 1 to page 14. Professor Nicola will be addressing from page 15 to page 18. My Chief Strategy Officer on my left Robert Pasley will be doing 19 to 21. My Chief Legal Officer Graham Mackinnon will be doing
10 22 to 38, followed again by Robert from 39 to 46. And will then close I the conclusions. Firstly, thank you very, much for your time and affording us the opportunity to do this presentation and submission. If we just look at the first slide and while we're here, what the Commission's inquiry is about is the investigation of the data service market on the basis that the price are too high.
15 There are two fundamental reasons for this, the increasing real competition is the only solution and the reason for lack of real competition is there regulatory failure that we face ourselves in South Africa. Just by way of background introduction to Cell C which will give you some flavour over the last 20 years or so in this market. Cell C was licensed in 2001 when MTN and Vodacom and
20 been in the market for approximately 5 years and Telkom is firmly entrenched as the only fixed operator. 18 years later MTN and Vodacom are still making super profits, retaining them or passing them on to shareholders as dividends rather than creating a consumer surplus. Cell C played a large role in saving the South African consumer approximately 47 billion between 2010 and 2015
25 through price competition, despite the lack of regulatory support and at great

cost to its own financial position. Cell C has adopted the role of consumer champion and disrupt in the market to reduce prices to consumers by attempting to meet the duopoly head-on. If you look at the history in a brief note, Cell C was licensed and began operating six years after MTN and Vodacom.

5 Even now, MTN and Vodacom maintain their duopoly. MTN and Vodacom benefitted from a first mover advantage, exclusive access to prime sites and land on a long-term basis and new municipal restrictions make further site acquisitions more onerous. Two-year contracts offered by MTN and Vodacom with no possibility of early termination or porting. MTN and Vodacom received

10 clean 900 mega hertz Spectrum in a contiguous band, despite several rounds of consultation no interconnection regulations were finalized by ICASA for nine years. An extreme MTR regime. MTN and Vodacom hiked interconnect rates just prior to Cell C's launch. Cell C receive no regulatory support whatsoever as new entrant instead Cell C was licensed to use 1800-megahertz spectrum, but

15 so were MTN and Vodacom at the same time. Cell C was saddled with owner's licence conditions for rollout and CST's i.e. the same conditions as the existing licensees. MTN and Vodacom hiked voice interconnection rates immediately before Cell C's launch and Cell C to pay the same price for interconnection despite having no revenue source. It took ICASA nine years to consider

20 regulating voice terminating and introduce a cemetery. Too little and too late, number portability was not available, and Mr Chairman will touch on the number portable issue in more detail through the presentation. To move on, Cell C's current market share by revenue is between 12% and 13%. MTN and Vodacom together hold more than 80% of the market, 18 years after Cell C was launched.

25 MTN and Vodacom submissions to the Commission in this inquiry both strongly

content that the South African telecommunication market is vigorously competitive. Their reason for saying so is mainly based on the number of available choices to customers, however the number of available choices is not and should never be and indicate of competitiveness but rather what effect is of these choices. They do not indicate in which market this competition is rigorous. They ignore the head start their head in the voice market, which will translate to significant advantage in the 4 G and 5 G future. If you look at this slide, when regulation intervention did take place around 2010 and 2015 you'll see that very little has changed for Cell C and Telkom. And we heard the previous presentation, that even through aggressive pricing they're battling to gain market share. If you unpack this in more detail, this slide actually shows it to you in detail. If you take service revenue by operator, over the last couple of years from 2013 it's clear that the two dominant operators retain their market share. So even through fierce competition through Telkom or Cell C we fail to actually gain traction and increase our revenue and, and take market share. If you look on the right-hand side, which is what this inquiry is about, more about the data so, the same trend applies. MTN has lost some market share over the last two three years and they seem to be returning that and Rain, but very, very slow growth from Telkom and Cell C even though their pricing is probably a 22:30% differential to the two large incumbents. Both MTN and Vodacom express their views on data growth and the definition of the date of market and on the difficulties, they experience in the upstream market that apparently affect the ability to the reduced prices in the downstream market. Spectrum constraints, difficulties in gaining access to land, difficulties in gaining access to backhaul and generally to the fixed line network. No funding from the UASF.

These problems also affect Cell C but Cell C continues to disrupt the market, none the less. Need a Vodacom or MTN as a problem with the current regulatory framework what they fear most is over regulation. The introduction of any pro competitor regulations that will address the existing and future

5 behaviour, competition in this duopoly market. This duopoly is characterized by limited competition and co-ordinated effects on prices. Vodacom and MTN receive more than 80% of the data market revenue South Africa. They will compete between each other as a duopoly, only enough to maintain the status quo. High prices entrenched market share. They are happy to exchange

10 customers return as consumers especially post-paid high value customers might choose the alternative large operator. Large operators can match its challenges prices and make high profits due to the large economies of scale. High profits allow the larger operators to engage in in trenching behaviour, which as an example win back and retention discounts for high value

15 customers. Vodacom and MTN are unlikely to want to push each other in strong competition only improvements in Cell C's competitiveness can improve competition. Mr Chair if I can the end of my last slide and then and over to Nicola. Again Cell C and Telkom or trying to gain market share and improve competition but are hampered by the number of factors, the poor quality of

20 national roaming, which we've heard again in the previous presentation. Vodacom has an incentive to ensure that Cell C has a lower quality actually perceived service by offering a low-quality roaming service. As a result, high-value post-paid users are unlikely to choose Cell C. or if they do, they likely experience of poor-quality network then Vodacom's customers. Mr Chairman

25 you will notice that you know, for the, in the last 6, 8 weeks or so we announce

that we moved our roaming partner to, to MTN and yet Vodacom continue to complain about spectrums and they don't have to capacity and they don't have capacity, you'll recall that when that announcement was made Vodacom made a statement well we happy that Cell C is leaving, we now have, have free
5 capacity in today submissions they continue complain that they don't have capacity so one I think should be questioning them on that point. Furthermore, the lack of access to high cost of suitable radio sites, has been hampered by smaller scale translating into a higher long running unit costs. Small operators can only sustainably challenge to the extent their hire underline network cost
10 allow. Cell C is as an efficient as it can be at its current small-scale. Cell C is not inefficient, slashing its own cost, does not help Cell C to challenge better it just makes it weaker. Own cost cutting measures are not the answer, the solution is to address the entrenched duopoly absence of real competition. If I can hand, over to my colleague, Professor Nicola. [intervene]

15 **MS THERON:** Thank you Jose, thank you Chair. I'm going to be brief, I'm only going to talk about the failure that persist in the form of the duopoly and the profitability of this duopoly before handing over to Robert Paesly on the importance of scale. These aren't issues that haven't been reversed earlier today. We've heard from various players with heard from Telkom that also
20 pointed to the persistence of the duopoly, but I think in the light of what is data enquiry has to investigate, it is important to ask the question, why would MTN and Vodacom insist that this market is competitive? Whereas if you look at the structure of the market which is clear, it doesn't look like a market that is, has a number of players that can foster price competition and other sorts of
25 competition. So just on the HHI wish is the basic measure with use for

competition, we find it is highly concentrated about 2500. Subscriber numbers can be used in order to measure market share and HHI's, but MTN is also pointed out that subscriber numbers aren't the perfect measure. The point however that you also saw from the revenue slides is whatever way you slice and dice this market in terms of market share concentration, you will end up with Vodacom and MTN having a market share of above 75 or 80% and as mentioned before as well, it is this dominance also in the voice market that is currently being leveraged into the data market. So we've heard that they don't see themselves as super profitable, but I think it is important just to look at their profitability there EBITDA, their revenue and compare that to a smaller player like Cell C. So the EBITDA margin that was referred to earlier today also buy MTN, 35% we saw the Telkom slide that showed the spread of every EBITDA and the fact that this is a fairly good EBITDA but if you can just consider there for instance, the EBITDA in actual rand figures are 14.7 billion for MTN for instance. Which is more than the combined Cell C service revenues which should tell you something of the scale here in terms of a smaller player that is trying to compete in this market where we know that there's some cast and scale is important. So we know that the profitable duopoly persist, we know that this market shares have been fairly constant for the past decade at least. And we've also heard before we want to reiterate that Cell C has come up with very innovative offerings over the years. One of them for instance the 99 cent as it was called at that stage 99 cents for real didn't distinguish between on net and off net for instance, but even though it was a significantly low and imitative offer at the time, it was simply not followed by MTN and Vodacom. They have enough subscribers on their customer base and they aren't really threatened by

some of these moves as their profitability endures. Then you'll also hear a little bit more about the on-air strategy, but it is something which has been on going. There has been a complaint it will be elaborated on, but the issue is that these on-air promotions and cheaper prices, create something which is called the club
5 effect and that also leads to the endurance of the monopoly and the market failure. I'll hand over to Robert Paisley.

MR PASLEY: Thank you Nicola, Mr Chairman I would like to briefly talk about the importance of scale. And it's important I think, to distinguish between efficiently incurred costs and efficient scale. As Cell C obviously believes that
10 it's cost efficiently incurred and ICASA general agrees. Cell C does not incur costs that are unnecessary, and it undertakes cost in investment control activities to optimise its expenditure. However efficient scale is achieved when deployed capacity is well utilised and 10 to 15% revenue market share, does not represent efficient scale. As argued in other regions minimum efficient scale
15 for 3 G is between 20 and 25% revenue market share and it's actually more likely that this figure is over 25% in the case of 4 G and 5 G networks in South Africa. Although the duopoly operators have higher fixed costs from their or extensive network, they also have three to four times the number of customers, traffic and revenues over which to distribute these fixed costs. So the average
20 network unit cost of the smaller operators are significantly higher than those of the larger operators. In fact based on the ICASA cost model, we see that the average network unit cost of the small operator is approximately 50% higher than the average network unit cost of the larger operated due to their scale. There are significant scale effects arising from the entrenched monopoly
25 inhibiting the ability of the small operators to sustainably compete. The graph

that I'm showing now is based on the ICASA cost model from the latest quarter termination rates and this model calculates network costs of the various different technologies, 2 G, 3 G, 4 G for the period 2016 to 2020 for a hypothetical large operator, similar to Vodacom and MTN and a hypothetical
5 small operator comparable to Cell C. Competitive pressure will only be as strong as can be exerted by the small operators and when we run this model for 2017 as an example it indicates first of all , roaming costs add to the total network costs as you can see as in a sides Shameel(?) indicated earlier today the we have the joy of running for free but this is clearly not case. And secondly
10 more importantly the larger operators have a significant scale advantage arising from the greater market share, so you can see the based on the 2017 figures that the ICASA model shows, that the unit cost per megabyte is approximately 33% lower for larger operators, than for small operators. So either the small operators are unprofitable, or the larger operators are able to make abnormally
15 high profits for their shareholders and the small operators get by. If I can hand over to Graham.

MR MACKINNON: Thank you Chair and panel members. I'll just address the role of regulation which is critically important in our view. Our position is that we think regulatory intervention is, is required to correct the market failure which is
20 a historic. So as you've heard Cell C into the market approximately 6 years after MTN and Vodacom and in our view, there were no positive regulatory interventions that assisted Cell C to actually compete fairly with the incumbents. I sort off liked to asking a 6-year-old to compete against a sort off one year old and you wouldn't expect that, you would try and somehow mitigate that
25 advantage that the 6-year-old has. One of the arguments is Cell C has been in

the market for a long time now and this should have washed out but if that regulate intervention never occurred doesn't actually matter you've got the same unfairness for example in the age that I used where you've got a 12 year old competing against a six year old, or a 18 year old competing against a 12 year old. There just has to be some kind of assistance given to the, to the, to the new entrant so the goal of regulation is generally to ensure that consumer benefits in the long run and as I said to address markets that can't fix themselves you can't help yourself necessarily and you do need an intervention to assist. ICASA is a sector regulator has a mandate to regulate in the public interest. There're certain objectives that it has to bear in mind when it regulates, most notably the promotion of competition, the promotion of SME's within the market, but importantly they are not really supposed to meddle in the commercial affairs of licensees. But our competitors as far as we know are concerned about over regulation and just to be clear Cell C is not inviting regulation for the sake of regulation. What we saying is that we need a procompetitive regulation, that has been absent in in the past two decades, so our view is that regulator failure is certainly contributed to market failure. ICASA has many tools is at its disposal to carry out these ex-ante duties. I think that the competition authorities ICASA and policy maker obviously all have a role to play, so this is not intended as an ICASA bashing session certainly. But I think what we saying is there, there have been many missed opportunities and we think that these can still be rectified with positive ex ante regulation. So since 2005 ICASA could have amongst other things, prescribe regulations were imposed license condition aimed at addressing the conduct of licensees that have SMP. So trough the call termination, the last three rounds which it been

going since 2014. There has been the definition of SMP and obviously in our, in the mobile site, MTN and Vodacom fall into that category. Chapter 10 of the sector law, The Electronic Communications Act sets out how ICASA should define the relevant markets and prescribe the methodology for identifying SMP.

5 And then also obviously describes how ICASA should go about imposing these pro-competitive terms and conditions. International best practice suggest that ex anti-pro-competitive regulation should include regulations some of the following. And I'll deal with all of these is a little bit more detail further on. But what we saying is there some critical areas that could've been regulated and should be
10 regulated ex-ante. Call termination rates which I think to be fair, we just received the latest round of those that have come into effect on the 1st of October and I'll deal with those. But facility sharing and access to essential facilities is certainly lacking in the interconnection which is more around RIO's (indistinct), that I'll also deal with. Number portability a crucial ante regulation
15 where we really think, and opportunity has been missed to improve the position for consumers. National roaming also critical, on net of net rate price by dominant operators, I'll deal with that. I think the competition authority certainly could have done a lot more in this regard, in respect with a complaint which we lodged in 2013. And then assignment of spectrum which my colleague Robert
20 Pasley will deal with in more detail.

MR PASLEY: So on the MTR's called termination rates, in our written submission and Jose also eluded to it earlier, you will see how MTN and Vodacom increased these rates when Cell C entered the market. Unfortunately at that stage, these rates for not regulated, so this was a very tactical move,
25 which really hampered Cell C's ability to actually gain any market share when it

entered. As you know this is the rate of inter-connectional call termination rates, the rates operators charge one another to terminate calls. But obviously it forms a part of the calculation of the retail price if, if you are having to pay another operator for example R1.00 to terminate a call on their network. If you charge less than that to your customers you losing money, it's a very simple calculation. So the regulation is intended to assist in reducing wholesale and then ultimately it would reduce in retail prices to consumers. It is very common to afford new entrants asymmetry, i.e. ability charging income it's a high rate but this never happened and what I see a Telkom alluded to was that their contention which I have to say, I agree with is that when MTN and Vodacom entered the market a large part of their success was based on the, the big asymmetry advantage that they had with Telkom he was there only operator at the time when, when they entered the market, so this is symmetry assist new entrants in building their networks obviously attracting customers, competing on price and generally creating a more competitive environment. Since 2010 ICASA indicated that it was going to bring down the, the rate. There was agreement with then Minister at the time in 2011, but it only became a regular it was much later lease initially cost at no cost information despite several lengthy consultations on the implantation of a cost accounting manual the MTN Vodacom and Telkom of the previous years. So, Cell C is pleased for enhance the cemetery to remedy a decade in which Cell C received no regulator support what so ever, was not really needed. The rates set by ICASA in 2010 and 2014 afforded small operators i.e. Cell C and Telkom Mobile limited amount of a cemetery Cell C had to fight very hard to achieve I have to emphasize that the dominant operators really put up a fight if you recall if you've been in this

industry long enough there was extensive litigation around the call to emanation regulations there right exactly around this point internet. MTN and Vodacom argued hard that just because it be in the market for 9 years Cell C was not justified and receiving pro competitor very nice Even though they were obvious market failures which have still persisted, and we identify now in this current round that has just been finalised now by ICASA. MTN and Vodacom argued hard that affording Cell C asymmetric rates will result in each of them loosing massive amounts of money, having to retrench substantial staff and being capable of further investment in the networks. I'll show you why this is the statements or those statements we ridiculous. You know, in, in the next slide as you can see ages on none of those things actually happened and certainly can't be attributed to call termination regulations or giving a smaller operators asymmetry. In 2014 if you look at the rates that were eventually prescribed the, the dominant operators were actually given an opportunity to recruit more of their actual costs and ICASA has expected small operators to obtain a higher revenue market share, then they were able to with no uplift on the cost. So the 2010 and 2014 had some effect, but they had, they didn't break the duopoly or have much impact on the duopoly or certainly on the on the profitability of, of the duopoly. The 28th teen intervention as a says literally just come into effect this month and we think it is helpful but, but we, we, we also suspect that it may be too little too late, but we'll have to see. The next slide is what I was alluding to earlier which shows the ridiculousness of the comments that were made at the time because if you look it is very briefly, the sort of big bars are the total expenses and for the last report of financial years are Vodacom and MTN and then the little lines at the bottom, that you can barely see point 2%.33% in the

MTN's case of their total cost, is what the asymmetry represents. So basically what they were saying for example in Vodacom's instance having, you know, spending 41.9 billion, .2% of that, which is asymmetry would have these you know catastrophic affects, but that seems to world we find ourselves in which is

5 constantly having to fight for quite obvious, quite obvious regulations that could assist the smaller operators to compete. I'll move on next to facility sharing, this is a very important aspect where we believe the ex-ante regulation has not been sufficient, I see our colleagues from Telkom also made some reference to this, but the point is to avoid the unnecessary duplication of infrastructure and the

10 associated high cost. Tech environment so, you know, don't have two or three towers right next to each other which obviously has an environmental impact not just the waste of costs of having this duplication and, and for the convenience of citizens. Governments around the world promote the sharing of telecoms network facilities, it's an obvious thing. ICASA has published several

15 draft regulations until the passing of final regulations in 2010. Licensees are obliged to make facilities available on request unless a request is not reasonable. And these are very important word. I'd like you to, to consider them carefully. The reason in this comes as defined as means it's not technically or economically feasible and will not promote the efficient use of networks and

20 services. Now those words get used as a, as a, as an instrument to prevent access to infrastructure and I'll explain why shortly. In nearly 10 years unfortunately ICASA has not issued any guidelines nor asses the market. The price that may be charged by the owners of facilities, has not been regulated and I know Telkom said that, despite specific powers been given to ICASA to do

25 so. ICASA is not taken steps to regulate [indistinct 00:29:42] entities that

provide facilities but are not licensed. So ICASA has taken no steps to enforce the regulations, despite the complaints by Cell C. We have complaint. Prices for network access are not set with reference to any benchmark. Licence is often excluded from certain premises when requests are in fact reasonable and network costs are high result. So you find yourself in this strange world where you ask for access, you are told that it's not technically or economically feasible and you, you almost don't have a way to, to prove that or disapprove it. So it's very frustrating as, as, as access requested that you get blocked because of the fact that these things haven't actually been prescribed particularly well. Several national policies published by the Minister indicate that licence should roll out high speed networks with national targets of coverage and speed, but this is not possible without access to land or access to existing licensee's facilities and network sharing on reasonable terms. The Minister and ICASA are obliged to facilitate a uniform process for gaining access to land, using wayleaves, servitude across the hundreds of municipalities. Create a centralised database of licensing network infrastructure to facilitate sharing. Liaise with the likes of local South African Local Government Association Cooperative Governance Traditional Affairs Department of Environment, Transport, Water and Sanitation and many other organisations. This is just not happened. I can't actually, it's very difficult to actually explain how difficult it is to actually gain access to sites, the problems that we face on a daily basis across the country. The frustration and getting blocked applications not being heard in time. It's incredibly frustrating. Small licensees cannot easily gain access to existing facilities owned by dominant operators, or facilities that are essential or located in areas which are difficult to access. So what we saying is in a nutshell there's no

coordinated frame work for the rapid deployment of network infrastructure and not a lot of services, policy statement and targets are meaningless as licensees cannot gain access to land. Existing regulations are not in forced to choose to assist small operators. [intervene] An example that I'd like to talk about is there was a consultation, MTN enquired a business called Smart Village recently, Cell C argued that this would increase MTN's dominant position in the market. This is a fibre business and that this would give MTN an edge in the gated community complex network because once you know you have your fibre laid there, it's difficult for anybody else to get in there and we were concerned because this facilities leasing [indistinct 00:32:42] was largely unregulated in practice. Unfortunately ICASA just approved the transaction unconditionally, however when the matter was referred to The Competition Commission conditions were imposed, so those were giving other operators rights to access an affair transparent to non-discriminately terms and required MTN to submit a rate cut. So, what we you saying is there, ICASA approved the transaction that entrenched dominants of one of the duopolies in a key area, despite obvious concerns by us and I think others at the time. Essential facilities are network facilities that are deemed to be essential, that cannot be easily duplicated either technically or for financial reasons, But they're Vital in terms of location or typed or licensees for example mobile mask on high sites, networks in protector the heritage site, ducts on the roads reserved undersea cable, landing station, etcetera. International best practice is to ensure that licensees that do to operate a control such facilities, should make them available to share with third parties who cannot themselves construct facilities in those areas because of these of these obvious restrictions. The ECA requires ICASA to determine a list

of his of these facilities and to regulate them in a specific manner. In 2008 ICASA consulted an impossible list but never published the final list to deal with the terms of this when this should be granted. Where these are held in the hands of the dominant operators. Smaller operators don't really stand a chance

5 of gaining access. Number portability this is a very important area and, and we really think one where you know the ball has been dropped unfortunately. Despite several requests from Cell C from 2013 ICASA I didn't review the number portability regulations, until late 2017. Now obviously number portability is vital to competition. Consumers become very attached to their numbers for

10 obvious reasons and are very reluctant to move networks if unless they can take their numbers with them. So the restrictions on marketing of porting, the limitation that time of ports, technical constraints, et cetera make it difficult they, they, they are obstacles for people wanting to port and basically you have to make these efficient and easy so in a saturated market porting customers away

15 is obviously the only real option to grow subscriber base. You know, there's no new customs they created, you got to get them from somewhere. Porting has been subject to inapplicable delays by dominant operators and high charges being imposed on post-paid customers wishing to port. Resulting in proven decreases in significant number port to Cell C. So for example we're saying that

20 even if you owe an amount on your account, the debt is the debt and you need to deal with it separately, but you should be able to report, sorry, to port unrestricted and deal with the debt separately. Unfortunately ICASA published amendments to regulations in 2018, but these are inadequate for various reasons. We in the slide, sorry we say, we've instituted action against ICASA in

25 the High Court, apologies that is a slight mistake, we're to getting a little bit

ahead of ourselves. But it's likely that we will have to do this very shortly, because we don't seem to despite our requests to ICASA to revisit these, we, we, very will very likely having to go to the High Court to have this reviewed. Interconnection, I'll just briefly deal with this, this is not MTR's this is about what we call Rio's or Reference Interconnect Office, so in terms of the regulations dominate operated to provide these rears effectively like a menu for want of a better word of the dominant operators are friends and they intended to ensure interconnection Is Offered on a non-discrimination transparent terms in a first come, first serve basis. MTN, Vodacom and Telkom first file their offers with ICASA here in 2014 and their costs will comment from them which we also submitted and followed up several times but ICASA has never published final offers in the approved Bill. So every interconnection test subject in a guy she Asian requesting mastitis must simply type or his offer to and now they're important area where we think intervention (indistinct) would be highly appropriate is around national roaming. Despite several approaches by Cell C regarding concerns about its agreements with Vodacom, ICASA is yet to investigate or regulate in this vital area. There is no obligations on dominant operators around roaming. And regulatory oversight over charges. Cell C has begun roaming on [indistinct 00:37:50] network recently without regulator assistance on pricing or at all. Seen this handover has been something that Cell C has been requesting from Vodacom for many years, technically it is possible but it's, it's a vital tool because basically in the current regime if you don't have seamless handover when you leave the network of Cell C for example to move on to the Vodacom network you dropped the call which is a terrible customer experience and it's just spite on numerous requests there always seem to be

challenges and problems with actually getting seamless handover, put into effect. We also don't have an agreement with Vodacom for LTE and yeah, I think pricing would be a challenge there, so we can't make up promotional cheaper data packages available in the area where we roam, because

5 obviously if the roaming rate is high we would have a loss on a per megabyte basis for any data consumed on Vodacom's network. So this effectively preclude customers in in the roaming areas from accessing the promotional rates for cheaper data services we, we don't have our own network. This also prevents the growth of Cell C subscriber base and market [indistinct 00:39:10].

10 There is no incentive on Vodacom to improve quality of service to Cell C or to allow seamless Cell C handover. So there are artificial technical barriers for sharing for example Vodacom this not after access to facilities on the same basis that it offered them to Rain and my colleague Robert will deal with the Rain issue in more detail. And Rain doesn't offer roaming to third parties in the

15 same bases that it offers it to Vodacom. So we think that regulating national roaming, would be very beneficial to assisting with possibly bringing down the cost of data. The last point is on net of net price discrimination and so sorry, second last point. So in 2013 we submitted an extensive complaint to Competition Commission about on-and-off net retail pricing by dominate

20 operators, which we believe is in exclusionary practice. Unfortunately, after years this is not referred for adjudication to the tribunal, essence of the complaint was that MTN and Vodacom used differential pricing to lock in their customers on the network. And there was international precedent by the way it, it was in France the particularly if I recall, where the operates were actually

25 sanctioned by the regulators there for this very practice that we would that we

provided details to the commission on. Based on the available data at the time, which we had to later update, it was our view that the price is actually charge for honour calls on much lower than the off-net prices with incumbency, so that the of net prices be regarded as excessive. In addition the level to which the

5 honoured prices appeared to drop suggested that the margins are cheaper by the incumbency or too small to allow Cell C to compete. After four years i.e., in April 2017 the Commission said, and the quote is there , just the part I'd like to highlight is the Commission said at the bottom, Cell C will engage, sorry, the Commission will engage the Independent Communications Authority of South

10 Africa to explore regulatory interventions that may be necessary to make the market more competitive. I'm not aware of any of those having, having occurred. As recently as the 15th of October MTN is now announced the return of its Mahala product, for the MTN zone customer. So what you saying there essentially is ICASA has never investigated the practice of on net of net pricing.

15 It should have done it and it could resulted in a relatively quick and positive effect on competition. The last point I'd like to make is around the recently introduced the end-user regulations, so these are regulations which, which were published in May 2018 ICASA began consulting on these which are data related effectors, addressing issues such as data expiry, out of bundle pricing and roll

20 over. We engaged with ICASA on several occasions prior to them formulating the regulations and there have been concerns on some of the aspects of it particularly the introduction of a ban on out of bundle pricing particularly, if people don't opt in to the tubing, to be able to access out of bundle. But the regulations whenever less published despite our concerns on the 7th of May

25 and we were only given one month to implement them, which was physically

and technical impossible. So unfortunately, we had to resort to going to the High Court to try and obtain a reasonable extension, the matter was, has, been, was stood down until next month, sorry it says 17 and 17 November, it should be 15th, yeah sorry, I didn't notice that 15 and 16 and the matter will be heard then.

5 What we would like to highlight is that ICASA did not carry out a regulatory [indistinct 00:43:28] as far as we aware, we certainly weren't told of it or provided any evidence to support contention that regulating licensees in the proposed manner would improve the position of consumers. I'm handover to Robert for the following slides. Thank you.

10 **MR PASLEY:** Great thank you Graham, the last point on the role of regulation which I like to cover is the important ducts area of the assignment of spectrum and this is a fundamental regulatory [intervene] tool to deliver a competitive market. Cell C asked ICASA for information about that accusation by Vodacom as spectrum and network assets belonging to Rain over two years ago and
15 ICASA conducted an investigation and concluded that there was no spectrum sharing between the parties. Cell C has not been able to obtain access to the relevant documents in the transaction, but it's clear from the agreement that we have seen by ICASA that Vodacom has concluded in national roaming agreement with Rain which is odd when the network hardly extends beyond the
20 province of Gauteng or at least did when they launched. The terms suggest that the roaming as provided for almost the same price as Vodacom charges to Rain to gain access to 5000 Vodacom's sites. The reason that this is a cause of concern for Cell C is that Vodacom dominance will be entrenched further as it's able to gain access to Rain's valuable spectrum in the guise of the network
25 sharing or roaming agreement. And the terms on which Vodacom has agreed to

allow access to its sites with Rain a far more favourable than the terms the Cell C has received from Vodacom for some of the same sites and in general. Allowing a large operator access to Rain spectrum constitutes a regulatory failure. A new spectrum advantages now been handed to Vodacom and if you

5 look at the impact of this using ICASA's own model we can demonstrate the impact of Vodacom using Rain's spectrum. So we've run the model in 2020, assuming the large operator has access to some of Rain's spectrum not even all of it. The larger operator makes significant cost savings and we estimate that this has a technical value of at least 11.5 billion rand. The large operators

10 network costs for data will therefore fall due to an effect that the small operators cannot replicate, and the small operators are left even more limited in their ability to compete sustainably. So if you see how this is reflected in the graph, basically we have present value over only five years after capex and opex of this transaction. Obviously, the value this into perpetuity the figures become

15 even larger. They competitive effect of a larger operator with access to Rain's spectrum constitutes a new competitive advantage for the operator i.e. Vodacom in this case ,with lower unit costs the larger operator will be able to earn higher profits even if under the competitive pressure of the small operators These high profits will come from relatively high consumer prices were small

20 operators lacking the overall scale or spectrum advantage to sustainably challenge the entrenched larger operators. Interestingly Rain has recently suspended its retail offering claiming service level is used with Vodacom. And it's obvious that the transaction was primarily for Vodacom's benefit. The retail offering appears to have been a smokescreen. ICASA is a sector specific

25 regulatory authority, it should know the value of spectrum. This calculation could

and should have been performed without the benefit of the 2018 cost mode. ICASA has failed to give consideration to the competitive effect of Vodacom Rain transaction, which is ultimately only about access to spectrum and the results of a ready benefited Vodacom substantially. The Commission is also

5 declined to investigate the arrangement is a merger, despite the effect of acquisition of one of Rain's major assets, in fact the only asset. I just like to highlight the role of ICASA in spectrum management and, and this was brought to the floor in 2015 when Cell C participated in a ICASA consultation regarding the acquisition by Vodacom of shares in Neotel, which is now Liquid. Ostensibly

10 this was for the benefit of Neotel as a struggling company, but actually the transaction was about the acquisition by Vodacom of Neotel's spectrum. Cell C argued that argues that the transfers of spectrum and not permitted and this transaction would have a significantly detrimental effect on competition because of Vodacom's dominant position in the market. Allowing it to acquire more of a

15 scarce resource without proper process with further skew the market. Fortunately the Commission took keen interest in this transaction but nevertheless ICASA approved the transaction somewhat similarly to the situation with Smart Village that [indistinct 00:48:28] earlier. ICASA approved the transaction and then had to be taken to the High Court, unfortunately the

20 court set aside the decision and the transaction was subsequently not implemented for various reasons. Incidentally, I just want to make a comment on a point that Shameel(?) raised earlier in today, which was, he was saying that, there was no reason why Cell C should not talk to Rain to in terms of obtaining access to roaming and I just want to be clear that Cell C did indeed

25 talk to Rain, seeking roaming prior to us entering into a second roaming room

with MTN. But we were unable to obtain a reference roaming offer from Rain or even an outline of the commercial terms that we would likely receive from them. And this is obviously despite the fact that Rain, have accurted (indistinct) that is willing to negotiate non-discriminatory roaming agreements with other parties.

5 So that concludes the section on the role of regulation and the next section of the presentation is to look briefly at the remedies that are required. So we started with a summary of the actions which we believe are required in order to remedy the market failure. The first of these is the access, I'm sorry, but actually this slide is not the most recent presentation and I'm just going to talk to the

10 slide, in a slightly different order. Because the first and most important of these is the penultimate point which is the access to infrastructure. Which removes barriers for access to facilities leasing and sharing. Now access to facilities, leasing and sharing is not just a matter of a pricing discussion it's also a matter of technical and operational requirements, which we struggle with on day to day

15 basis in terms of actually accessing infrastructure owned by the dominant operators. The second point which is the last part of the slide is the regulation of the provision of roaming services provided by the dominant operators. And again this is not just much for pricing as a matter of service and it discriminatory level of services offered particularly in the Vodacom roaming agreement and I

20 think Telkom of alluded to this earlier today in their agreement with MTN as well. The third point which is actually at the top of that side is the water spectrum. And this [intervene]is critical in our view that spectrum should be awarded to all licensees on conditions only on conditions that ensure that the dominant operators are not savoured or able to gain the line share at this. And

25 this means in particular implementing an amendment to the spectrum policy

directive. It means revising the electronic communications bill in this regard and it means addressing the Vodacom Rain transaction complaint. The next point is to licence the wren but in a manner that ensures that it acts as a wholesale partner to operators. So rather than restricting its activities and burdening it with onerous licence obligations, we would advocate ensuring that it is operational with off take agreements and access to essential infrastructure including roaming before spectrum is licenced to the incumbents. And then the final points are, it is necessary to carry out one proper study of the electronic communications market. Co-ordinate policy goals revisit the on net of net compliant and introduce a three-year glide path to facing the out of bundle regulations. So to split these remedies between and ICASA and The Competition Commission, the five critical remedies we see from ICASA are to review and prohibit the continuing on the on net, off net price discrimination embarked on by the dominant operator's, a practise which still continuous to this day. Secondly to improve the number portability regulations, especially prohibiting wind back and returning to a recipient let porting it seems unacceptable that porting can be used as a debt collection tool by the dominant operators. When actually it's the customers who should be owning the number. Thirdly prohibiting trading practices that entrench the position of the dominant operators such as discounting. End of contract pricing. Fourthly, implementing and enforcing the facilities leasing regulations and conducting market review and finally reviewing and consulting on and enforcing the implementation of the reference inter-connect office. From the Commissioners perspective we see it really as being limited to acknowledging ICASA has failed in the past with disastrous outcomes for the market. Recommending, working with, encouraging

ICASA to ensure that the measures that do not require market studies are implemented without delay and this means specifically points 2,3,4 and 5 and finally. Recommending and encourage in your working with ICASA to commence market reviews for competition in general and the electronic communication sector under chapter 11 as soon as possible because running these separate individual market reviews is, is absolutely not necessary. And finally in terms of the remedies what actions can be taken by the Commission's while ensuring access to essential facilities and networks facilities of a dominant operators is made available to other licensees is on fare transparent and non-discriminatory terms as to price, service and availability. Secondly investigating national roaming to ensure that dominant operators are providing this on fare transparent and non-discriminatory terms again as far as price and service and availability concerned. Thirdly, ensuring that spectrum is assigned equally and do not allow Spectrum rights to be taken or used by dominant operators outside of the proper process and in our view, not prior to the work becoming operational if the work is to succeed. Fourthly to investigate and prohibit on net, of net pricing differentials by the dominant operators.

MR MACKINNON: Thank you very much Robert and just in conclusion then Mr CHAIRMAN (MR MAJENGE). So we've heard quite a comprehensive view on what to materially bring down data prices, it through real competition and therefore you know in the summary slides is we have to focus on how'd we bring real competition be one of the only solutions to, the, to, to bring down prices. Furthermore to address the regulatory failure we've heard not only from Telkom but through my esteemed colleagues, data costs has failed in regulating this market for smaller operators. And promote competition, enable growth in, in

scale and of course apply the remedies that will shape the future specifically as we move forward into 5 G. Thank you very much Mr Chairman.

CHAIRMAN (MR MAJENGE): Thank you, thank you very much for your presentation and Mr Mahuma.

5 **MR MAHUMA:** Thank you Chair. I think a similar question was asked by to the previous presenter and I'm if I can take you to the pricing that we got for Cell C with regards to the different bundles, so what we have here for a bundle that's valid for 30 days [intervene], it's R12.00 while for a 5 gig will be R3.99. So the submission we received from the Consumer Group yesterday was that this cost
10 actually mean that the lower volume consumers by default tend to be lower income consumers, are actually paying higher than the wealthy consumers who can afford to buy high volume data. So what's, what's the reason for this and then is it cost related and three, if it's cost related does it justify this difference in price is sometimes two, I mean ten to 30 times more than a when you take into
15 account the difference in the volumes?

MR MACKINNON: Thank you. I think one needs to really apply your mind on this matter and what is the question really. Is it the differential between a price point for an individual who doesn't have the disposable income versus somebody who has a high disposable income to buy data bundle? In my view
20 you'll always going to have that disparity , I think what's in question here and what the Commission and the operators need to focus on is what is the real price for that 50 meg? Should it be R3.00, should it be R2.00 or should it be R1.00? So that the poor have more affordability and I think what we've presented here today is if you have the correct regulatory framework and you

know, impose the kind of framework we referring to then by default the prices will come down and the poor will pay less. It is my considered view that they will also benefit the middle class and the rich as you put it. They will always want to pay less if they buy more. So I don't think that's the focus point is more question
5 of how do we bring prices down, so that it becomes more affordable for the poor?

MR MAHUMA: Thank you very much and then added so there was a suggestion as well, to say maybe the short-term solution is to almost zero rate some of the apps that are beneficial to the creative side and I just want to get a
10 comment from Cell C in that regard?

MR MACKINNON: I think my colleague at Telkom made an observation about zero rating apps. I think the industry and certainly Cell C do a pretty good job of that already I'm in a large of the University's zero rate their IP addresses so that students get the access to learnings and education. The question is you know
15 to what point do you continue this practice? You know if you take OTT players, Facebooks, WhatsApp's, the worlds [indistinct 00:58:45] they benefiting of huge advertising revenues and we now been saying from an industry, well zero rate the apps, I think the industry certainly Cell C taken a conscious view that where an applications regarding your healthcare education for the needy we take a
20 very strong view, we have zero rated many applications at to date, so it's not a question of you know let's just zero rate any application, it has to have a commercial viability in common sense behind it.

MR MAHUMA: Okay and then the next question and I'm not sure whether you've answered it in a different context but in Cell C's views and this is the

question that we post in the call for submission. Do you think data prices in South Africa are currently higher than they ought to be and then if that's the case, if we solve some of the issues that were identified here, do you necessarily think data prices will come down?

5 **MR MACKINNON:** Said with respect through the Chair, I think that's why there's an enquiry. It's for you to tell us if they are high? It's not for me to tell you whether data prices are high or not. So I look forward to your report. What I do believe is that prices can come down through efficiencies and through proper regulation and I think the Commission needs to take a very strong view on
10 some of the inputs we've provided in terms of making sure that regulation is enforced and if you create pro-competitive environments and you bring greater competition then naturally price, prices will come down.

CHAIRMAN (MR MAJENGE): Just a follow up on the question maybe let's frame it differently. Do you think that the prices for this data services, at least
15 are competitively priced?

MR MACKINNON: I think over the last 2, 3 years we've seen pricing become very competitive and we've seen a downward trend and I think that competition will continue to intensify but it will come at a cost of investment. So one needs to regulate that in some form or another as we presented earlier on and there's
20 always room for creating very efficiencies and creating a pro-competitive environment. And if we do that we will see the prices come down. So yes, you know I look forward to those measures being put in place.

MR MAHUMA: Okay, if I can take you to slide 13 in your presentation and I can read it for you. It says, did your policy characterised by limited competition

and co-ordinated effects on prices. Can you perhaps explaining the statement and then in addition give us evidence that you relied on when making the statement?

MR MACKINNON: Slide 13. This is the one. [intervene]

5 **MR MAHUMA:** The first point. So the first bullet point. [intervene]

MR MACKINNON: Maybe you want to take there?

MS THERON: So you're asking for specific evidence on coordinated effects, I think we've looked at some of these price packages in the past. And you can see especially before Cell C acted as a challenger network and introduced
10 some of these prices offerings, the prices moved very much the same so I don't think the idea here is co-ordination in the sense of overt co-ordination but certainly a market which is a duopoly where the prices move together because there's no other competitive force to force them down. So that's the point who were trying to make here.

15 **MR MAHUMA:** That's fine and then if I can you take you to slide 26 the last point. The one which is bulleted in red. So just to give us an understanding. Why was the 2018 intervention helpful but the other two were not? And then initial question they say is this not an indication that regulation is not the main issue in this market and maybe there's something else that might be causing
20 this, this issues?

MR MACKINNON: No sorry, I think what we're saying is that 2010 and 2014 obviously there was, it was anything helps but what we saying is it, ultimately didn't have an effect on the revenue market share the duopoly or on the fact or an breaking the duopoly. Yes there was a cemetery in both 2010 and 2014

regulations, but the effect of that as we saw because when we went through the process that resulted in the 2018 regulation i.e. the process started in 2017 ICASA determined that there was still a market failure. So clearly the 2010 and 2014 didn't have the, the effects that I think the ultimate effect that was intended. And what we say is the 2018 intervention it has a symmetry built into the regulation. Clearly that will be helpful to the smaller operators, but whether it has the effect that ICASA intends, it's obviously too early to tell.

MR PASLEY: Mr Chairman could I maybe make one further comment on that? Because I think the point made by, by Telkom in their presentation is also important. If you look back to the effect of the asymmetry between the fixed in the mobile operators from 1994 onwards this is unquestionably one of the major causes for the success of the mobile industry through the 90s. Had such similar asymmetry been granted to the challenger operators as they enter the market in 2001, we would have seen a very different outcome. [intervene] By the time these interventions were introduced, it was generally less material, it did help but it, it's, it's kind of in the rounding and by now actually circumstances have moved on, voice revenues are less 50% of total service revenues. So it's a much smaller percentage of the industry, it has a much less significant effect on the business.

MR MAHUMA: And then the last question from my side. I'm not sure whether you heard the earlier presentation specifically from MTN and Vodacom, so when answering this question where we ask them do they think that the mobile market is competitive? Two main factors that I've jotted down is that. One, Cell C and Telkom are both not capacity constraint and both of them actually growing and, and also speak about the fact that on the roaming side, there is

options. So those are some of the factors that indicate to show that there is actually competition in this market. I just want to get a view from Cell C in response to that in response to that.

MR MACKINNON: Thank you. I think you if you go to the one of the previous
5 slides where specifically put the revenue share, slide 11. I mean this is exactly what's happened. They say we competitive and you know we don't have spectrum issues. No matter what Telkom or Cell C have done through very aggressive pricing as we alluded to earlier and we've seen this pricing come down quite aggressively over the last two years pacifically, the last six months,
10 we failing to get to revenue share. And this is exactly the issue that saying to the commission that this is part of the enquiry. It's regulatory failure in the market. Market structures that have been put we continue to promote, you know the dominant players and hence you seen the failure that you got and that's the point, you know, and Telkom alluded to it. They would like to see more growth
15 so, yes, we here see are data prices too high. The question is if prices come down, significantly is the two smaller operators going to get significant revenue share or market share? And that's not been the case for the last five years as illustrated. So I hope that answers the question. Thanks.

MR PASLEY: Mr Chairman could I maybe just make one further comment on
20 the national roaming part of the question. Because I think MTN have made quite quite a lot in their presentation and in that question and answer session about the fact that Cell C could shop around and, and that's true we could, there are options, but as we've mentioned in our presentation first of all we did approach rain and we were simply unable to obtain any kind of offer for national roaming
25 from them. Secondly, we already had a roaming relationship with Vodacom, I

mean they were our roaming partner, but we were unable to deal with the quality [indistinct 01:07:45] as we've alluded in our presentation. Telkom also referred to it as well in terms of their quality as using their roaming agreement with MTN. So we were only left with MTN and we know that we're paying

5 substantially more than any cost or entered fee for that service, but we're left with no option. So I think it's disingenuous to say that there are options, there are actually very few options.

CHAIRMAN (MR MAJENGE): In the interest of time I will limit the rest of the questions to one question each. Dr Mncube.

10 **DR MNCUBE:** Perhaps a question to Mr Dos Santos. To close it off. I think the presentation is highlighted very strongly the regulatory failures which in fairness is also been raised by others, but you have really, put them to our forefront quite strongly. I want to invite a comment from you in regards to your views around the recent developments in the regulatory space? So in the Electronic

15 Communications Bill and the proposed policy and policy directives to the authority? In terms of whether they will help, whether they have put the potential to promote an environment that would, that would support effective competition and in turn lead to lower data costs?

MR DOS SANTOS: If I can maybe address it on two points and if I understand

20 your question, does ICASA currently have the capacity to regulate? I think there, they doing the best they, we have a very strong good legislation that regulates telecommunication. I don't think it's been enforced, I think ICASA really need to, you know, increase their capacity of knowledge to take these matters seriously. Secondly we've seen the proposal of the [indistinct 01:09:52]

on the ECA and I think that is the one way that ICASA can really change certainly the future the 5G aspect of where we going to ensure that we have a very competitive infrastructure company under the [indistinct 01:10:04] that competes, that allows smaller operators compete fairly by doing so, it is my
5 considered view that prices data prices, will drop significantly if we get that regulation in place and it's effective and it's implemented correctly then yeah that is it is my view that will see a significant reduce in price of that. I'm not of the view of the large incumbent statements where they said give us spectrum and, and we'll half the pricing. Spectrum is only a small portion of what needs to
10 be done. Input costs, infrastructure costs, good regulation will bring down the price of data. Thank you.

CHAIRMAN (MR MAJENGE): Mr Aproskie.

MR APROSKIE: Nothing.

CHAIRMAN (MR MAJENGE): Thank you. Just one last question from me, in
15 your Recommendations, I don't see you mentioning the regulation of wholesale access. I just want to find out what your views are on, on that point. Because you do it in your presentation propose the regulation of roaming, but not the product question of wholesale access?

MR DOS SANTOS: Are you referring to wholesale? The wholesale regulation.

20 **CHAIRMAN (MR MAJENGE):** Yes.

MR DOS SANTOS: When you, sorry Mr Chair, when you refer to wholesale access, are you refereeing to third parties seeking MVNO type access to other operators? Is that correct?

CHAIRMAN (MR MAJENGE): Correct.

MR DOS SANTOS: As you are probably aware we are currently basically the only operator in South Africa that has a large number of MVNO's on our network. And we offer the services on a current unregulated and commercial
5 basis. In principle, I would have thought that if you're talking about reducing the cost of mobile data the priority would be to regulate national roaming as a first step, having said that one would certainly see, see any form of wholesale access as being likely target of regulation at some point in the future.

CHAIRMAN (MR MAJENGE): Yeah, thank you, thank you very much Mr Dos
10 Santos and your colleagues for your time as well as for your presentation. You are excused and this concludes today's hearing we will however resume tomorrow and we will, we will take the first submission at 8 o'clock in the morning and then the presentations that you are going to receive as follows the first one will be from Afrihost at 8 o'clock the second one will be from Internet
15 Solutions at 9 o'clock and then the African National Congress at 10:15 and then the Alliance for Affordable Internet at 11:15, then the Department of Telecommunications and Postal Services at 13:15 and then ICASA at 14:15 then the Inkatha Freedom Party at 15:15. Thank you very much for your time.

MR DOS SANTOS: Thank you very much Mr Chairman, thank you.

20

RECORDING ENDED.

5