

Costs to Communicate

Presentation to the Select Committee on
Communications and Public Enterprises

28 March 2018

Telkom

Outline

1. Contextualising the market
2. Developments in the mobile space
3. Developments in the fixed space
4. Contribution to CSI and SMMEs
5. Challenges
6. Recommendations



Wholesale Infrastructure

Wholesaler
provider of
communication
facilities
& infrastructure to
ISPs
DSL, Fibre, ME etc.



Converged ICT solutions

End-to-end digital
solutions provider of
ICT solutions to
enterprise customers
Connectivity, voice,
IT, cloud etc.

Telkom Consumer

Connectivity solutions

Retail
communications
service provider to
consumers
Broadband, voice,
internet & mobile.



Directory & online services

Local advertising and
marketing
organisation providing
digital solutions
Directory, online
search, e-commerce.

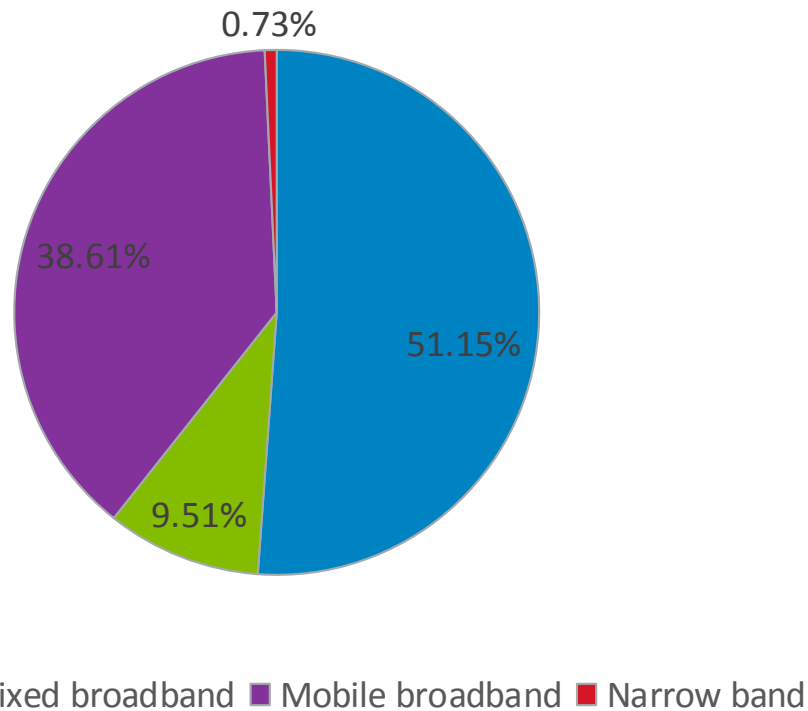


Property management

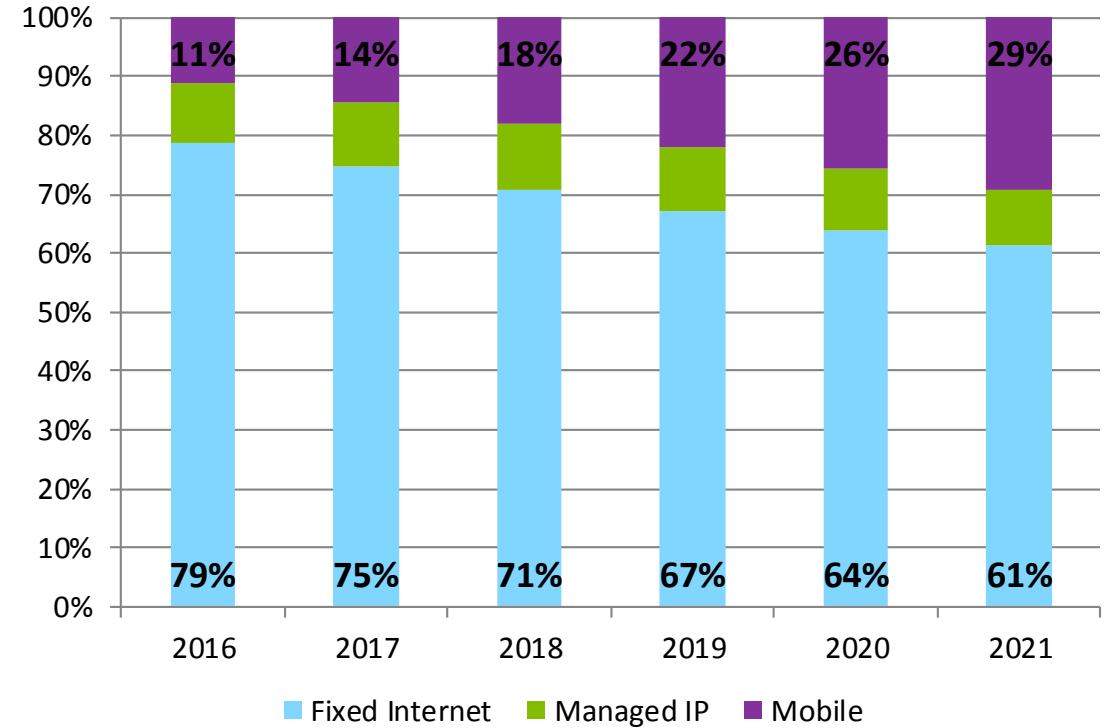
Property business
managing masts and
towers, property
development and
property management
services.

Access to the internet

- Less than half of the South African population has access to the internet
- The majority who do (80% of broadband subscribers) access it via mobile technology



General Household Survey (2015)

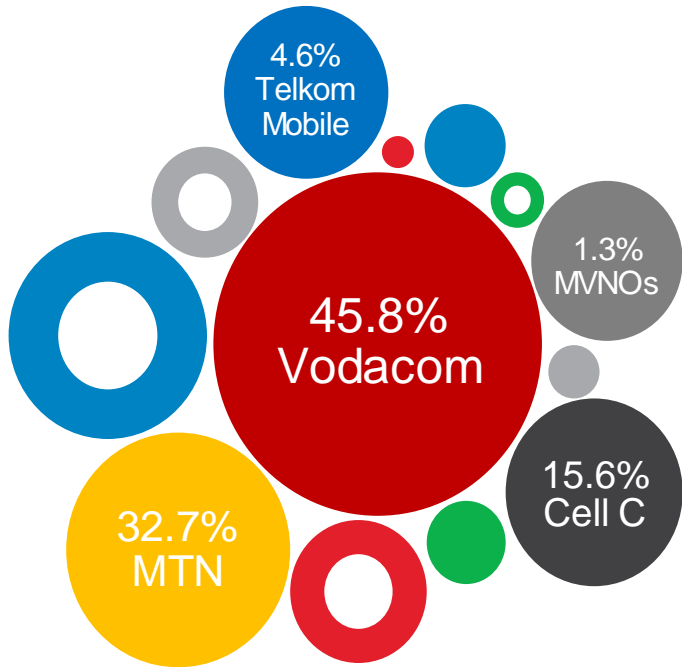


- Mobile data access growing faster than fixed access

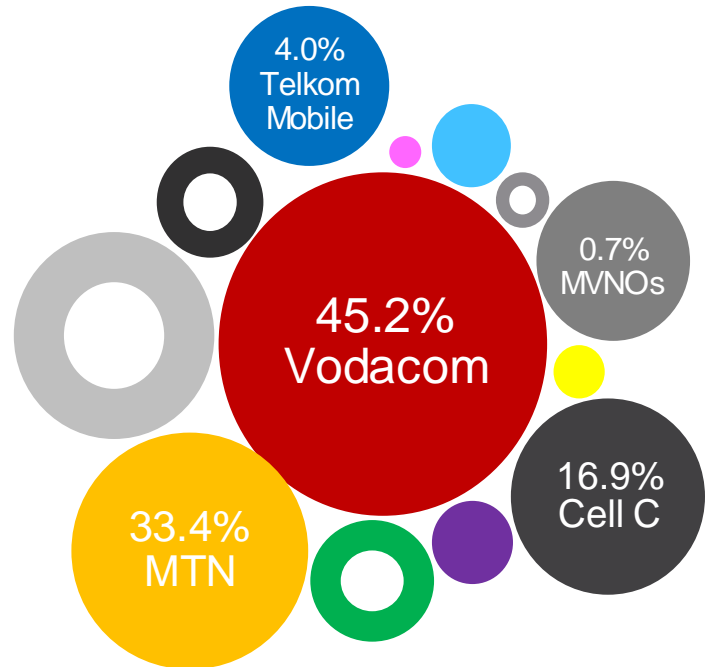
Mobile Market share

Whilst Telkom offers significant value, majority of market share remains with MTN & Vodacom

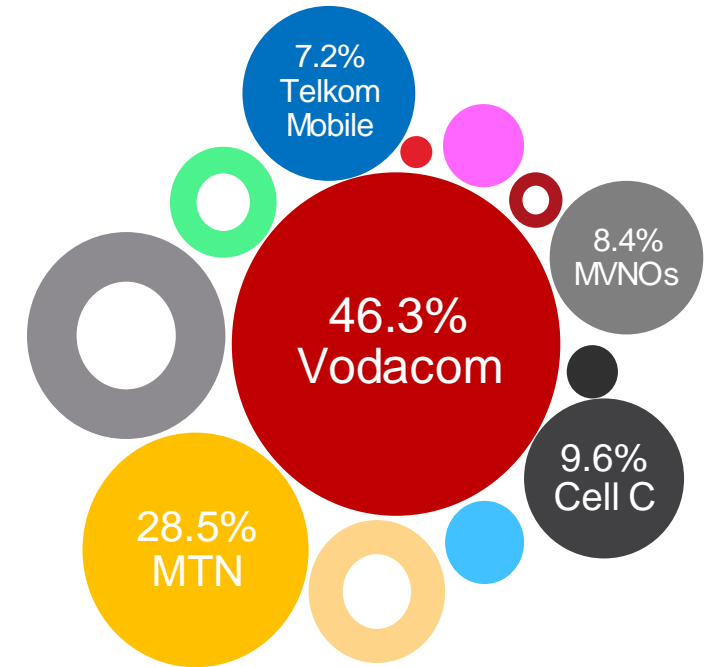
1 Total Mobile Market Share (%Sims)



2 Prepaid Mobile Market Share (%Sims)



3 Post-paid Mobile Market Share (%Sims)



Source: SA Telecoms Model, Sep 2017

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Telkom is committed to reducing the costs to communicate for South Africans

1

Responding to Consumer needs

- Mobile data is the most convenient way to access the internet
- Innovative products have been introduced
- Products are differentiated on customer value, pricing and product propositions
- The market has been disrupted
- Clear focus is on data-led products and value enhancements

2

Telkom's Key Challenges

- Late entrant into the mobile market with an entrenched duopoly
- There are high barriers to entry in respect of network roll-out
- To remain competitive Telkom continues to enhance customer value propositions

3

Achievements to date

- FreeMe (Launched in 2016 has had a significant impact on mobile data)
- Cheapest Out of Bundle rate in the market at 29c / MB
- Orange Index: Telkom Mobile achieving overall 2nd in Orange Index 2017 for the telco industry
- Launch of UNLIMITED Home 2017

Reducing the Cost to Communicate – Mobile (i.e. FreeMe)

The FreeMe Portfolio (Post-paid, TopUp as well as Prepaid bundles) include the following:

FreeMe is a data centric plan that offers customers real value.

It reduces the cost to communicate for customers – it is the only mobile plan in S.A that offers:

- Free calling between Telkom customers;
- In addition it also offers -
- Free IM texting and calling options by including a portion of IM data
- In addition it offers 50 x SMS messages per day;
- On the higher tier plans it also offers customer free LIT streaming data to be used for YouTube streaming as well as other entertainment service providers.

IM Data - Includes messages and calls via WhatsApp, Viber & BBM



Data:
All networks Data & LIT Streaming Data

Minutes:
Free minutes to call Telkom users/and minutes to call other networks

Fixed Data – Home Unlimited

As with fixed –mobile substitution Consumers have shifted from voice to data products. There will therefore be less reliance on traditional voice services going forward with more use of VoIP as a data driven application.

- **Speed**

- Entry level speeds, 2Mbps have been increased to 4Mbps to provide a better user experience on uncapped

- **Data**

- Data caps limit users' communication and entertainment needs – uncapped data with higher fair usage values for a meaningful experience

- **Voice**

- Inclusion of unlimited on-net calls to Telkom fixed and mobile networks with 6 million numbers to call provides best call package value – 20% discount applies to top 30 International destinations

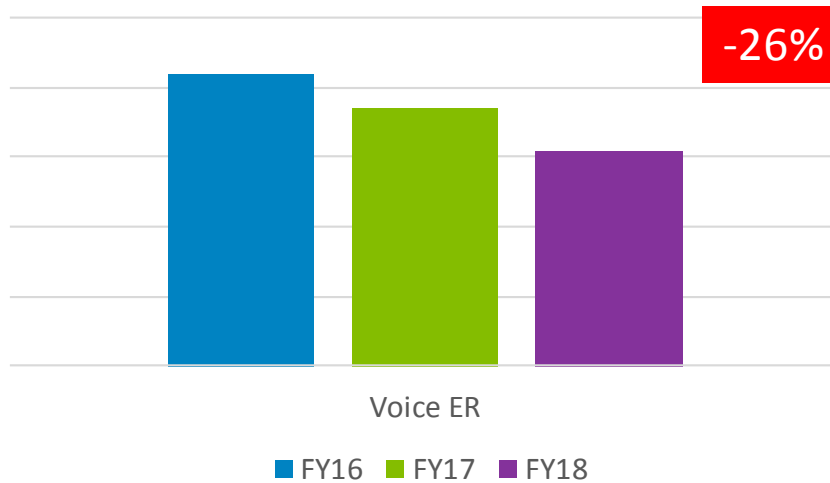
- **Mobility**

- The offer includes an amount of 1, 2 or 3GB mobile data for fail over and on the go use which retail value is between R99 and R199

Reducing the Cost to Communicate – Mobile

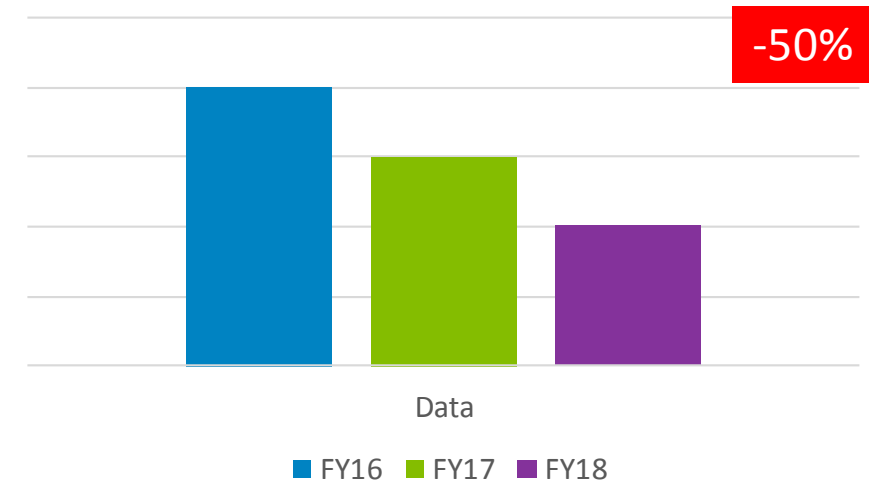
There has been a steady decline in the effective rate over the course of the last 3 years (FY16 – FY18)

Voice - Reduction in Effective Rate



- The effective rate for voice has dropped by **26%** since 2016
- Driven down by value such as free on-network calling

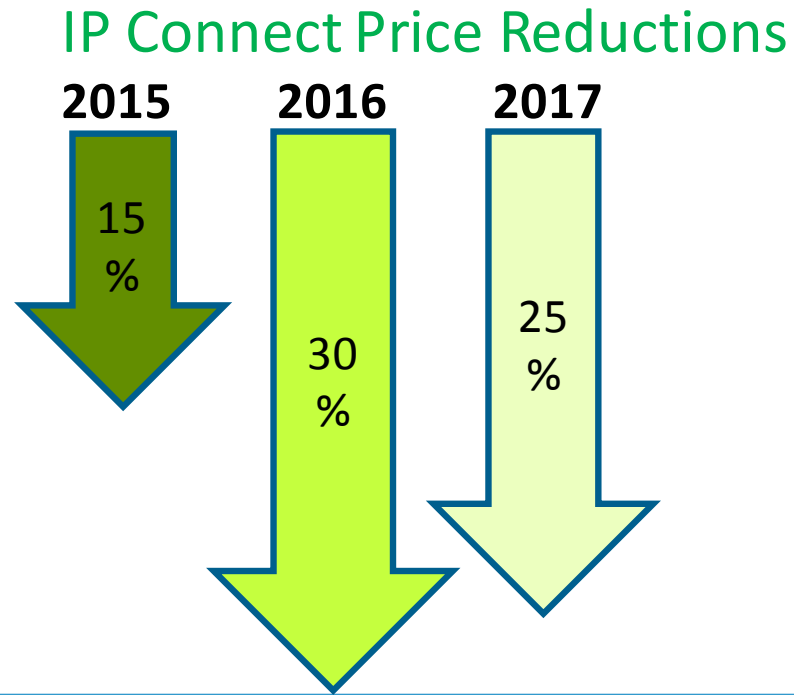
Data - Reduction in Effective Rate



- The effective rate for Data has dropped by **50%** since FY 2016
- Driven down by increased data bundles and double data promotions

Reducing the Cost to Communicate – Wholesale

- At the wholesale level Openserve has reduced wholesale prices. This has reduced input costs at the retail level enabling ISPs to reduce prices for consumers
- For example over the last 3 years the price of IP Connect has decreased by 70%:



CSR - Empowering youth through education and entrepreneurship

THE TELKOM FOUNDATION

Main focus is on education



R85 million

allocated to education.



9 770

learners benefited from supplementary teaching.



4 140

teachers trained in ICT.

Foundation over the past 3 years.



FUTUREMAKERS

Enterprise and Supplier Development Fund



R234 million

invested into the FutureMakers Fund.



40 black owned businesses in our IFT programme who employed **364** technicians.



1 102

new jobs created by FutureMakers Beneficiaries.

FutureMakers investment since 7 May 2015.

Barriers to lowering the cost to communicate

- **Lack of access to sub 1GHz frequency bands:**
 - This continues to impact Telkom's ability to offer good indoor coverage
- **Spectrum auction:**
 - A spectrum auction will entrench the duopoly with deep pockets: it will be expensive and prohibitive for Telkom and other smaller players
 - It will make it almost impossible to challenge the duopoly through enabling market forces to drive down prices and improve quality of service
- **Copper theft:**
 - Copper theft and infrastructure vandalism continue to be a challenge and incidents of such are increasing

Recommendations to the Honourable Members of the Select Committee

Telkom believes the following will contribute to reducing the overall cost to communicate:

- Consider Government subsidies of broadband for poorer communities in South Africa:
 - Morocco and Egypt are examples where Broadband is subsidized and costs therefore lowered to end users ensuring greater uptake of Broadband services and a reduction of the digital divide.
- Make data VAT exempt
- The Justice, Crime Prevention and Security Cluster needs to accord a higher priority to copper theft and infrastructure vandalism in order to stem the increase in crime
- Provide access to sub 1 GHz spectrum for smaller operators. This will achieve prolific coverage at lower prices by decoupling the need for expensive roaming agreements
- Establish the Wireless Open Access Network (WOAN) as soon as possible. This will increase retail competition by enabling the financial sustainability of smaller players and new entrants. Through increased competition whereby smaller players are able to challenge the duopoly the costs to communicate will be lowered.

Thank you

Telkom