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A Review of the Post and Telecommunications Market 2008/09

Introduction

- It is that time of the year that the UCC takes time to review the industry performance, key developments and challenges for the previous Financial year.
- This review is for the period June 2008 – June 2009 and takes a look at;
 - The sector performance at a macro economic level. i.e. growth and contribution to GDP as well as a cross sector performance comparisons
 - Industry financial performance
 - Trends in post and telecommunications including service growth and penetration
 - Post and telecommunications price trends and
 - Key regulatory developments



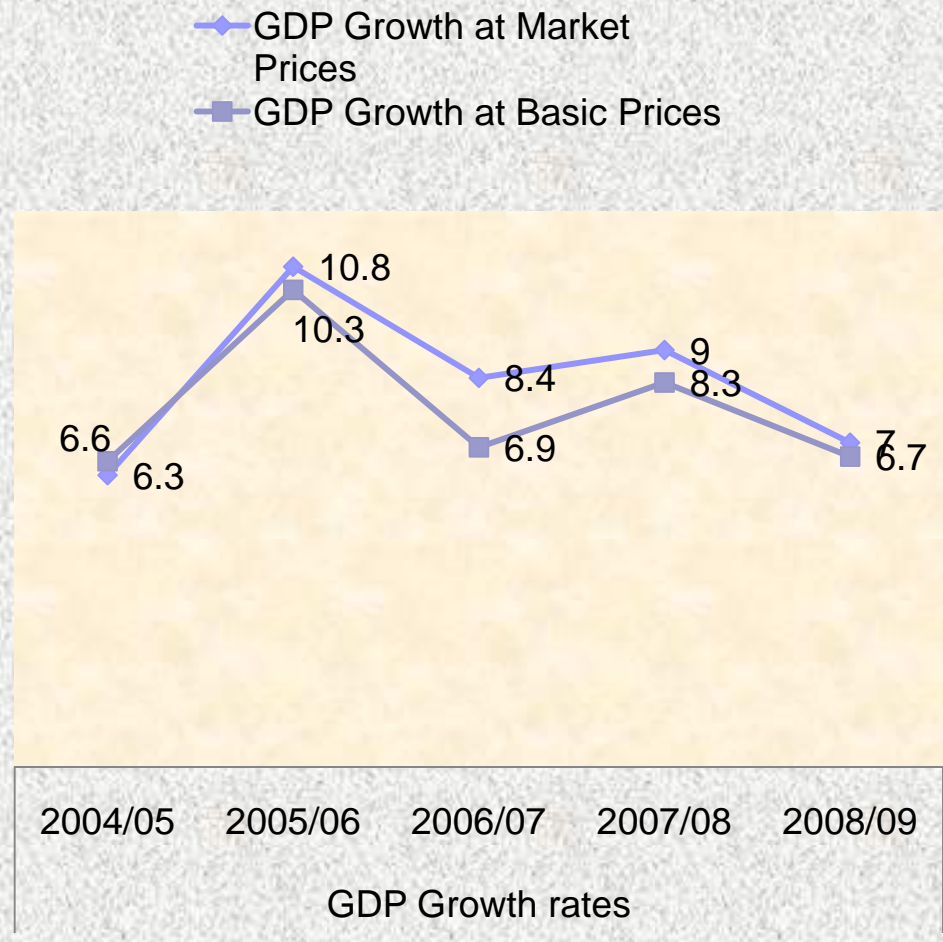
UGANDA
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THE MACRO ECONOMIC PERFORMANCE

Country Economic Performance

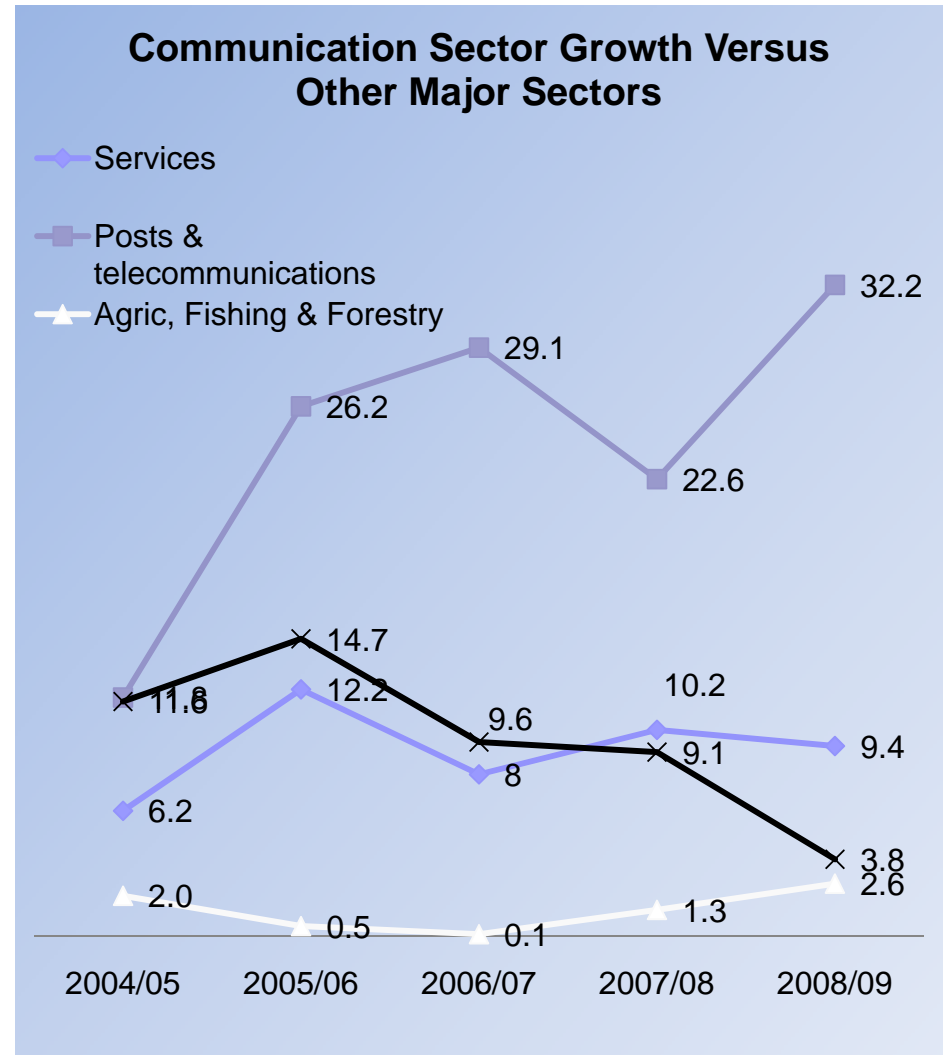
- Uganda's real GDP grew at 6.7% for the FY 2008/09, a decline from the previous year where growth was at 8.3.
- This growth was formidable in the face of the global financial recession and may be attributed to the diversification of the export and service sectors.
- The economy was however also riddled with high inflation fuelled by escalating fuel and food prices.

GDP Growth Rates, 04/5 - 08/09



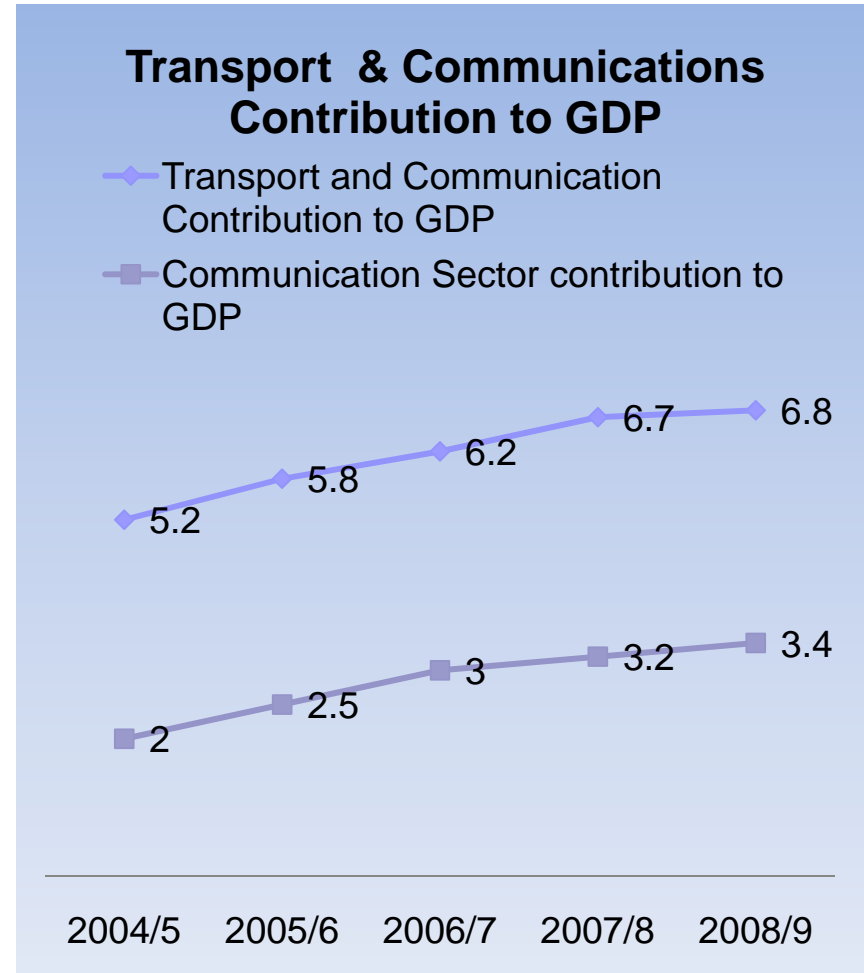
Sector Performance Comparisons

- The Communications subsector realised a growth of 32.2% in the FY 2008/09. This is the highest annual growth realised over the past 5 years.
- Growth in the communications sector outperformed all other sectors such as Agriculture, Industry and Services which registered single digit growth rates during the period. See figure.
- The growth in the sector is a result of an increase in infrastructure investment by both government and private sector and uptake of services.



Sector contribution to GDP

- The sector contribution to GDP for the FY 2008/09 rose to 3.4% from 3.2% in the previous year.



Financial Performance – Implications of the Crisis

- Despite the positive growth, the communication sector like other subsectors, felt the impacts of the global financial crisis of 2008/09.
- On a negative side, there were a number of funding delays for high risk and starts ups as financiers set stringent lending requirements which consequently resulted in roll out delays for many licensees.
- As such, some of the licensees had to either transfer or merge with existing service provider in order to meet their start-up date.
- On a positive note, the credit squeeze has seen a move towards more cost efficient approaches like infrastructure and tower sharing among others.

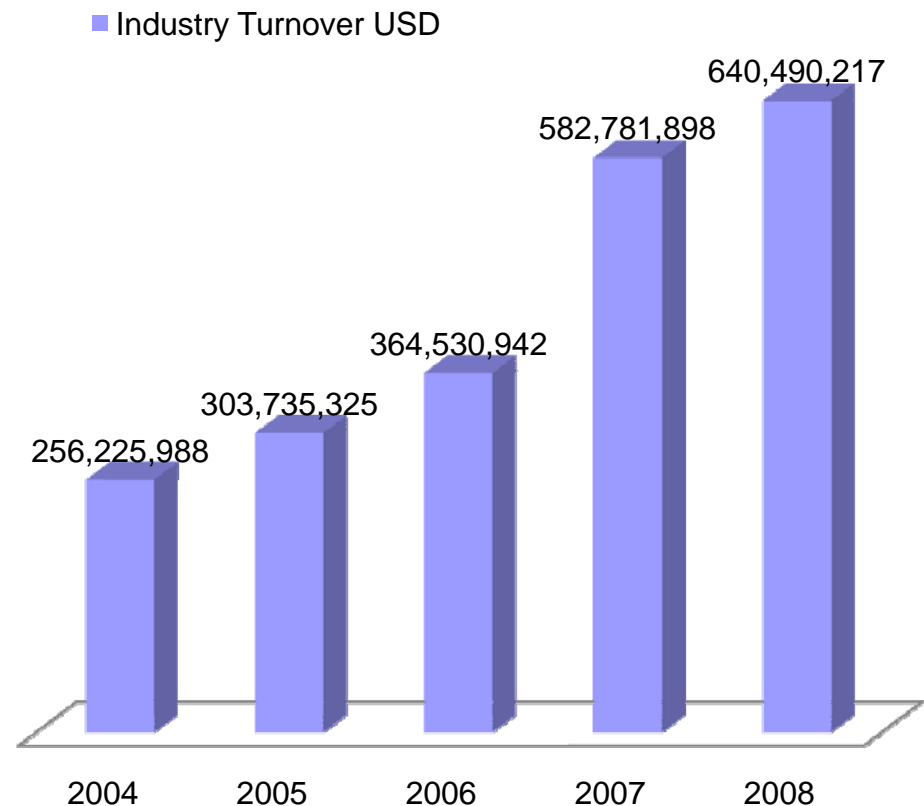
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Financial Performance – Industry Revenues

In terms of real revenues;

- The sector realised a turnover of UGX 1.3 trillion which translated into a 25% growth from the previous year.
- The revenue gains in UGX are however wiped away when converted to USD due to the adverse depreciation of the UGX.
- By the end of the year the UGX traded for 1935 against the dollar compared to the 1698 at the end of the previous FY.
- Revenue growth in USD therefore translated to a mere 10% compared to 25% in UGX

Industry Turnover USD, 2004 - 2008



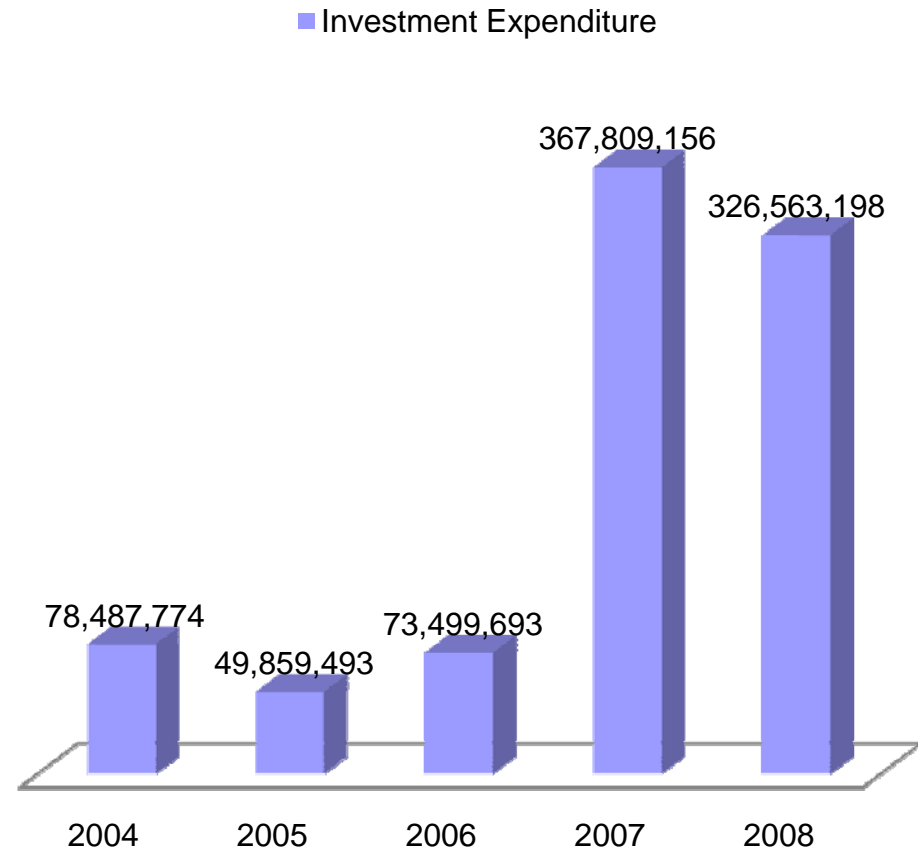
Financial Performance- Capital Investment

- The sector attracted an estimated USD 320million in capital investment in the year 2008/09.

- This was largely down to new infrastructure investments by;
 - Orange Uganda Ltd,
 - the government fibre optic backbone project,
 - 3G network roll out by UTL and
 - Major network expansion by MTN and Warid Telecom.

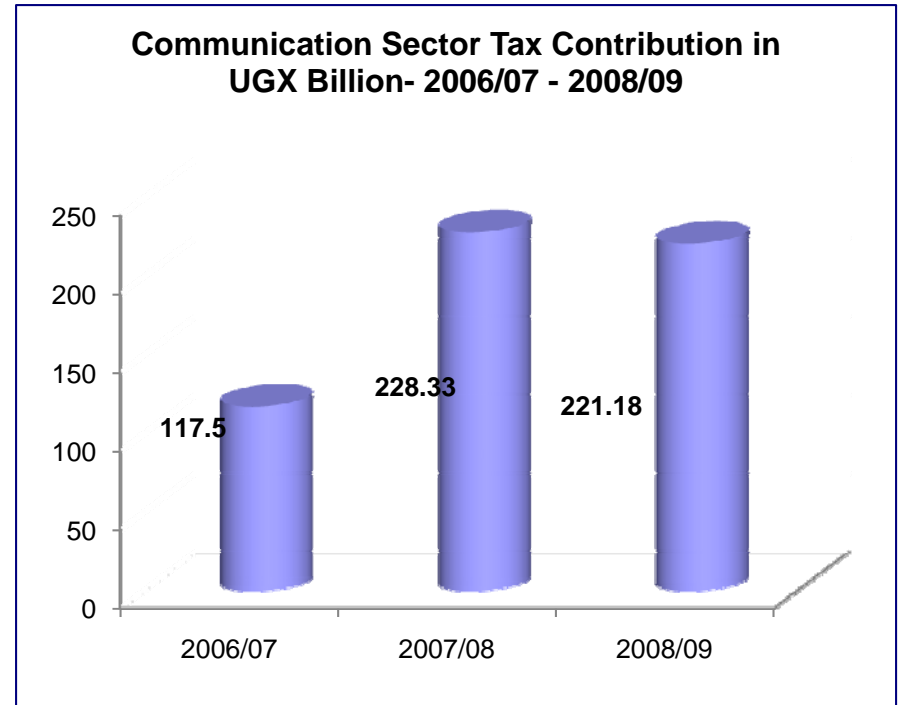
- Investment contributions were also registered from new service providers such as SMILE Telecom Uganda, TMP Trading as the broadband company, FORIS among others

Investment Expenditure USD, 2004 - 2008



Contribution to Tax

- The communications sector was the highest contributor to government revenue during FY 08/09
- An estimated Ugx 221.8 billion was collected for FY 08/09.



| YEAR | IMPORT | | | | Income Tax | TOTAL (Ugx, Bill) |
|---------|--------------------|-----------------|-----------------|------------|------------|-------------------|
| | EXCISE (Ugx, Bill) | VAT (Ugx, Bill) | DUTY (Ugx Bill) | PAYE - Est | (Ugx Bill) | |
| 2007/08 | 74.29 | 64.42 | 71.72 | 9.9 | 8 | 228.33 |
| 2008/09 | 88.73 | 54.63 | 55.05 | 11.4 | 11.37 | 221.18 |



Telecommunications Service Providers

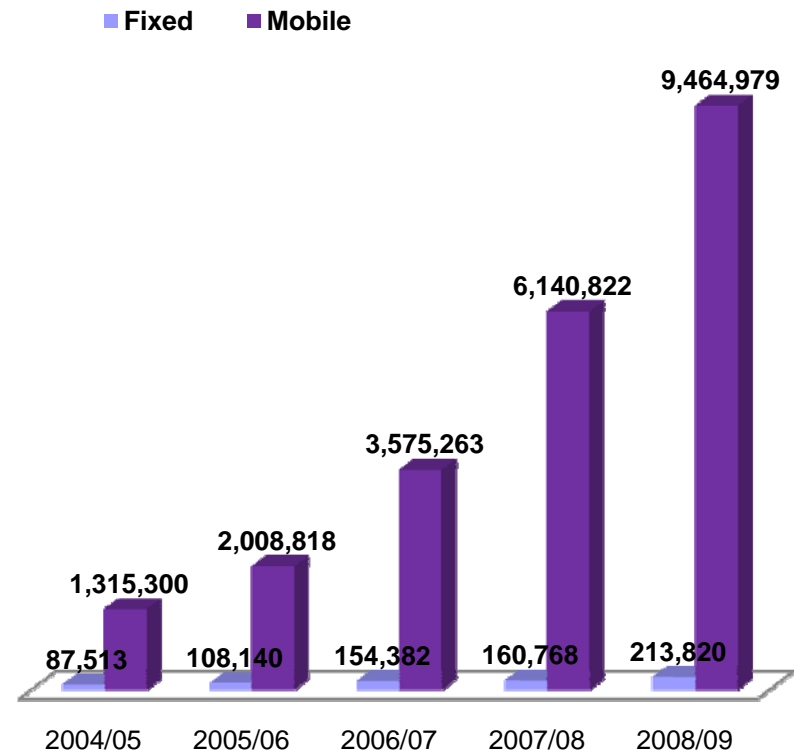
- Major highlights for the period under review included;
 - The migration of Celtel Uganda Ltd from a Cellular Telecommunications Operator license to PIP & PSP licenses.
 - Orange Uganda Ltd, launch of Commercial mobile cellular services
 - Bringing the number of commercial mobile telephone operators to 5 at the end of the FY.
- 10 and 13 new operators were granted PIP and PSP licenses respectively during the period under review.

| License Category | June 2007 | June 2008 | June 2009 |
|---------------------|-----------|-----------|-----------|
| NTO | 2 | 2 | 2 |
| PIP | 1 | 13 | 23 |
| PSP Voice and Data | 14 | 19 | 32 |
| PSP Capacity Resale | 4 | 5 | 3 |

Telecoms; Service Penetration

- There were 3.38 million new subscriptions during the FY 2008/09
- 3.32 million of these were mobile connections, accounting for 98% of all new connections during the year.
- This new growth was the result of;
 - Increased network coverage
 - Increased on net price promotional campaigns that have further encouraged multiple sim card ownership

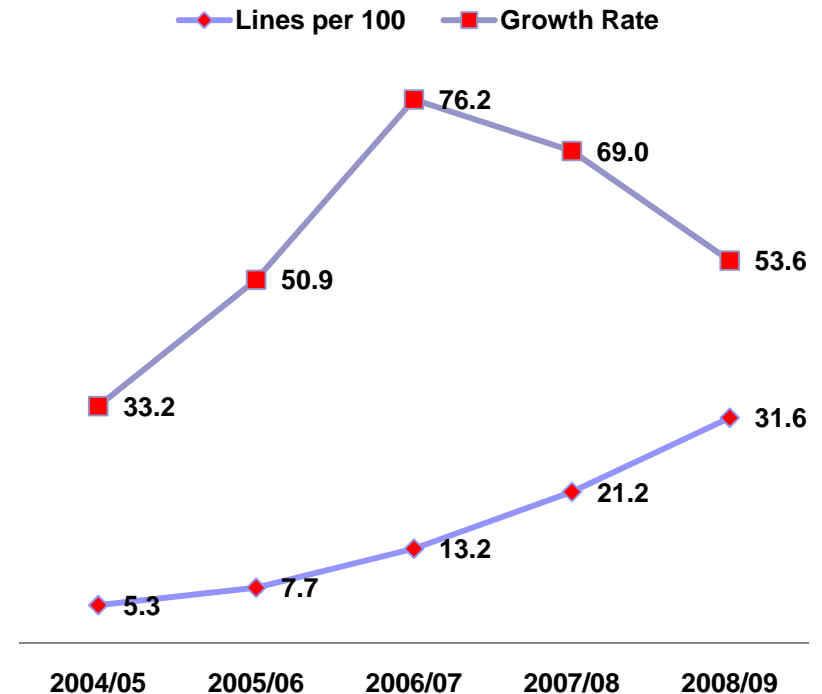
Telephone Subscriptions, 04/05 - 08/09



Telephone Penetration Rates

- The rate of growth in subscriptions for the FY 2008/09 was equal to 53.6% compared to 69% in the preceding FY.
- National telephone penetration on the other hand rose from 21.2 to 31.5 lines per 100 inhabitants.

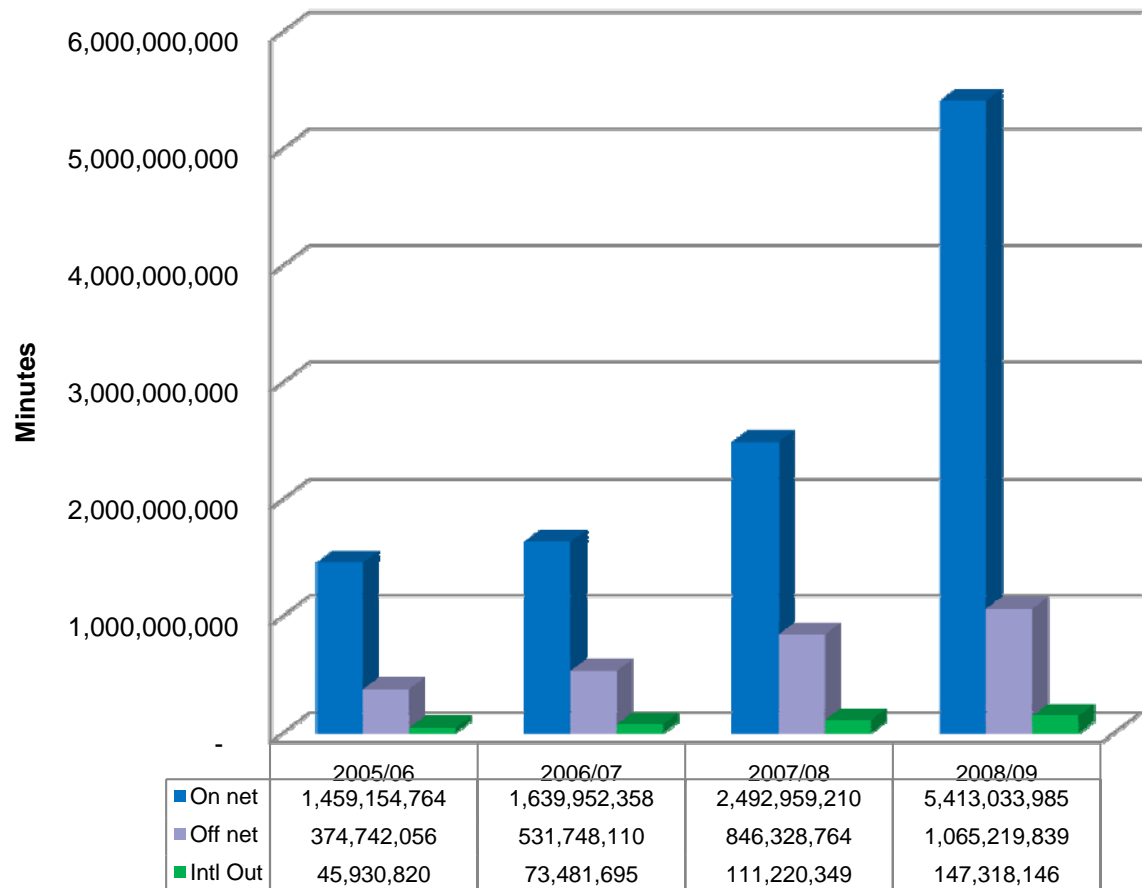
Telephone Growth Rates and Penetration, 04/05 - 08/09



Telephone Usage

- Increasing subscriptions coupled with heavy on net tariff discounts resulted in increased usage in terms of minutes
- During the FY 2008/09 a total of 6.6 billion minutes were billed compared to 3.5 billion minutes billed in the preceding FY
- Also significant was the increase in share of on net traffic as a percent of all domestic traffic. This is the result of disruptive price discounts

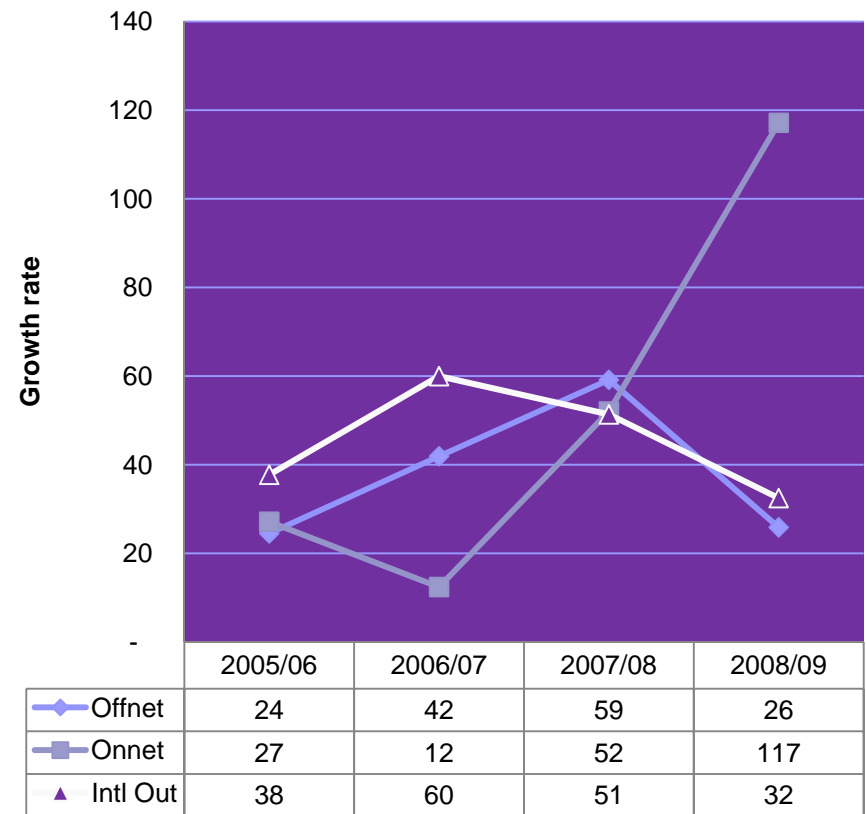
Billed Telephone Minutes , 05/06 - 08/09



Traffic Growth

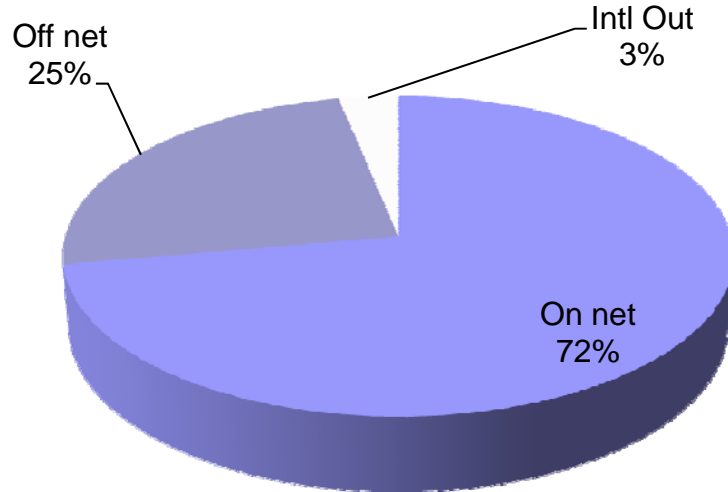
- The highest year to year traffic growth was realised in the on net segment at 117%.
- The rate of growth for Off net traffic 26% compared to 59% in the previous year.
- Growth in international traffic also declined from 51% in the previous year to 32%.

Telephone Traffic Volume Growth Rates, 05/06 - 08/09

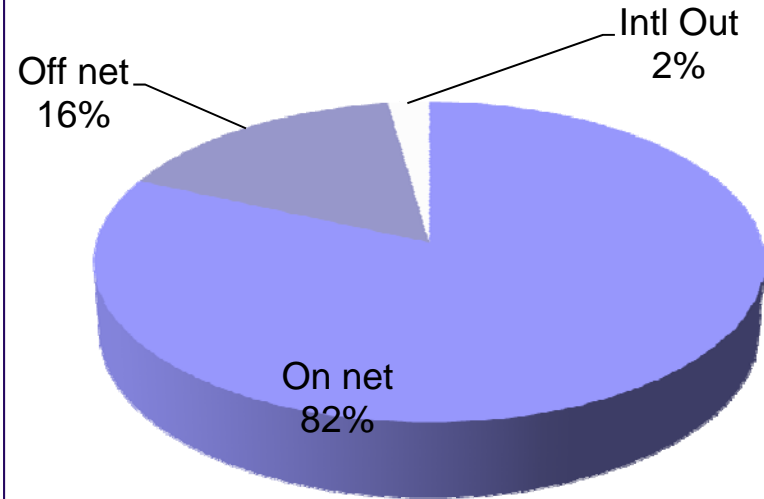


Telecom Traffic Distribution

**Domestic Traffic Distribution,
07/08**



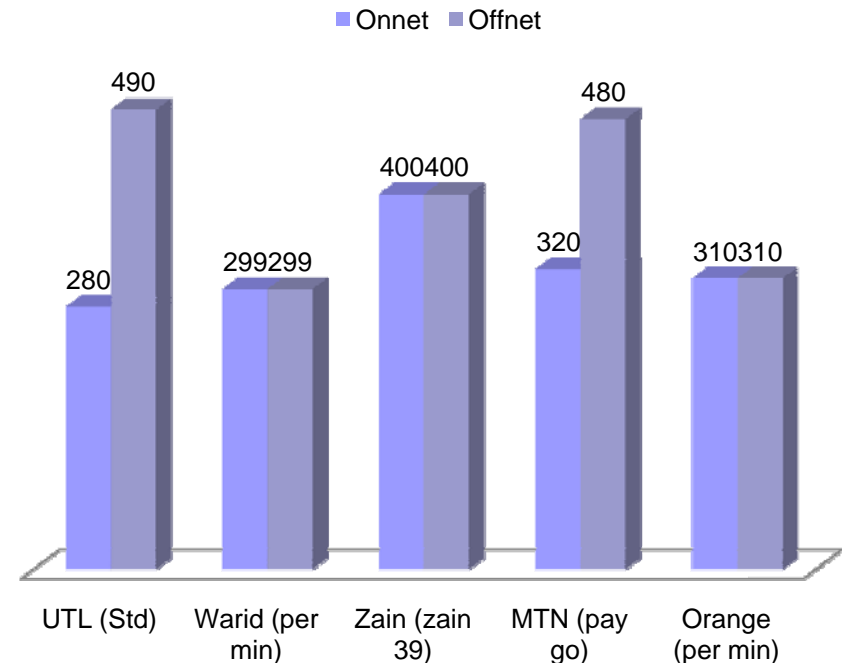
**Domestic Traffic Distribution,
08/09**



Mobile Prepaid Tariffs

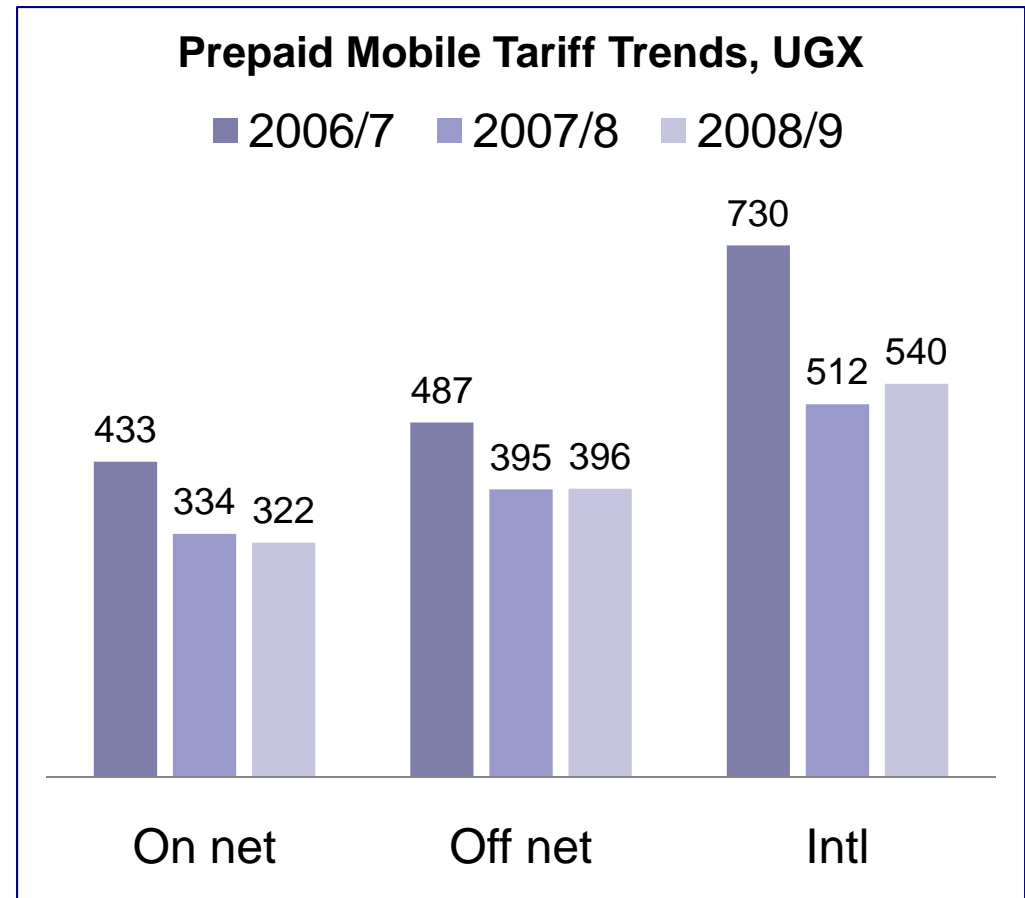
- Prices for mobile services remained stable despite the double digit inflation witnessed during the year.
- The market was dominated by innovative promotional offers such as the Warid' Mega Bonus, Zain's Supa Talk, MTN Zone and UTL's Bonus Seconds aimed at attracting on-net traffic/ customers.
- The lowest standard on net tariff was 280/= and the highest at 400/= offered by UTL and Zain Uganda respectively.

Standard Profile Peak On/Offnet Rate Comparison, June 2009



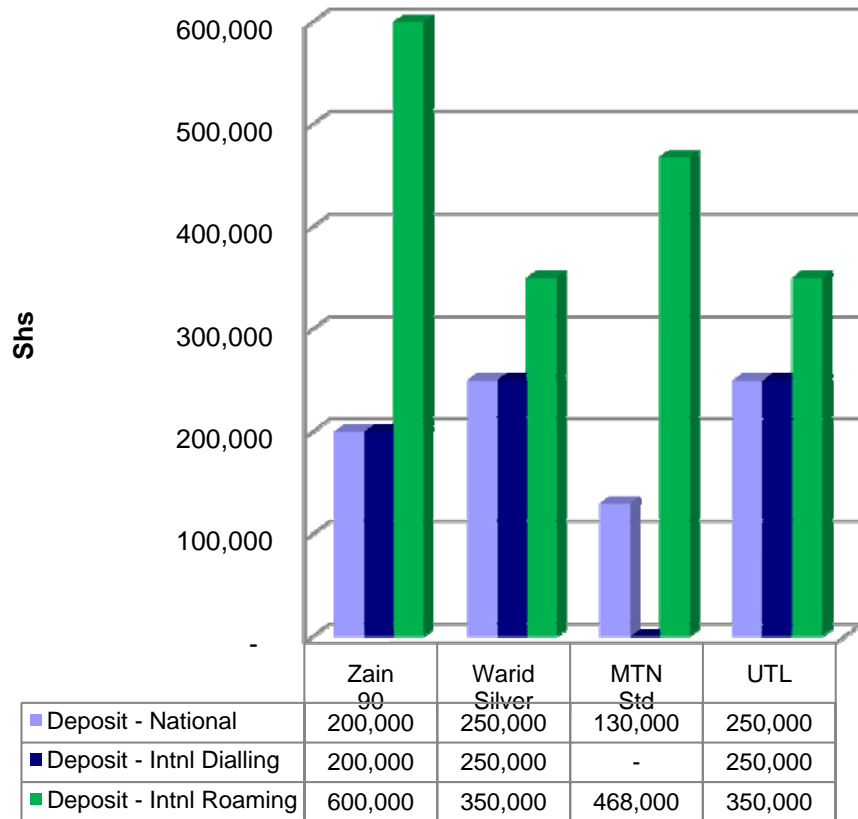
Prepaid Mobile traffic Cont.

- On a year to year comparison there were slight decline in average on net tariffs while off net tariffs remain stable.
- There was also a slight increase in average international rate towards the end of the year which may be attributed to the adverse depreciation of the UGX against major foreign currencies in which international settlements are made.

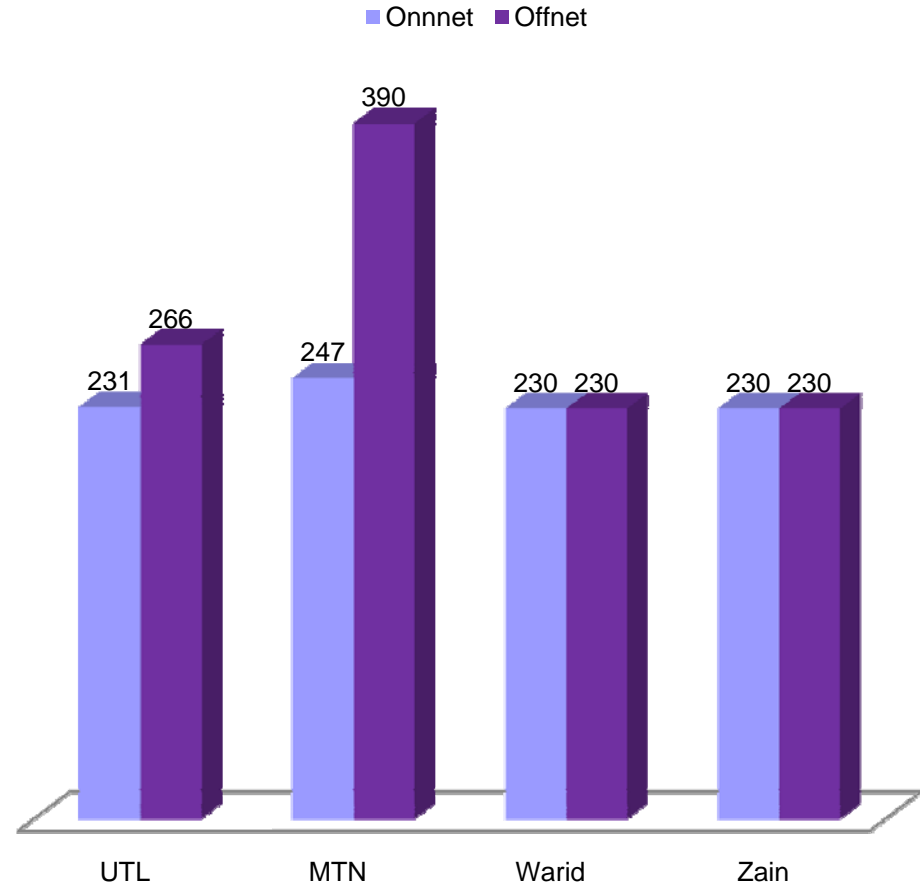


Post paid Tariff Comparisons

Comparative Post Pay Deposits, June 2009



Post Paid Mobile Rates, June 2009



Internet and Data Services

Service Providers

- Two new service providers, TMP (Trading as Broadband Company) and Nomad Communications Ltd (Trading as Tangerine) launched commercial broadband services during the year.
- The table to the right shows the various providers currently providing commercial data services

| Technology Platform | Service Providers |
|--|---|
| 3G, GPRS and CDMA | <ul style="list-style-type: none"> • UTL • MTN • Zain • Warid • Orange Uganda Ltd |
| Fibre and DSL | <ul style="list-style-type: none"> • UTL • MTN • Kampala Siti Cable • Infocom |
| ISDN and Leased Lines | <ul style="list-style-type: none"> • UTL • MTN |
| VSAT | <ul style="list-style-type: none"> • Afsat Communications U Ltd • UTL • MTN • Africa Online U Ltd |
| Other Fixed Wireless (including Wimax) | <ul style="list-style-type: none"> • Datonet • Infocom • Nomad Communications (Tangerine) • TMP (Broadband Company) |

Broadband Capacity Growth

- The highlight in the Data/ Internet market during the year was the landing of SEACOM undersea cable systems at the East African coast in September 2009.
- The table on the following slide shows the status of the various cable systems at the East African coast which upon completion shall provide a combined capacity of more than 1400 Gbps



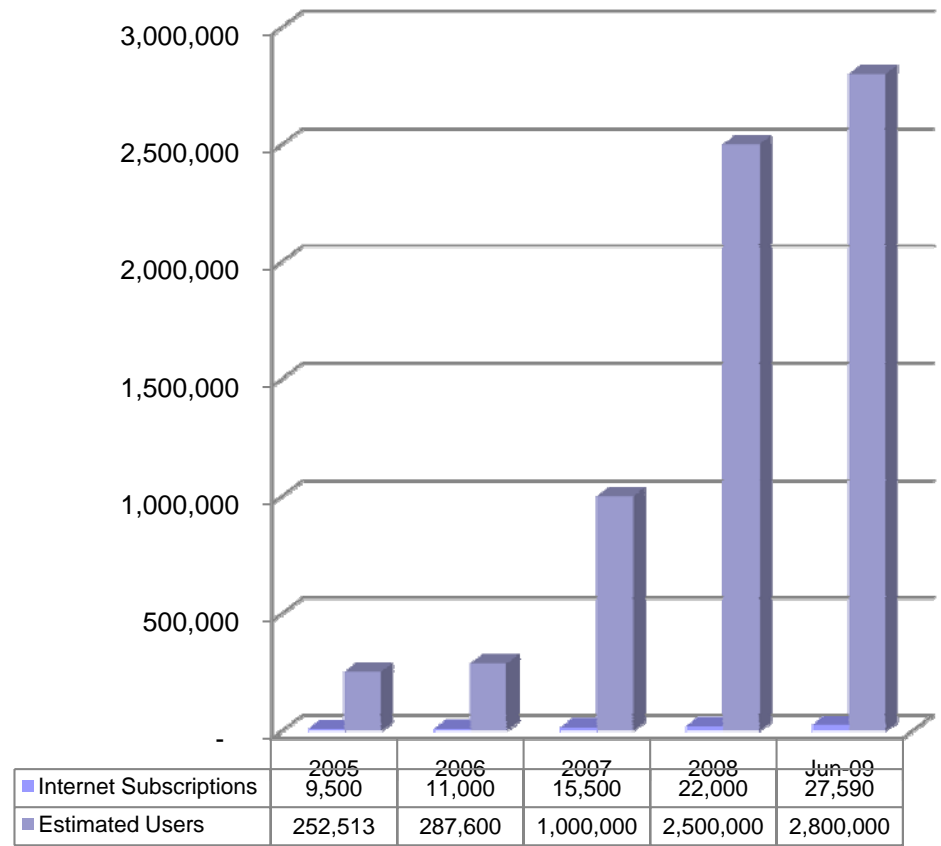
Status of sea cable systems

| Cable System | Scope | Approximate Cost | Management | Funding | Expected launch |
|--------------|--|------------------|--|----------------|-----------------|
| TEAMS | 4800 Km from Mombasa to Fujairah | USD 110 Million | TEAMS SPV and Etisalat | PPP | September 2009 |
| SEACOM | 15000 km linking East Africa to India and Europe | USD 650 Million | Seacom Group with technical Assistance from the David Ross Group | Private Equity | July 2009 |
| EASSy | 10,500 km from Mtunzini to Port Sudan | USD 247 Million | EASSy Consortium | PPP | |

Internet Subscriptions and Users

- New service providers in the market have reinvigorated the internet market with a range of new service bundled for the underserved retail market.
- By the end of the FY, there were 27,590 fixed internet and 310,058 mobile wireless subscriptions
- This resulted in 2.8 million users in the country with most shared usage at places of work, education institutions and public cafes

Internet Subscriptions and Estimated Internet Users



Post and Courier Service Providers

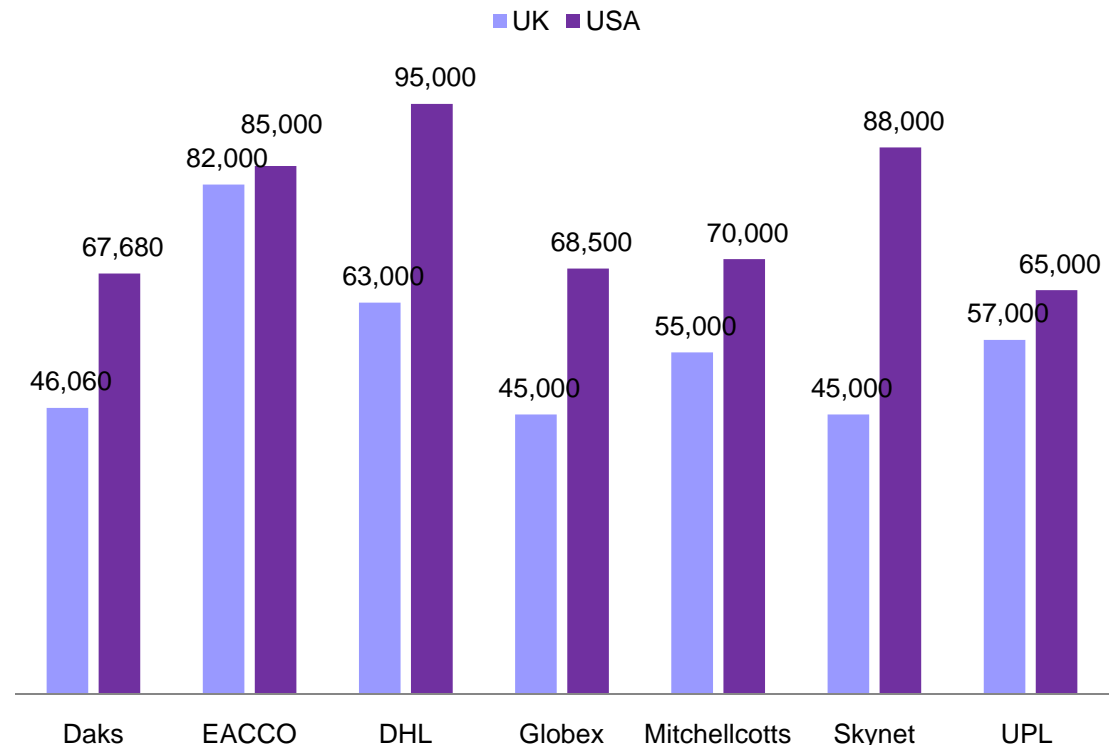
- 2 new regional licenses were issued during the year in review
- A comprehensive list of licensed post and courier operators is available at www.ucc.co.ug
- In terms of service penetration, there were 290 courier outlets and 75,000 Postal letter boxes by the end of the FY.

| | June 07 | June 08 | June 09 |
|-----------------------|---------|---------|---------|
| Major Postal | 1 | 1 | 1 |
| International Courier | 5 | 6 | 6 |
| Regional Courier | 6 | 6 | 8 |
| Domestic Courier | 6 | 8 | 8 |

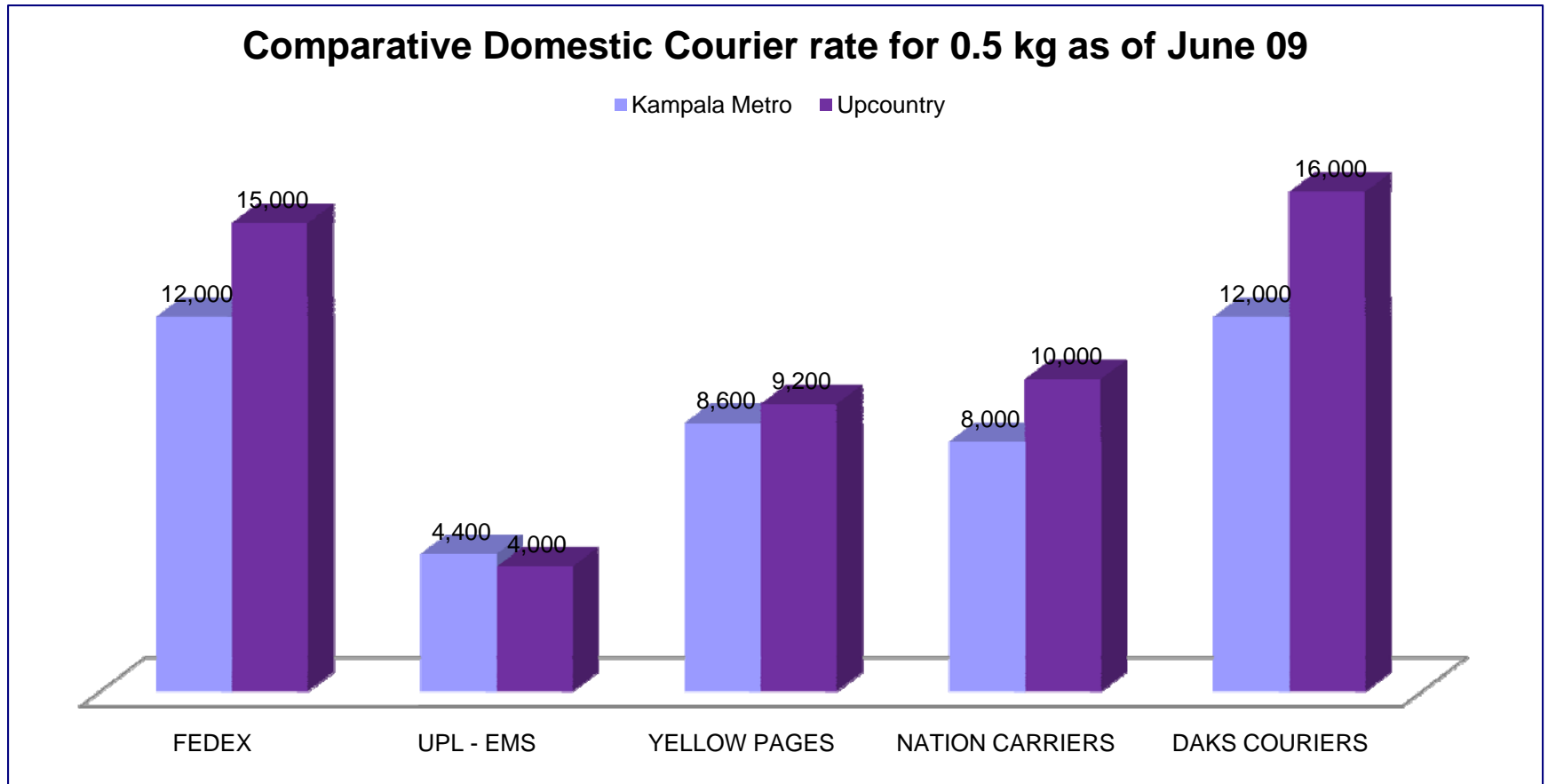
International Courier Tariffs

- There were no significant rate changes in the international courier market during the year.
- The cost of delivering a 0.5kg parcel to UK averaged at UGX 56,000 while the same parcel to the USA was at UGX 77,000 as of June 2009.

Comparative Courier Rates to UK and USA for a 0.5kg Parcel, June 2009



Comparative Domestic Courier rates, June 2009



Broadcasting;- Number of Service Providers

| | Status | June 08 | Sept 08 | Dec 08 | Mar 09 | June 09 |
|--------------|--------------|------------|------------|------------|------------|------------|
| Radio | On | 166 | 171 | 188 | 192 | 202 |
| | Off | 34 | 43 | 32 | 30 | 51 |
| | Total | 200 | 214 | 220 | 222 | 253 |
| TV | On | 26 | 28 | 35 | 35 | 40 |
| | Off | 18 | 18 | 15 | 15 | 15 |
| | Total | 44 | 46 | 50 | 50 | 55 |



Key Regulatory Developments, Competition Regulation

- The Retail & Interconnection costing project was concluded. Key developments include;
 - A market definition that established 10 Retail and whole sale markets
 - A Market Power assessment that established the level of competitiveness in the different markets identified
 - Development of key regulatory remedies for identified or potential market failures including guidelines and regulations

The Commission presented the following draft regulations to the industry for consultation and shall be issued shortly;

- Interconnection Regulation, 2009
- Fair Competition Regulations, 2009
- Tariff & Accounting Regulations, 2009
- SMP determinations (from time to time)

A model Interconnection Offer has been developed to prescribe general procedure and standards in interconnection negotiations

UNIVERSAL ACCESS

- New RCDF policy for the period 2008 – 2013 has developed. This was presented to stakeholders for consultation.
- 80 ICT laboratories have been established in secondary schools.
- 43 Health data points established

TECHNOLOGY & LICENSING

- Guidelines for Digital Broadcasting have been developed. Two firms are undertaking test pilots.
- A post code pilot project is underway