

POSTAL AND TELECOMMUNICATIONS REGULATORY AUTHORITY OF ZIMBABWE (POTRAZ)



'creating a level playing field'

ABRIDGED POSTAL & TELECOMMUNICATIONS SECTOR PERFORMANCE REPORT

THIRD QUARTER 2017

Disclaimer:

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1. MAJOR HIGHLIGHTS

- Active fixed telephone lines declined by 2.3% to reach 260,183 from 267,034 recorded in the second quarter of 2017, whilst the fixed Tele-density remained at 1.9%
- The mobile penetration rate increased by 3.5% to reach 100.5% from 97% recorded in the previous quarter following a 3.7% increase in subscriptions.
- The active internet penetration rate increased by 0.9% to reach 49.5% from 48.6% recorded in the previous quarter following a 1.9% increase in active subscriptions.
- National mobile voice traffic increased by 7.6% to record 924.7 million minutes from 859.6 million minutes recorded in the previous quarter.
- Mobile Internet data usage up 39.1% to record 4,129.4 Terabytes from 2,968.2 Terabytes recorded in the previous quarter.
- There were 94 new LTE installations bringing the total number of LTE eNode Bs to 881 from 787 recorded in the previous quarter.
- Total telecommunications revenue increased by 19.7% to record \$292.7 million from \$244.5 million recorded in the previous quarter.
- Total postal and courier revenues decreased by 1% to record \$13.8 million from 13.9 million recorded in the previous quarter.

2. FIXED TELEPHONE SERVICE

2.1 SUBSCRIPTIONS

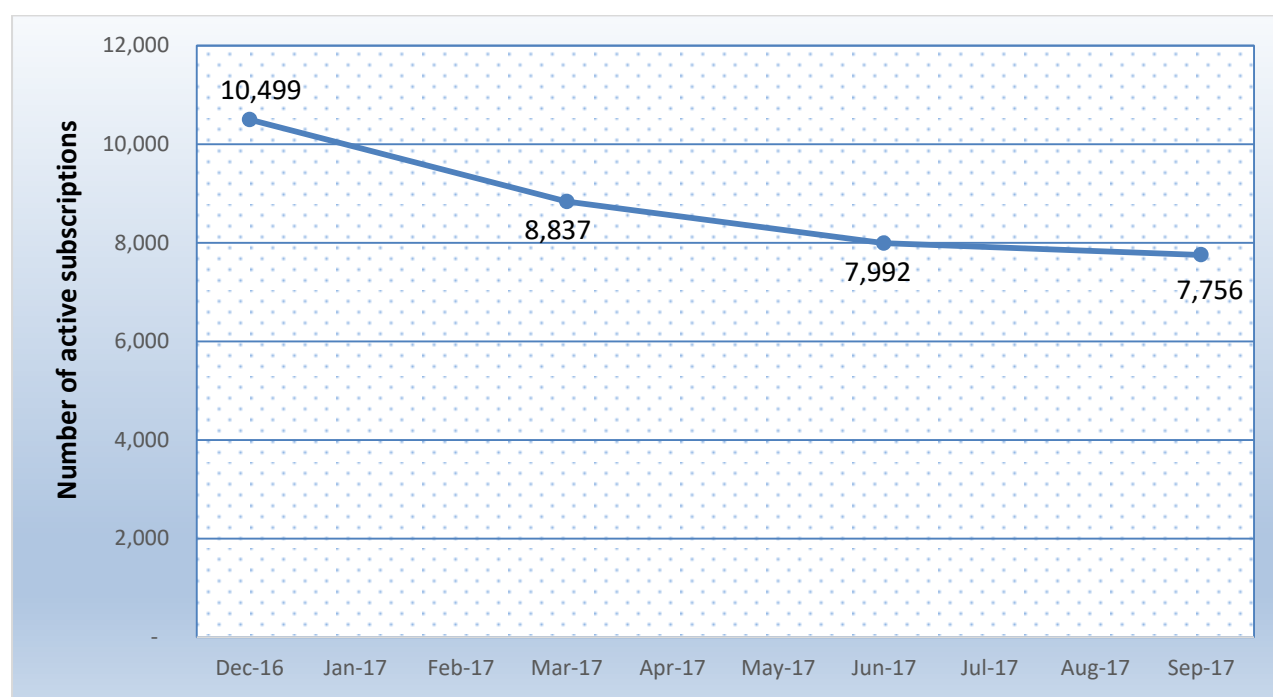
The total number of fixed telephone lines declined by 2.3% to reach 260,183 from 267,034 active lines recorded in the second quarter of 2017. The fixed Tele-density remained at 1.9%. Table 1 below shows a breakdown of fixed telephone subscriptions by category:

Table 1: Active Fixed Telephone Subscriptions

	2 nd Quarter 2017	3 rd Quarter 2017	% Growth
Active Subscriptions (90 days)	267,034	260,183	-2.3%
Corporate Subscriptions	74,515	76,898	3.2%
Household Subscriptions	192,519	183,285	-4.8%
Active lines in rural	7,992	7,756	-3%
Active lines in urban areas	259,042	252,427	-2.6%

A trend of declining active fixed telephone lines in rural areas is emerging as shown in Figure 1 below:

Figure 1: Decline in Active Rural Fixed Telephone Lines



Most of the fixed telephone lines in rural areas belong to local authorities as well as educational and health institutions. The fixed network continues to face competition from the

mobile networks; the rollout of fixed internet such as ADSL to the rural institutions could revive the use of fixed telephony.

2.2 FIXED NETWORK TRAFFIC

Total voice traffic processed by the fixed telephone network was 132.1 million minutes; this represents a 1.7% decline from 134.4 million minutes recorded in the previous quarter. Some voice traffic categories experienced growth, whereas others registered a decline as shown in the table below:

Table 2: Fixed Voice Traffic

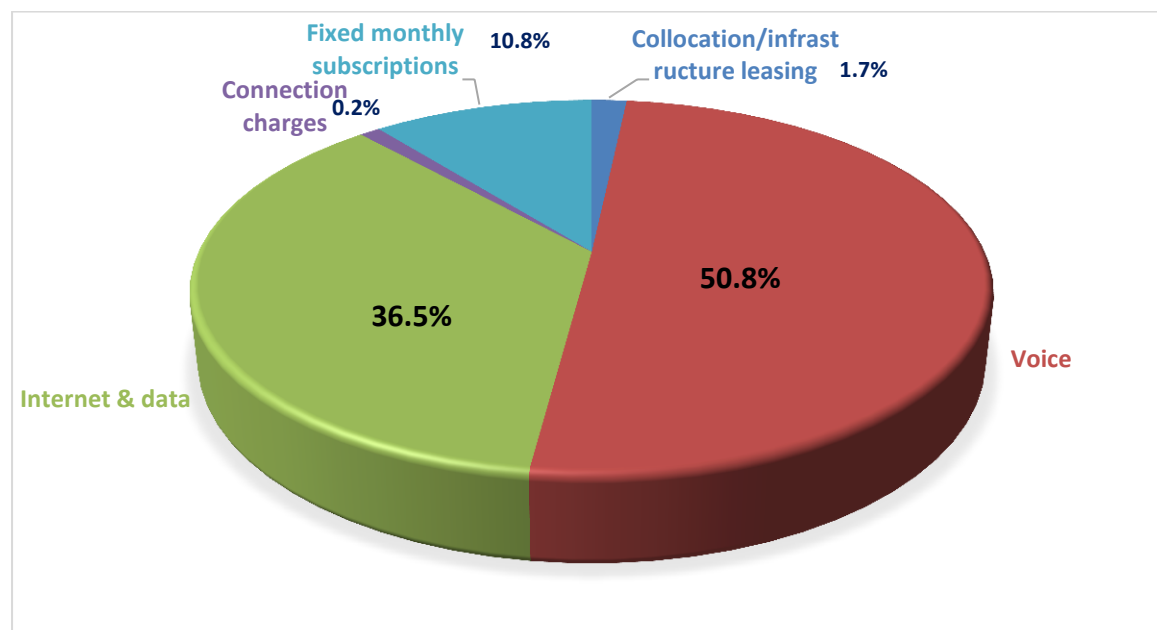
Traffic Category	2nd Quarter 2017	3rd Quarter 2017	% Growth
Net On Net	56,983,326	47,572,616	-16.5%
Outgoing to Mobile	60,010,963	67,106,839	11.8%
Incoming from Mobile	6,557,469	6,907,243	5.3%
Incoming from IAPs	995,612	1,199,337	20.5%
Outgoing to IAPs	590,664	575,325	-2.6%
International Incoming	5,347,560	6,017,787	12.5%
International Outgoing	3,918,449	2,748,938	-29.8%
Total traffic	134,404,043	132,128,085	-1.7%

As shown above, voice traffic from IAPs registered the highest growth of 20.5%, whereas international outgoing traffic registered the biggest decline of 29.8%. Although international outgoing traffic declined, international incoming traffic increased in the quarter under review. This implies improved earnings from international traffic after set off. Of the international incoming traffic on TelOne's gateway, 31% terminated on other networks. 20% of the international outgoing traffic on TelOne's gateway was received from other networks i.e. mobile networks and IAPs.

2.3 FIXED TELEPHONE REVENUES & INVESTMENT

TelOne registered a 6.3% increase in revenue in the third quarter of 2017. The contribution of each service to revenue is shown in Figure 2 below:

Figure 2: Contribution to revenue by service



As shown above, voice contributed 50.8% while; internet and data services contributed 36.5%. Fixed monthly charged contributed a considerable 10.8%, whereas collocation and connection charges contributed 1.7% and 0.2%, respectively. On the other hand, TelOne`s capital expenditure increased by 67.6%.

3. MOBILE TELEPHONY

3.1 SUBSCRIPTIONS

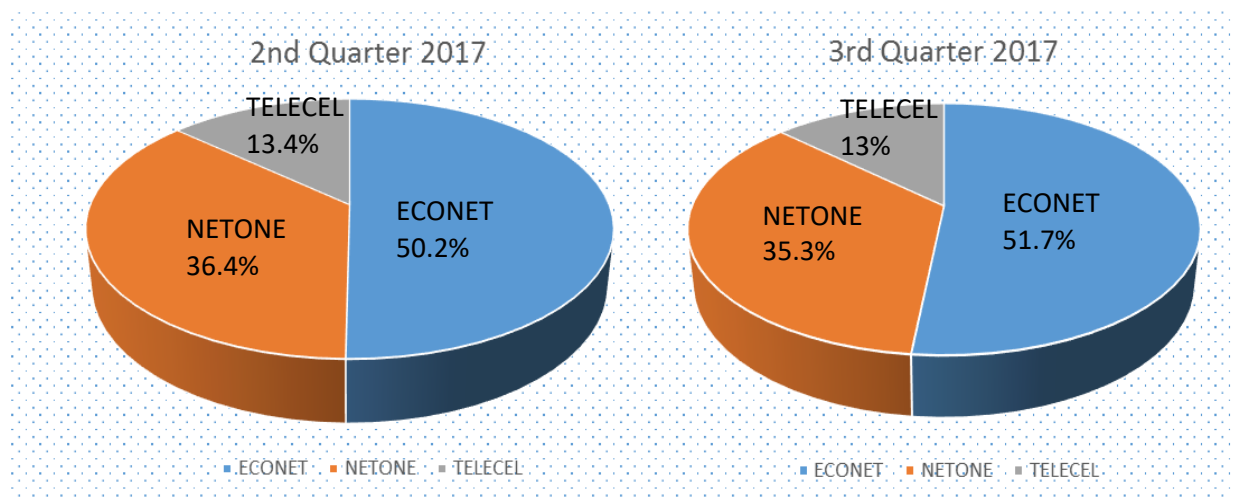
The total number of active mobile subscriptions increased by 3.7% to record 13,799,648 from 13,311,223 recorded in the previous quarter. As a result, the mobile penetration rate increased by 3.5% to reach 100.5% from 97% recorded in the previous quarter. Table 3 below shows a comparison of active mobile subscriptions per operator:

Table 3: Active Mobile Subscriptions

	2 nd Quarter 2017	3 rd Quarter 2017	% Change
Econet	6,677,531	7,137,171	6.9%
Telecel	1,788,234	1,793,580	0.3%
NetOne	4,845,458	4,868,897	0.5%
Total	13,311,223	13,799,648	3.7%

As shown above, all mobile networks registered an increase in active subscriptions with Econet registering the highest increase of 6.9%. The ratio of pre-paid to post-paid subscribers remained at 99:1. Based on the number of active mobile subscriptions per operator, the market share of active subscribers was as follows:

Figure 3: Market share of mobile subscribers



As shown above, Econet gained 1.5%, whereas NetOne and Telecel lost 1.1% and 0.4% of market share, respectively.

3.2 MOBILE TRAFFIC AND USAGE PATTERNS

3.2.1 MOBILE VOICE TRAFFIC

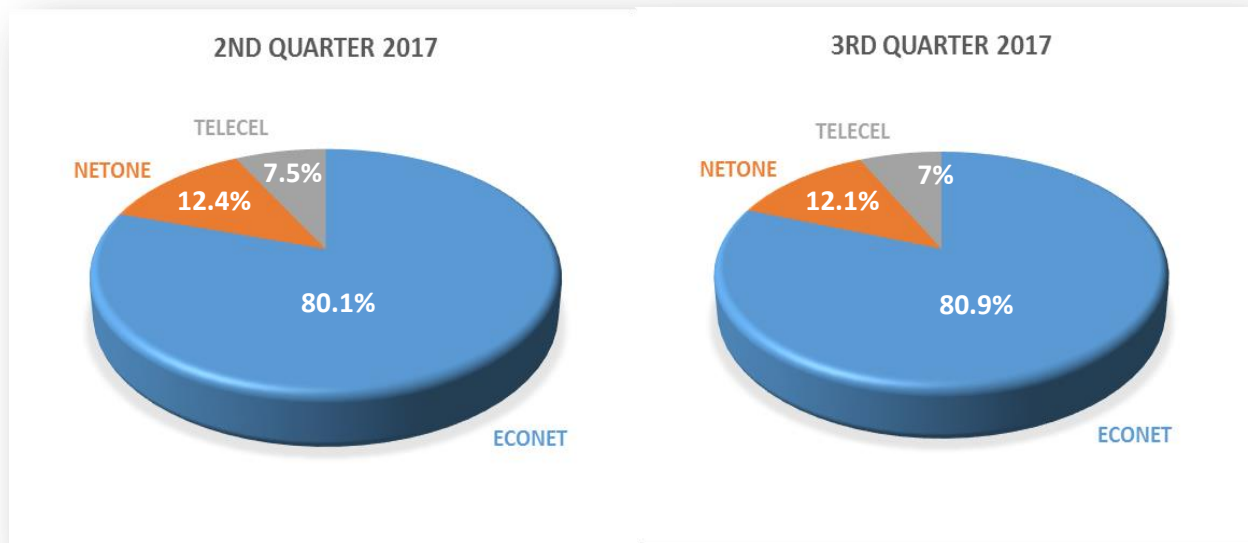
Table 5 below shows a quarterly comparison of voice traffic generated in the second and third quarters of 2017.

Table 4: Mobile Telephone Traffic

	2nd Quarter 2017	3rd Quarter 2017	% Variation
Net On Net	572,321,954	623,186,637	8.9%
Mobile to Fixed	6,547,593	6,907,243	5.5%
Incoming from Fixed	64,059,644	67,106,839	4.8%
Mobile to Other Mobile (by termination)	204,482,631	212,403,693	3.9%
Outgoing to IAPs	1,124,135	1,152,565	2.5%
Incoming from IAPs	11,058,009	13,957,717	26.2%
TOTAL NATIONAL	859,593,966	924,714,694	7.6%
International Incoming	38,787,635	39,139,579	0.9%
International Outgoing	21,167,535	17,799,460	-15.9%
Inbound Roaming	1,544,270	1,738,629	12.6%
Outbound Roaming	346,834	762,302	119.8%

As shown above, there was an overall increase in traffic in the quarter under review. The increase in national traffic is attributable to the current promotions running in the market. International outgoing traffic was the only category to register a decline in traffic volume. This is due to increased use of OTTs for international communication. Outbound roaming traffic experienced the highest growth. This is attributable to Econet, whose outbound roaming traffic increased by 138% due to their newly launched roaming service, Econet Plus. The market share of mobile voice traffic was as follows:

Figure 4: Voice Traffic Market Share

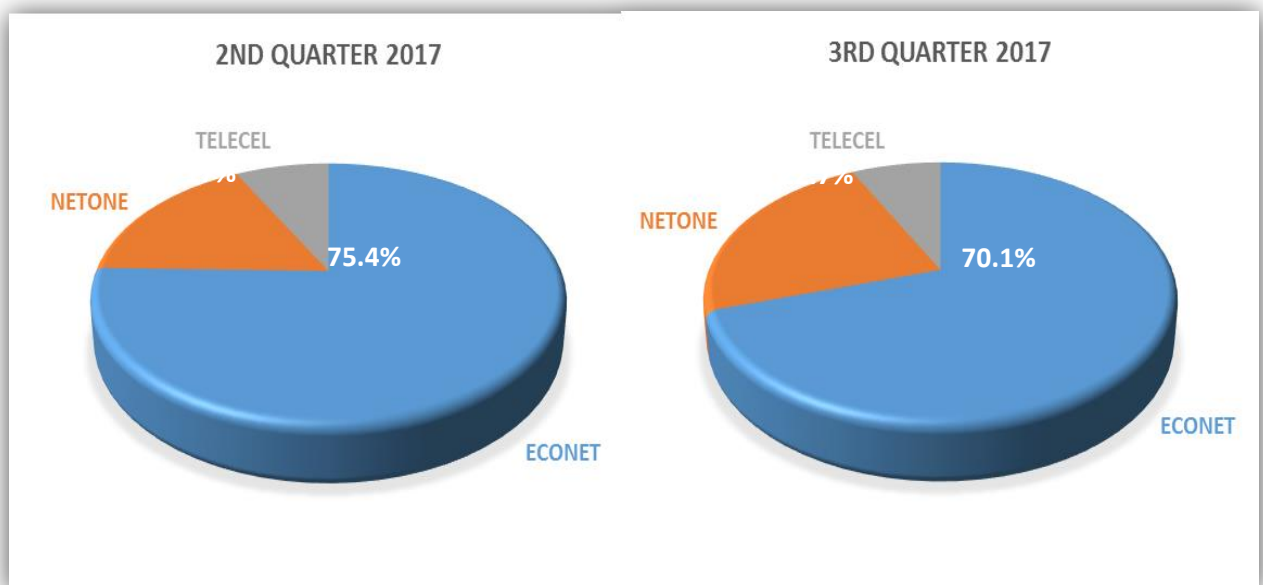


As shown above, EConet gained 0.8% increase in market share for voice, whereas NetOne and Telecel lost 0.3% and 0.5% respectively.

3.2.2 MOBILE INTERNET & DATA TRAFFIC

Consumption of data/internet services increased by 39.1% to record 4,129.4 Terabytes from 2,968.2 Terabytes recorded in the previous quarter. All the mobile operators registered an increase in data usage. The market share of mobile internet and data use was as follows:

Figure 5: Market Share of Data Usage



NetOne recorded the highest increase in data/internet consumption (86%). As a result, NetOne's market share increased by 5.7% to reach 22.7% from 17% recorded in the previous quarter. On the other hand, Econet and Telecel lost market share by 5.3% and 0.3%, respectively.

3.2.3 SMS TRAFFIC

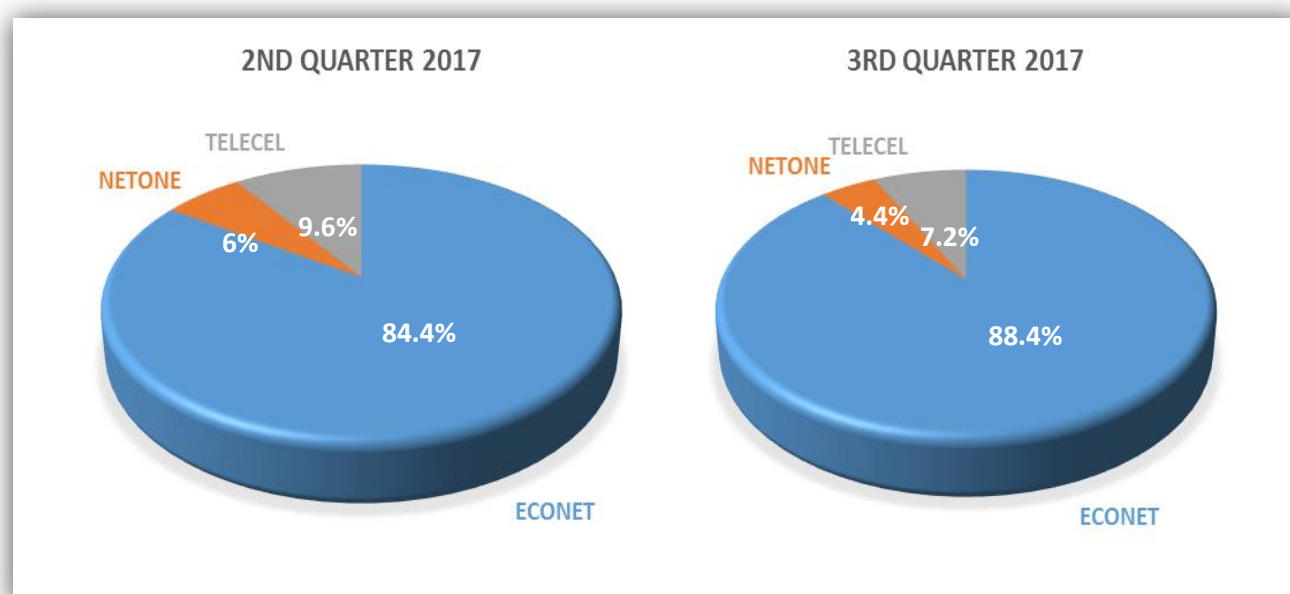
With the exception of Net-on-Net traffic, all categories of SMS registered a decline as shown in the table below:

Table 5: SMS traffic

	2 nd Quarter 2017	3 rd Quarter 2017	% Growth
Net On Net	952,855,464	1,759,538,439	84.66%
Mobile to other mobile	311,873,977	301,254,112	-3.41%
International Incoming	25,525,227	25,197,537	-1.28%
International Outgoing	5,830,250	5,501,161	-5.64%
Total SMS	1,296,084,918	2,091,491,249	61.37%

The growth in Net-on-Net SMS is largely attributable to the growing use of internet banking as well as mobile financial payments that use SMS for transaction notifications. A quarterly comparison of the market share of SMS traffic is shown in Figure 6 below:

Figure 6: Market Share of SMS Traffic



As shown above Econet gained 4% market share whereas NetOne and Telecel lost 1.6% and 2.4%, respectively.

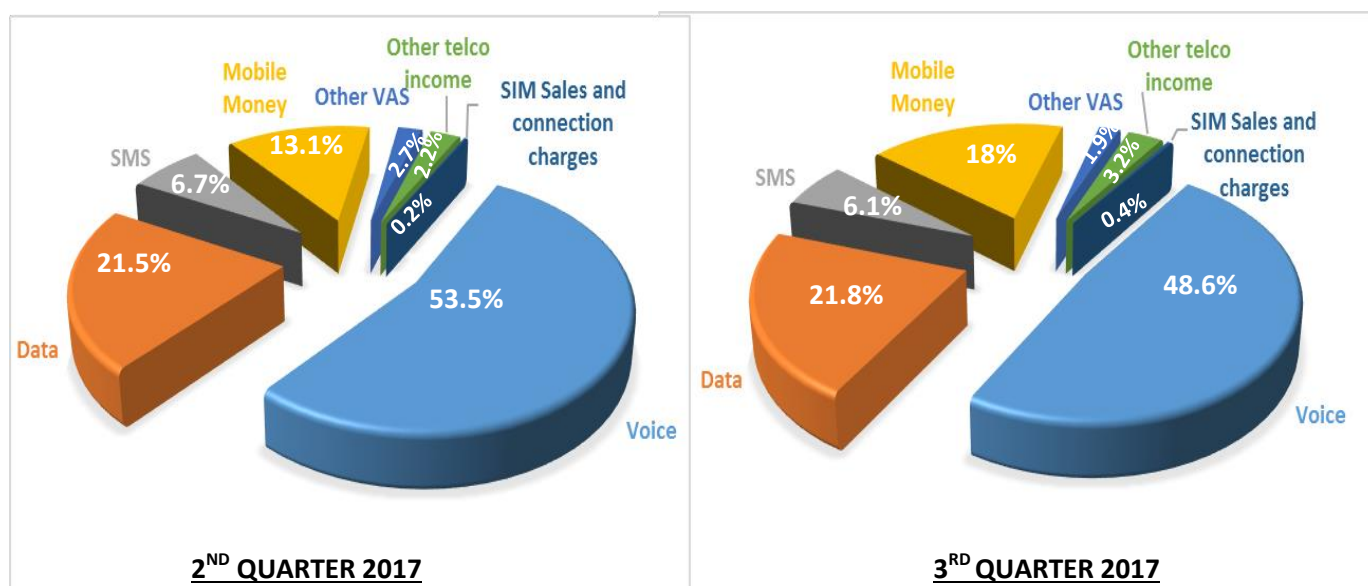
3.3 MOBILE REVENUES, COSTS & INVESTMENT

Mobile telecommunications revenue totalled \$224.8 million in the third quarter of 2017. This represents a 21.1% growth from \$185.6 million recorded in the previous quarter. The increase in overall operator revenue is attributable to the growth in internet and data usage as well as mobile money services. The aggregate Average Revenue per User per month increased by 10.8% to record \$4.41 from \$3.98 recorded in the previous quarter.

Total operating costs declined by 6.3% to record \$123.2 million from \$131.5 million recorded in the previous quarter. The decline in operating costs is a result of efforts by the mobile operators to cut down operating expenditure. The aggregate Average Cost per User per month declined by 9.3% to record \$2.72 from \$3 recorded in the previous quarter.

On the other hand, investment by mobile operators declined by 37.2% to record \$31,690,543 from \$50,489,313 recorded in the previous quarter. The revenue contribution by service was as follows:

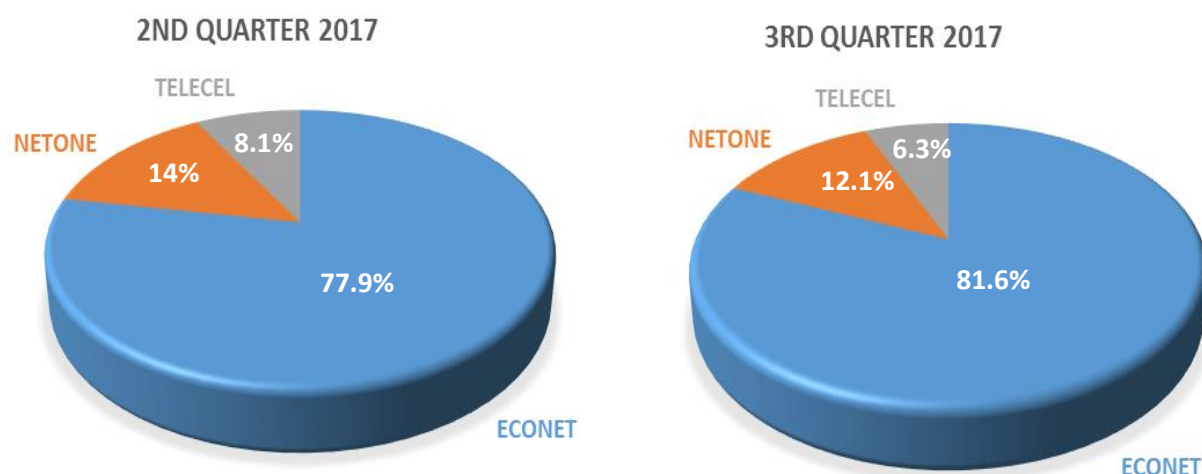
Figure 7: Mobile revenue contribution by service



As shown above, the contribution of voice declined by 4.9% to record 48.6% from 53.5% recorded in the previous quarter despite the increase in voice traffic. This implies that the bulk of traffic was promotional. Internet and data increased contribution to total revenue by

0.3%. Mobile money services registered the highest increase (4.9%) in contribution to total revenue to record 18% from the 13.1% contribution recorded in the previous quarter. This is attributable to the increase in mobile money transactions given the current cash shortages.

Figure 8: Market Share of Mobile Revenue



As shown above, Econet's market share increased by 3.7% to reach 81.6% from 77.9% recorded in the previous quarter. On the other hand, NetOne and Telecel's market shares declined by 1.9% and 1.8%, respectively.

3.4 MOBILE TELEPHONY INFRASTRUCTURE

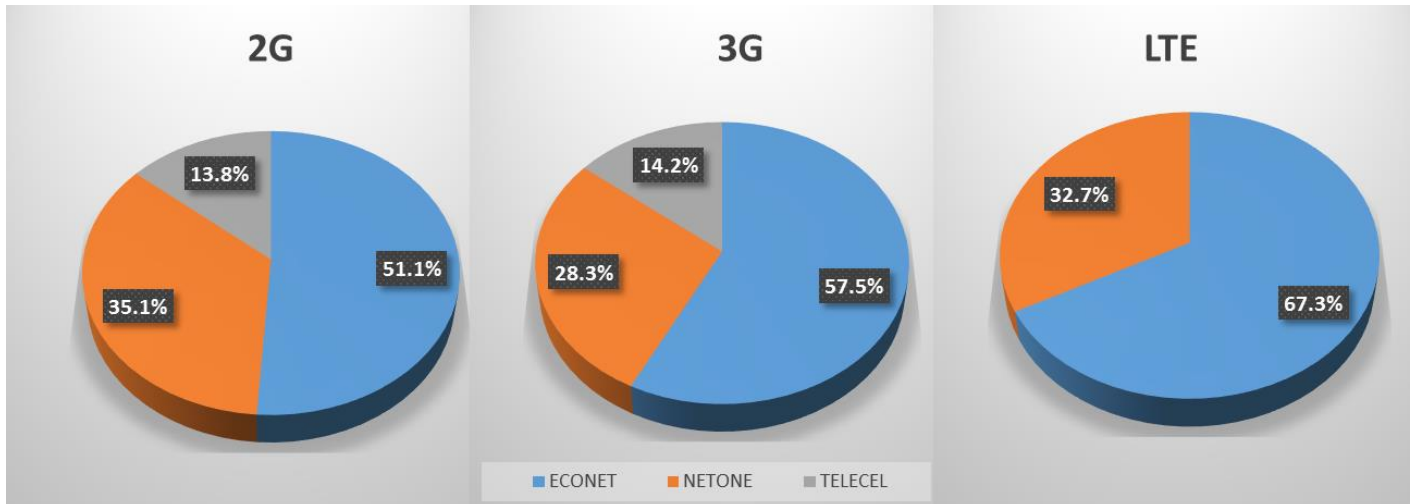
The total number of mobile base stations in the country as at 30 September 2017 was 8,278 up from 7,902 recorded as at 30 June 2017. This followed the commissioning of 49 new 2G base stations, 233 new 3G base stations and 94 LTE eNode Bs as shown in the following table:

Table 6: Mobile Base Stations

	2G			3G			LTE		
	Q2 2017	Q3 2017	Net Addition	Q2 2017	Q3 2017	Net Addition	Q2 2017	Q3 2017	Net Addition
Total Number of base stations	4,744	4,793	49	2,371	2,604	233	787	881	94

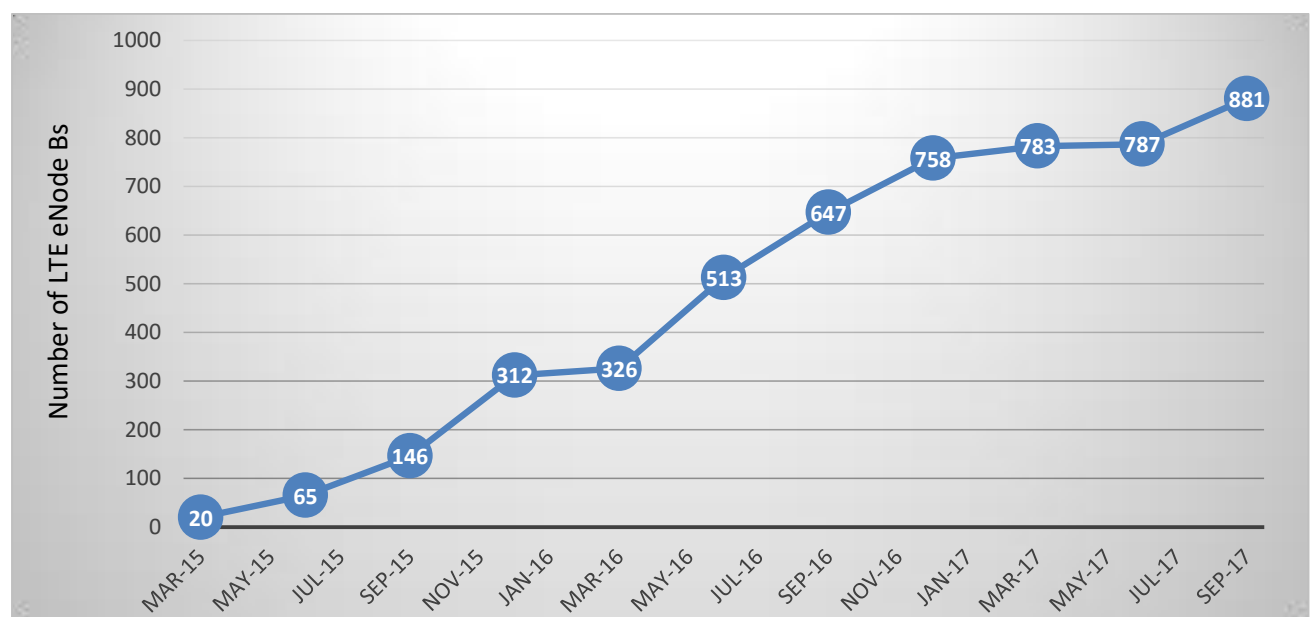
Based on the base stations individual operator information, the market share of mobile base stations was as follows:

Figure 9: Market Share of Mobile Base Stations



A comparison with the previous quarter shows that Econet gained market share across all base station technologies, whereas NetOne and Telecel lost market share. Telecel is yet to have an LTE network. The growth in the total number of LTE eNode Bs over the years is shown in Figure 10 below:

Figure 10: Growth in LTE eNode Bs



3.5 MOBILE MONEY TRANSFERS

3.5.1 SUBSCRIPTIONS

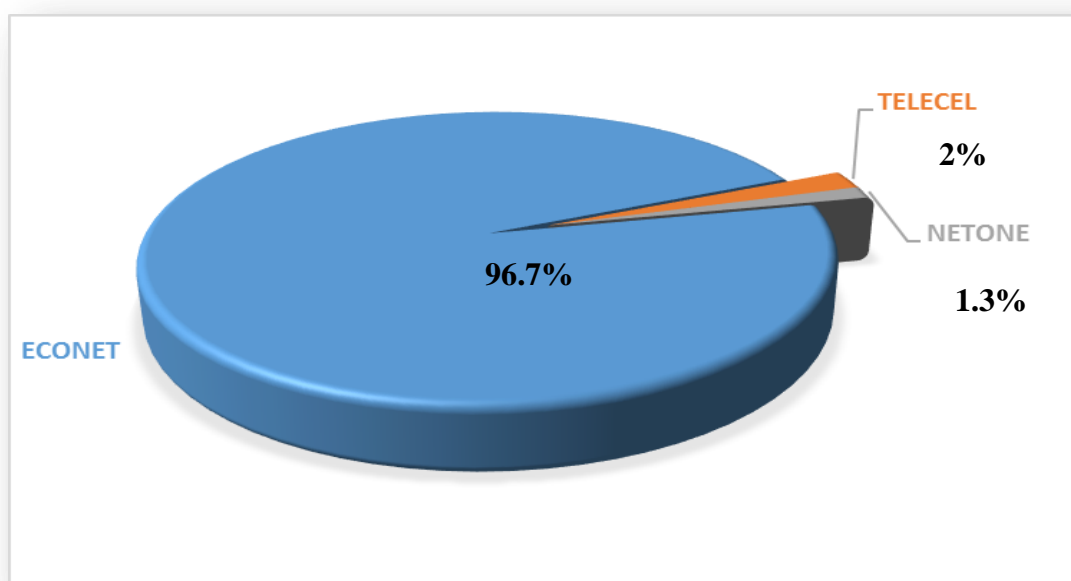
The total number of active mobile money subscriptions increased by 15% to reach 3,867,676 from 3,352,476 active subscriptions recorded in the previous quarter. Table 7 below shows active money subscriptions per operator:

Table 7: Active mobile money subscriptions

OPERATOR	2 ND QUARTER 2017	3 RD QUARTER 2017	% GROWTH
ECONET	3,294,659	3,738,056	13.5%
TELECEL	54,680	78,180	43.0%
NETONE	13,137	51,440	291.6%
TOTAL	3,362,476	3,867,676	15.0%

All mobile operators registered an increase in active mobile money subscriptions as shown in table 7 above. Based on the number of active mobile money subscriptions per operator, the market share was as follows:

Figure 11: Market Share of Mobile Money Subscriptions



In comparison with the second quarter of 2017, Econet lost 1.3% market share, whereas Telecel and NetOne gained 0.4% and 0.9%, respectively.

3.5.2 MOBILE MONEY TRANSACTIONS

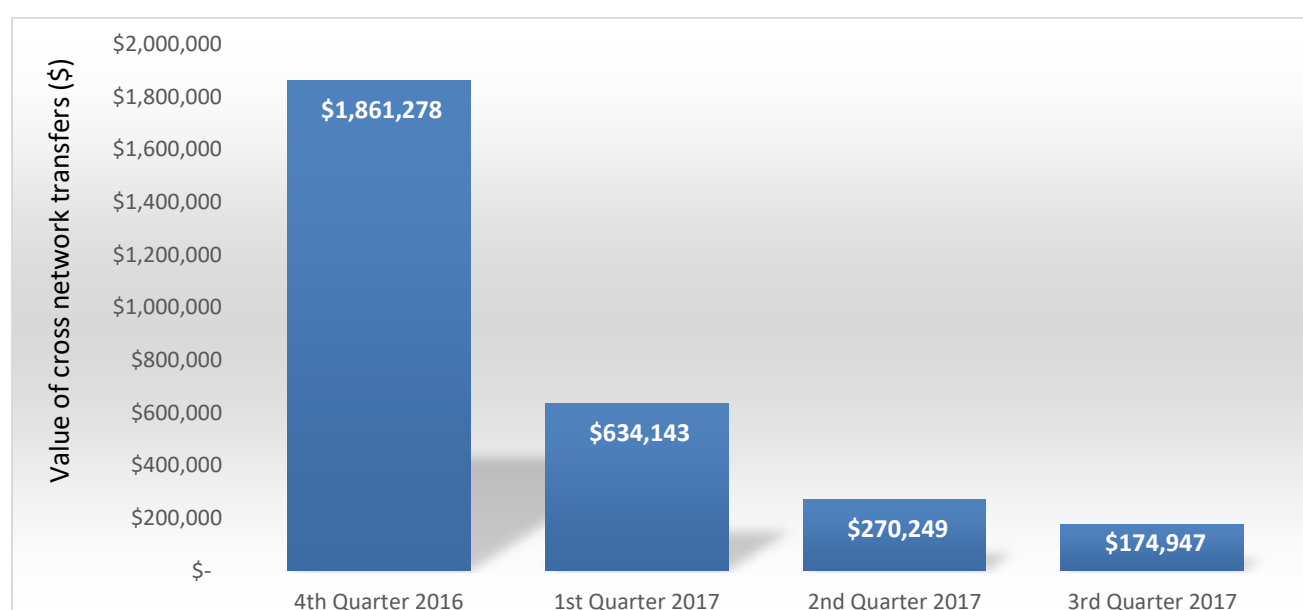
Table 8 below shows the value of processed mobile money transactions per category:

Table 8: Mobile Money Transactions

	2 nd Quarter 2017	3 rd Quarter 2017	% Change
Cash-In transactions	\$290,786,238	395,714,150	36.1%
Cash-Out transactions	\$285,517,047	365,306,690	27.9%
Cross-network transfers (by origination)	\$270,249	174,947	-35.3%
Airtime, bill and merchant payments	\$259,066,362	486,742,318	87.9%

Airtime and merchant payments using the platforms of the three mobile networks registered the highest increase of 87.9%. Mobile money has become a popular and convenient alternative method of paying for goods and services in the current environment. On the other hand, the value of cross-network transfers declined by 35.3%. Cross-network transfers have been declining as shown in Figure 12 below:

Figure 12: Cross Network transfers



The current model for cross network transfers is agent and cash based. There is currently no wallet-to-wallet interoperability. This means that all cross network mobile money transactions are cash based, hence the decline in cross network transfers due to the prevailing cash shortages.

4. DATA & INTERNET SERVICES

4.1 SUBSCRIPTIONS

The total number of active internet subscriptions increased by 1.9% to reach 6,796,314 from 6,668,155 recorded in the previous quarter. The mobile penetration rate increased by 0.9% to reach 49.5% from 48.6% recorded in the previous quarter. Table 9 below shows the growth in internet subscriptions per service category:

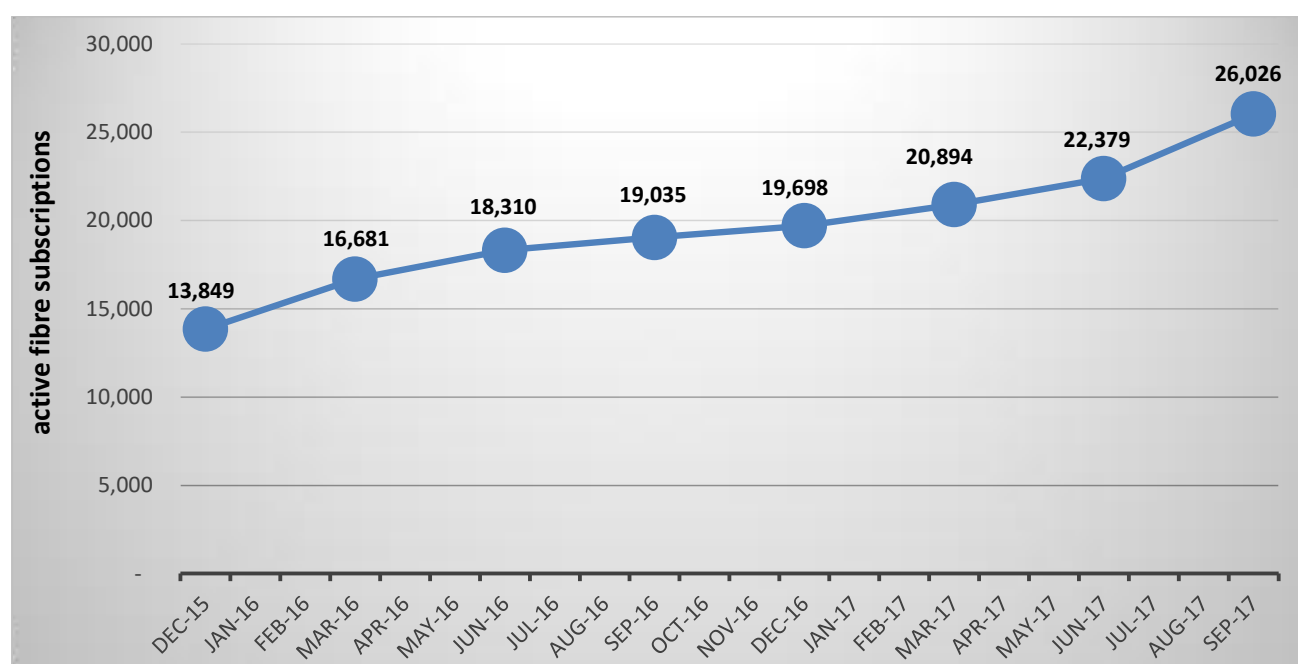
Table 9: Active Internet Subscriptions

Technology	2nd Quarter 2017	3 rd Quarter 2017	Quarterly Variation
3G/HSDPA/LTE	6,527,176	6,647,883	1.8%
Leased Lines	1,386	1,364	-1.6%
Dial up	-	-	-
DSL	75,618	78,936	4.4%
WiMAX	5,213	5,167	-0.9%
CDMA	33,251	33,576	1.0%
VSAT	3,132	3,363	7.4%
Active Fibre subscriptions	22,379	26,025	16.3%
Total	6,668,155	6,796,314	1.9%

Source: POTRAZ, Operator Returns

Of the total mobile internet subscriptions, 641,152 accessed and used LTE; this represents a 102.4% increase from 316,816 recorded in the second quarter of 2017. Fibre experienced the highest growth in active subscriptions. Fibre subscriptions have been consistently growing as shown in the graph below:

Figure 13: Growth in Active Fibre Subscriptions



4.3 INTERNATIONAL INTERNET CONNECTIVITY

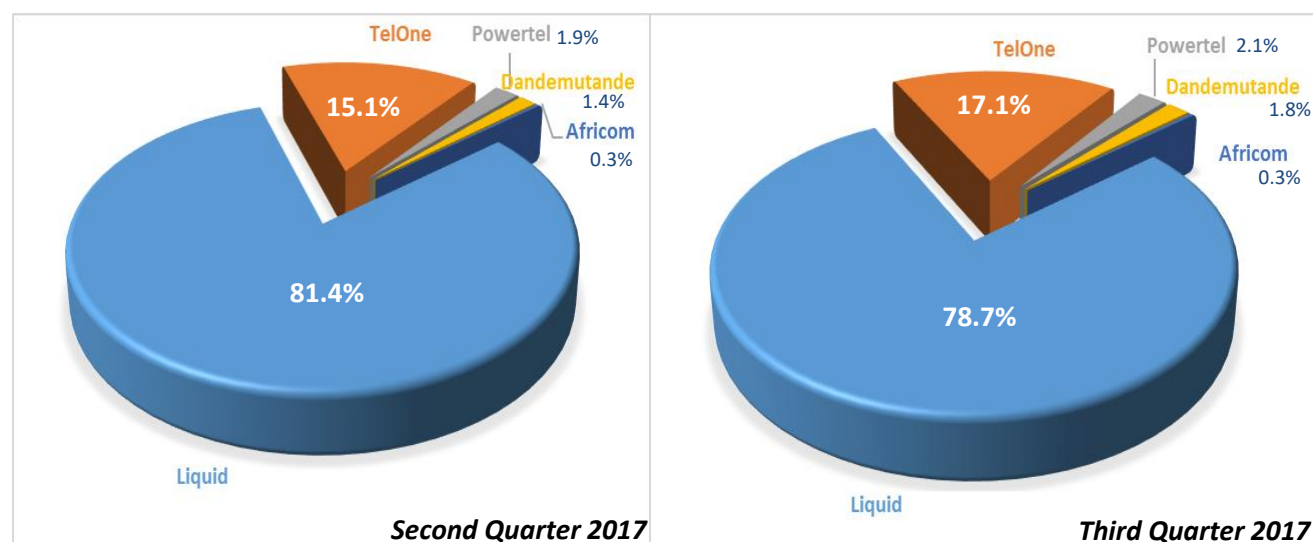
The total equipped international incoming internet bandwidth capacity increased by 3.4% to reach 101,625Mbps from 98,325Mbps recorded in the previous quarter. The growth in equipped international incoming internet bandwidth for each of the Internet Access Providers with international internet connectivity is shown in table 10 below:

Table 10: Equipped Incoming International Internet Bandwidth Capacity

	2 nd Quarter 2017	3 rd Quarter 2017	% Variation
Liquid	80,000	80,000	0.0%
TelOne	14,880	17,360	16.7%
Powertel	1,860	2,170	16.7%
Dandemutande	1,335	1785	33.7%
Africom	250	310	24.0%
Total	98,325	101,625	3.4%

A quarterly comparison of the market share of equipped bandwidth capacity is shown in Figure 14 below:

Figure 14: Market Share of Equipped Bandwidth Capacity



Used incoming international internet bandwidth increased by 27.3% to record 48,188Mbps from 36,297Mbps recorded in the previous quarter. Used outgoing international internet bandwidth also increased by 17.5% to record 10,968Mbps from 9,332Mbps recorded in the previous quarter. Used outgoing international bandwidth is significantly lower than used incoming international internet bandwidth because local residents download more foreign content vis-a-vis local content that is downloaded abroad.

4.3 IAP REVENUES AND INVESTMENT

Total revenue by Internet Access Providers increased by 20.7% to record \$48.7 million from \$40.3 million recorded in the previous quarter. The market share of IAP revenues is shown in table 11 below:

Table 11: IAP Revenues Market Share

	Q2 2017	Q3 2017	% change
Liquid	47.7%	53.7%	6.0%
TelOne	24.6%	22.8%	-1.8%
Powertel	15.8%	13.6%	-2.2%

Dandemutande	6.8%	5.8%	-1.0%
Africom	3.5%	2.8%	-0.7%
Telecontract	1.5%	1.2%	-0.3%
Aquiva	0.1%	0.1%	0.0%
Aptics	0.0%	0.0%	0.0%
Total	100%	100%	100%

Liquid registered the highest growth in revenues of 36%, hence, the huge increase in their market share from 47.7% to 53.7%. IAP revenues are expected to continue increasing on the back of growing internet and data consumption. To meet the growing demand, IAPs have been making significant investments in infrastructure. Capital expenditure by the IAPs increased by 37.3% to record \$13,475,793 from \$9,816,562 recorded in the second quarter of 2017.

5. POSTAL & COURIER

5.1 POSTAL & COURIER VOLUMES

Total postal and courier volumes declined by 2.5% to record 2,051,545 items from 2,104,465 postal items recorded in the previous quarter. Table 12 below shows a quarterly comparison of the postal and courier volumes by category.

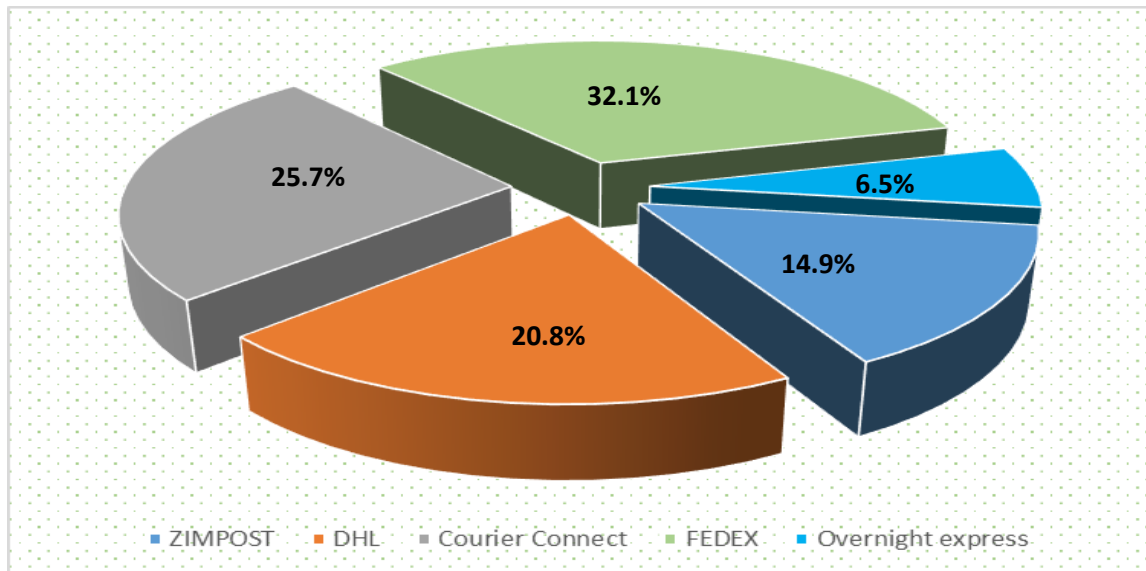
Table 12: Postal and Courier Volumes

	2nd Quarter 2017	3rd Quarter 2017	% Growth
Domestic postal	1,476,650	1,488,897	0.8%
domestic courier	139,987	138,355	-1.2%
International incoming	412,695	353,409	-14.4%
International outgoing	75,133	70,884	-5.7%
Total postal & courier	2,104,465	2,051,545	-2.5%

Postal and courier volumes have been declining over the years due to e-substitution as traditional postal services are being substituted by electronic means of communication such

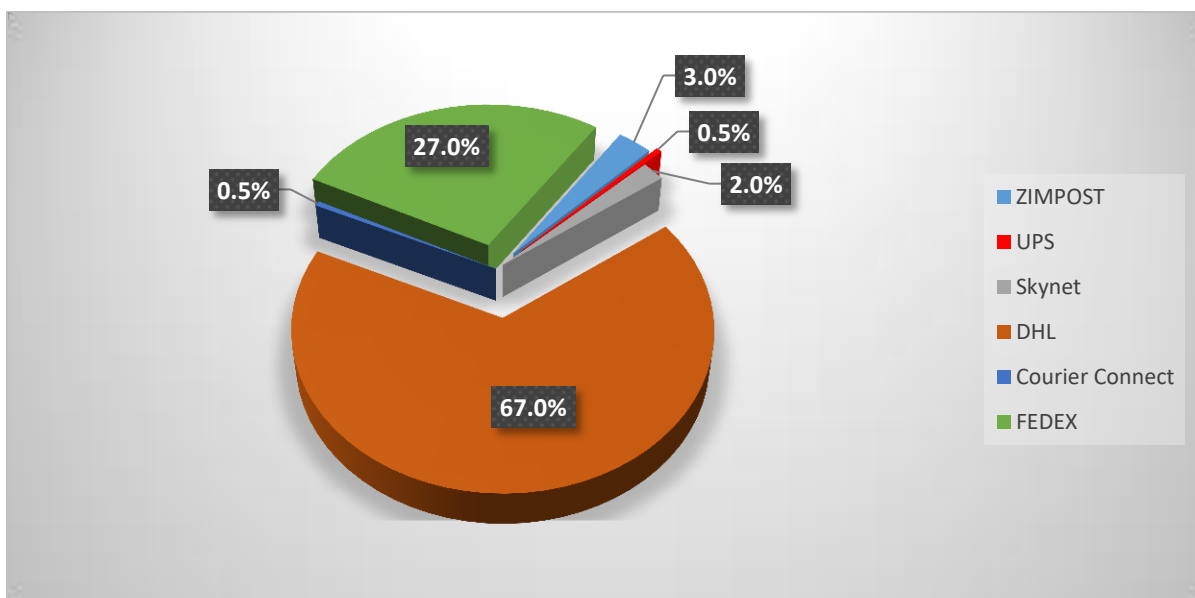
as email. The domestic letter volumes above comprised of domestic letters processed by Zimpost. The market share of domestic courier services was as follows:

Figure 15: Market Share of Domestic Courier



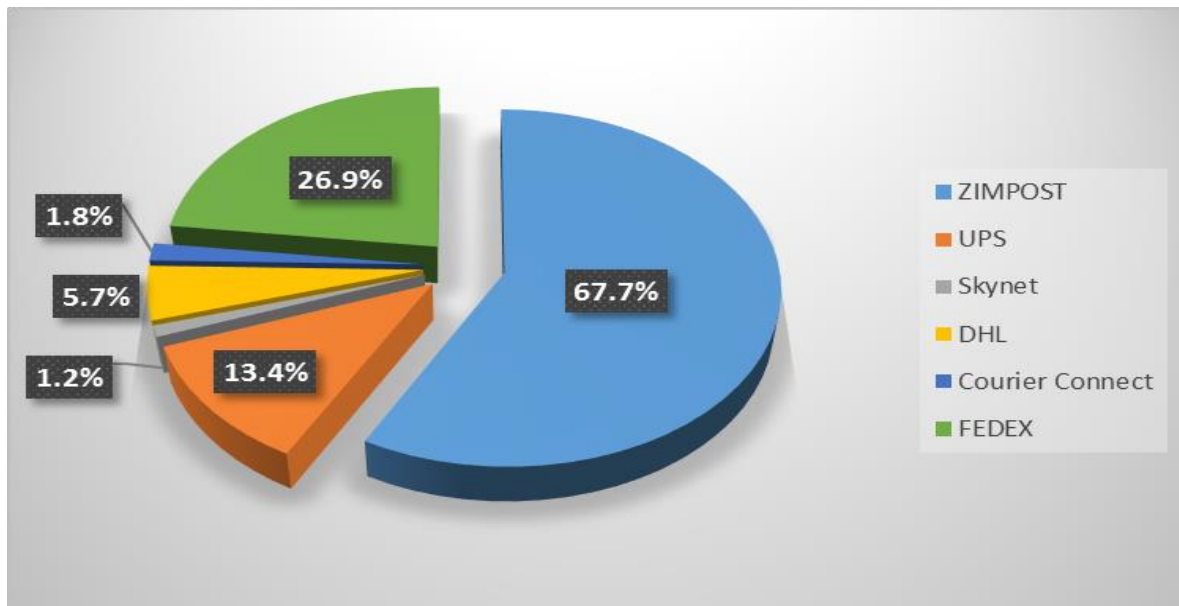
There was no major change in the market share of domestic courier services. Of the operators offering domestic courier services, FedEx has the largest market share in terms of volumes. The market share of international outgoing courier services was as follows:

Figure 16: Market Share of International Outgoing Courier Services



As shown above, DHL had the largest market share of 67%; FedEx had 27%. Zimpost and Skynet had 3% and 2%, respectively, whereas UPS and Courier Connect each had 0.5%. The market share of international incoming courier was as follows:

Figure 17: Market Share of International Incoming Courier



As shown above, Zimpost had the largest market share of international incoming courier volumes. This is attributable to the fact that sending courier items to Zimbabwe via Zimpost is less expensive as compared to the other courier operators, especially when purchasing goods on e-commerce sites such as Alibaba.

5.2 POSTAL & COURIER REVENUES & INVESTMENT

Total revenues generated by the postal and courier operators declined by 1% to record \$13,760,736 from 13,901,465 recorded in the previous quarter. Investment also declined by 44.8% to record \$133,422 from \$241,834 recorded in the previous quarter.

6. OUTLOOK

Data and internet continues to be major drivers for the sector's growth. Technological and infrastructural advancements such as the rollout of 3G, LTE and fibre have created a favourable environment for internet uptake and use. With the rapid expansion of fibre optic

infrastructure across the country, more homes will have access to high-speed broadband. The three prime drivers of internet use, i.e. availability, affordability and scalability thus need to be supported to advance the internet revolution in the country. The contribution of data and internet services to sector revenue is expected to continue increasing in line with growing demand.

Mobile money services have emerged to be a key revenue contributor for the mobile networks in the current economic environment. Mobile money services have become an important alternative to cash for business to business transactions (B2B), business to person transactions (B2P) e.g. salaries, person to person transactions (P2P) as well as person to Business transactions (P2B) such as bill and merchant payments. The introduction of bank to wallet transfers has enabled even wider use of mobile money services. This trend of growing mobile money use is likely to continue in the current environment.

Product and price competition in the various service markets is likely to continue as operators seek to increase their share of the market to improve their bottom lines. The product and price based competition will ultimately benefit the consumer. However, no major changes to the current levels of market concentration are expected. Operators will continue to stimulate voice traffic through promotions as voice continues to face competition from Over-the-Top services. Local SMS is set to improve due to the growing use of digital financial services as transaction notifications are sent by SMS. Periodic fluctuations in terms of volume and revenues in the postal and courier sector are set to continue due to e-substitution, which is the substitution of traditional paper communication for electronic methods such as emails.

The fluctuations in postal and courier volumes are expected to continue due to e-substitution. This will continue to affect the revenue performance of postal and courier operators. The growth of e-commerce will be a key driver for the postal and courier sector.