Analysis of the Acquisition Process of Uganda Telecom by LAP Greencom

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Abstract
This paper examines the recent acquisition of Uganda Telecom. The uniqueness of this acquisition is based on the fact that not only is this company operating in emerging markets (Africa and the Middle East), it is operating in the context of the African telecom market where lately liberalization and deregulation have taken root and a new phenomenon where multinational telecom companies aggressively pursuing licenses or acquiring smaller telecom companies in a bid to take over the market has emerged. It recounts the events surrounding Uganda Telecom's bid to survive in the wake of increasing multinational competition, reducing margins, fast changing technology and deregulation. As a follow-up on the World Bank led privatization wave which swept across the world where government owned public enterprises, of which Uganda Telecom was one, were sold off to bring efficiency in markets and drive growth in economies, it tests the economic assumptions and theory that lent credibility to Government of Uganda model to telecom privatization where Uganda Telecom was not fully divested in order to protect the young telecom market as it introduced competition. The main discussion also covers the nature and size of suitors this acquisition attracted, the motivations of each of the parties, the value at which this company was eventually sold clearly pointing to its potential in the market and the opportunity available. And whereas the takeover was an inevitable choice, the discussion covers some of the strategies that ensured that the previous shareholder maximized the company's value. Now that the sale has been concluded it also looks at the events immediately surrounding the post agreement phase and concludes with key recommendations and strategies on success going forward.

Keywords: acquisition, process, international, strategy, telecommunications

JEL Classification: A2, A23

Introduction

Globalisation and deregulation of markets have opened up the way for companies to grow through organic and external development. Within this context, mergers and acquisitions have become two of the most common methods of achieving growth, competitiveness and share in existing or new markets.

This paper discusses the importance for companies involved in merger activity to recognise and manage the critical success factors associated with the pre- and post-merger phases of the process.

The first part of this paper analyses various aspects related to the pre-merger phase such as, the motives and objectives for the acquisition, the choice the target firm and its evaluation, and negotiation outcomes. The second part of the paper focuses on the analysis of post-merger variables such as, the integration approach followed immediately after the acquisition, implementation management, and the management of cultural differences and communication.

To this end, it analyses ***the recent acquisition of Uganda Telecom*** (UT) by ***LAP Greencom*** when it acquired majority shareholding in the UCOM consortium of companies comprising ***Telecel***[1], ***Orascom***[2] and ***Detecon***[3].Uganda Telecom (UT) is one of the licensed national operators in Uganda since 1998. Prior to this, UT was owned by Government of Uganda as a parastatal charged with the provision of communication services all over Uganda. The communication services provided were not necessarily profitable but were to meet the central governments social objective of extension of communication services to all parts of the country. Following the wave of privatisation mainly driven by World Bank reformist policies that swept across the world in the 1990's, among other actions, the Government of Uganda sold 51% of its holding in Uganda Telecom to the UCOM consortium of companies. Shortly before this the Government of Uganda had setup the ***Uganda Communications Commission, UCC***[4] as a semi-autonomous communications sector regulator in Uganda. The government transferred powers of administration of earlier licenses issued (***Celtel Uganda***[5] and ***UT***) to ***UCC*** and the UCC licensed a second national operator, *MTN Uganda*[6].
Following UT's privatisation, the new shareholders worked not only to turn around the financial loss situation of the company at the time but to also change the internal culture and formation to one that would be poised for business as a more aggressive and market focused entity. They launched the GSM mobile service a year later under a new brand, ***mango***[7], and within a year of launch it had moved from being the third position to second and closely pursuing MTN Uganda the leader in total mobile subscriber base. This was remarkable because at the time, Celtel Uganda had been in operation for 8 years. Over the years, UT has continued to reform itself and in many cases has been very innovative introducing new technology first to the Uganda market in response to genuine needs such as wireless fixed line based on ***CDMA 2000 1x***[8] technology. Today UT is a leading total communications provider with a broad range of services including fixed and mobile voice, data and internet over leased line[9], broadband and wireless means. It leads in all these services except for GSM mobile where it is still second to *MTN Uganda*.

Methodology

The primary methodology is that of the case study. Since the focus of this study is to analyse how the critical success factors associated to the pre- and post-merger processes of the Uganda Telecom acquisition. The case study approach seems to be apposite because it builds from rich qualitative evidence (Eisenhardt and Graebner, 2007). The primary source of data is a series of interviews with senior managers of UT:

Miriam Kawuma, Corporate Strategist and Business Analyst
Jackie Ochola, Network Operations Manager
Godfrey Kisekka, Acting Chief Technical Officer
Donald Nyakairu, Company Secretary and Legal counsel
Norah Ddamulira, Quality Assurance Analyst

All the interviews were face-to-face and were conducted by the authors. All the interviews were semi-structured and a general base interview schedule was used. The interview data was supplemented by analysis of existing documentation including company's reports, internal memos, press reports, emails, websites, Uganda Communications Commission reports and library. This helped to minimise potential bias from interview data.

Since the purpose of this study is to develop theory, not to test it, a theoretical sampling has been preferred. This seems to be adequate, as the case has been 'selected because it is particularly suitable for illuminating and extending relationships and logic among constructs' (Eisenhardt and Graebner, 2007: 27). The selection of the case sample has also been made on the basis of convenience since one of the authors of this paper works for the acquired company as a Corporate Strategy Analyst. This acquisition was also chosen because it provides the archetypal example of a company operating in the context of the emerging African telecom market where liberalization and deregulation have fuelled a new phenomenon where multinational telecom companies aggressively take over smaller telecom companies in as a means for growth.

Although the aim of this paper is not to evaluate the success or failure of the UT acquisition, but rather how the UCOM Consortium managed the pre- and post-acquisition processes, there are some limitations in terms of acquisition performance measurement. The main reason is that there is very limited performance data available because the acquisition is still very recent as it took place in March 2007.

Literature Review

Despite being of the preferred methods for growth, most acquisitions fail to realise the expected benefits (Kitching, 1967; Capron, 1999; Testa and Morosini, 2001; Cartwright and Schoenberg, 2006). According to research, this is usually the case because companies fail to manage adequately the critical success factors associated to the pre- and post- acquisition processes due to lack of accumulated experience of acquisition activity (Jemison and Sitkin, 1986; Vermeulen and Barkema, 2001; Hayward, 2002; Zollo and Singh, 2004; Meschi and Metais, 2006). Scholars argue that a continuous learning approach to acquisition activity can enhance the probability of success because, from experience, companies gain specific execution capabilities that are critical to conducting the acquisition process (Testa and Morosini 2001; Vermeulen and Barkema 2001).

Managing the acquisition process is complex because companies have to carefully appreciate various aspects associated with the pre-acquisition

phase, which will strongly influence the successful or unsuccessful outcome of the acquisition. Because no two acquisitions are alike there are no generic recipes that could be applied to all cases. Therefore, the way they are implemented varies from acquisition to acquisition. However, choosing the right partner, making a thorough evaluation of its real strengths and weaknesses and paying the right price have been indicated as critical success factors to be managed at this stage (Jemison and Sitkin, 1986; Schweiger et al., 1993; Datta and Puia, 1995; Anslimger and Copeland, 1996; Inkpen et al., 2000; Bower, 2001; Hayward, 2002; Graebner and Eisenhardt, 2004).
The post-agreement implementation has proved in general to be the most crucial phase in the acquisition process. Most firms entirely look at the legal and financial aspects of the acquisition but frequently do not consider carefully how the new organisation will be managed after the acquisition. Assuming that acquisitions are undertaken for strategic motives, their implementation strategies must echo the rationale behind the acquisition. Post-acquisition integration, especially in international situations is burdened with difficulties due to differences in cultural, organisational, legal and financial aspects which have to be thoroughly planned and implemented in a way in which organisations can combine their operations and realize the intended benefits of the acquisition (Leighton and Tod, 1969; Pritchett et al., 1997; Morosini, 1998; Light, 2001; Testa and Morosini, 2001; Zollo and Singh, 2004; Lodorfos and Boateng, 2006; Riad, 2007). As a result, it can be argued that acquisitions' success mainly depend on the ability of managers to manage these pre- and post-acquisition critical success factors.

Economic and Managerial Motives for the Sale of Majority Shareholding in UT

In a personal interview, Miriam Kawuma, UT Corporate Strategy Analyst, argued that UT's challenge over the years was not only related with internal reformation but with the need to re-brand itself externally and provide superior services and products in respect of competition to a market with sophisticated taste (Kawuma, 2007). To do this required heavy investment to revamp the old infrastructure as well as industry protection which the government provided at privatisation, giving exclusivity on international traffic gateways and committing to only two national operators for five years[10]. The five years allowed UT a breath of fresh air to readjust to a competitive market driven communications sector. In fact Uganda's communication sector grew in leaps and bounds from a teledensity of 0.2 to almost 8% in less than a decade[11]. Despite this growth and return to profitability, UT has not been able to sustain the trend and has slid back into losses because:

1. Too little equity has been invested by the shareholders leaving the company to rely on high cost finance for its capital investments which is not sustainable in the long term as return on investment on some of these is well over 5 years. This has mainly been caused due to the fact that Government of Uganda was reluctant to inject equity but didn't want to liquidate its holding (49%) because of the political impact it would have. Also within the consortium, Orascom sold out 2 years down the road to concentrate on its North Africa investments and swapped shareholding in companies with Telecel[12]. Kawuma (2007) asserts that this left Detecon and Telecel the challenge of managing and growing the business with insufficient investment which caused it to slide back to a loss making venture.

2. At privatisation, the Government signed a ***Management Contract***, in which it temporarily gave up its rights to management and only kept board of director positions in order to pave way for the new majority shareholder to grow and develop the business. This ***Management Contract*** with Detecon provided expatriates to operate and transfer skills for five years in order to build the business. Poor supervision caused, the ***agency problem***[13] where the expatriates jointly and severally on many occasions took decisions in their own interests often emphasising activities and rolling out technology that would allow them marketability for their next job. In a personal interview Jackie Ochola, UT Network Operations Manager, asserts that this led to decisions not necessarily supported by sound financial business cases which caused a lot of strain on the company especially considering the high cost of finance (Ochola, 2007; Kisekka, 2007). Godfrey Kisekka, UT Acting Chief Technical Officer, corroborates this point indicating as an example the decision in late 2004 to pursue a 3G[14] trial which license and equipment cost a fortune without necessarily considering whether there was a market for this. He argues that it was simply a stretch of innovation in order to introduce technology similar to the global trend (Kisekka, 2007).
3. UT was competing in a market where the other players were multinationals and therefore were able to enjoy the benefits of economies of scale in procurement, marketing and branding as well as work with big resource pools. This was a considerable disadvantage especially after Orascom pulled out of the UCOM consortium because multinational branding and sourcing was ruled out as a possibility for UT.
4. This situation even got more critical in terms of UT managing its liability and costs as the exclusivity expired and the regulator prepared the market for a new deregulated licensing regime where acquisition of national operator licenses was open. It could only get worse for UT.
5. The pending deregulation of the telecom market was a big risk in the current state of UT and licensing of two new national operators ***Warid Telecom***[15] and ***HiTs Telecom***[16] confirmed the risk hence the need to take immediate action to consolidate UT's position in the market. Having realized that it wasn't sustainable to continue to differentiate its offerings on the basis of price and coverage as its main competitors had more money to invest and eventually the edge of coverage would not be much, UT was looking towards a more focused differentiation based on service excellence. This would set it apart and hopefully deliver long term productivity as it would enhance relationships with the customers and build loyalty. In order to do this, it needed a sustained campaign to transform its brand from one that was seen as cheap and cost effective to one that is reliable, a change which required adequate time and sacrifice on the short term profitability. Ultimately it would require financial resource base to allow such a transformation which resources were not available.
6. Global trend in technology with convergence, number portability among others was a real threat especially considering that if the market required technology change, UT's resource base couldn't meet with the requirement. As a growth strategy, there was also the desire to maintain an edge on the technology frontier through innovation. This meant heavy investment and alliances that would allow the company expertise. In the face of new technology challenges like convergence of voice and data and number portability[17], it was therefore necessary to look for horizontal or conglomerate partnerships with the right

attributes and a multinational outlook to meet this challenge. This was especially driven by UCOM as the Government of Uganda continued to play a passive role in the company affairs.

For these reasons, it became apparent that UT could no longer sustain itself and badly needed equity to be financially sound, operate efficiently while servicing the earlier loans and financial commitments over the five years. It was therefore necessary to seek out partnerships and offers for shareholding in order to deal with this situation.

Pre-agreement Phase

Once a decision to sell was taken by the board, it wasn't at first communicated but hints started to come through when the Managing Director of six years suddenly resigned in June 2006[18] . After this there was increasing anxiety and rumour among staff related to this and the HR department sent several communications reassuring staff that they wouldn't lose their jobs.

There were three suitors in all: Telkom SA[19], *VTEL*[20] and *LAP Greencom*[21]. *Telkom SA* was the first and was pursuing an external expansion strategy out of South Africa. It was looking at a hostile take over of sorts and sought exclusivity for six months on this purchase of shareholding which they obtained so they would have time to do the due diligence and decide on the best price for the company. It made an offer which *UCOM* was reluctant to accept because it was low and therefore when this exclusivity expires, *UCOM* began to actively look for alternatives and thus invited *VTEL* and *LAPs Greencom* to consider purchase of shareholding. Below is a table summarising the strengths and weaknesses of each of these at the time of decision on the acquisition.

Table 1: Comparison of strengths and weaknesses of UT's prospective buyers

Partner	Strengths	Weaknesses
Telkom SA - South Africa	1. Heavily capitalized 2. Experience in African telecom market 3. High expertise and systems 4. Synergies were easily identifiable and possible	1. Low price because it was pursuing a hostile take over
VTEL - UAE	1. Heavily capitalized 2. As part of a consortium, they had an offer for a second national operator license in Kenya	1. No known telecom experience 2. No known synergies save for ones created by a license bid they were pursuing in Kenya
LAPs Greencom - Libya	1. Heavily capitalized 2. Has other investments in oil and real estate which can provide leverage	1. No known telecom experience 2. No known synergies

Source: Author analysis

Although both *VTEL* and *LAP Greencom* were also looking to expand to international markets, they had no telecom experience and apart from the fact that they were heavily capitalised which left them able to pay and engage any resource to make the investment pay off they had no significant advantage. In addition to this *VTEL* as part of a consortium had been offered a second national operator license in Kenya and therefore it was strategically looking to set up an East African operation with Uganda Telecom as a tactical base to roll out and meet its obligations in Kenya.

Eventually, *Telkom SA* withdrew and invested in *Africa Online* [22], a multinational internet service provider in 8 countries[23] within Africa. As an expansion strategy it allowed them access to many more markets and was in line with their technology convergence [24] plan. This made them even more reluctant to compete for UT. On the other hand *VTEL* lost its exclusivity on the offer of second national operator license in Kenya when its partners in the consortium failed to raise their commitment in the license cost of £131m (approximately $170m) [25]. This meant that the main contender remained *LAP Greencom*.

The staff in the company participated in the due diligence exercises carried out by the three contenders but the decision on the purchase was exclusively managed by the board of directors and *Telecel* who at the time had the controlling stake in *UCOM*, UT's majority shareholder.

LAPs Greencom Strategic Objectives at Purchase

- LAP Greencom has been expanding rapidly through out Africa with investments in oil [26] as well as purchased Uganda's biggest housing Real Estate Development Company [27]. Therefore they were seeking further diversification and international market development through acquisition of more investments out of Libya
- From Porters generic strategies [28], the strategy fits as one of focused differentiation where Uganda Telecom will work towards service excellence within its market and its shareholding will work to ensure that it provides the required support to meet this objective.
- This is a conglomerate acquisition that shall allow for the recovery of UT in that the losses in the short term may be covered by profits from another business.
- LAP Greencom seems to be agreeable to governments objective of retaining part of the shareholding in order to allow indigenous Ugandans to purchase part of this company and benefit from the lucrative telecom sector when the company is finally floated and listed on the Kampala Stock Exchange[29]
- Government allowed the dilution its shareholding in order to allow equity injection that would allow the company to have a sound financial base to continue to do business efficiently.

Negotiation Outcomes

1. *Telecel* bought Detecon out of *UCOM* consortium.
2. *UCOM* injected equity of US $27.35m to assure financial position of the company.
3. Government of Uganda shareholding was diluted from 49% to 31%.
4. LAPs Greencom purchased controlling stake in the 69% UCOM shareholding for $150m.
5. New board of directors and new managing director were appointed[30].

In a personal interview, Donald Nyakairu, Company Secretary and Legal Counsel, asserted that the negotiation outcome was accommodating and compromising for all the parties involved (Nyakairu, 2007). He argues that this was the case because: i) *Detecon* sold its stake having failed on their management contract obligations. It was also important for them to sell because they had no long term strategic interest in keeping the shareholding of *UT*; ii) Although Government of Uganda has given up shareholding in exchange for equity for investment, on the whole it still has the opportunity of allowing indigenous Ugandans to benefit from its shareholding when the company is finally floated on the local financial securities and stock exchange, USE[31], a situation that should subsequently happen once the company has been fully turned around and is stable; iii) Telecel has succeeded in acquiring a strategic partner with a multinational strategic outlook and sufficient capital base to allow UT to grow as the market required by investing first in order to ensure and consummate the partnership; iv) LAP Greencom has got opportunity to invest in a vibrant sector and meet its long term objectives.

However, being a conglomerate acquisition where the acquiring company has no previous experience in the telecommunications industry raises some concerns. Management at the acquired company seem to indicate that perhaps, a horizontal or lateral acquisition would have been preferred because telecommunications is a very specialized industry and extent of success of a partnership like this can be determined by the sort of experience an organization has in managing this peculiar type of business. This could be particularly the case because *LAP Greencom is* a large diversified group which may have other priorities rather than this new telecoms investment.

The price paid for a controlling stake of 69% seems to be reasonable based on the asset value and the fact that UT has a lot of goodwill among the Ugandan population because of patriotism and sense of ownership based on government shareholding. However, the evaluation process might not have been as thorough as desirable and there are some concerns that there may have been an overestimation of the UT brand strength and an underestimation of future investment requirements in order to revamp the business[12] according to Miriam Kawuma, the Corporate Strategy and Business Analyst at UT.

Post-agreement Phase

The acquisition of UT by LAP Greencom seems to be strategically sound. The management of the pre-acquisition phase seems to have been done reasonably well in terms of the choice of UT as a promising company. In general, the evaluation and negotiation processes lead to a successful agreement between the parties. However, according to research, independently of how well the pre-agreement phase is managed, the post-acquisition phase has proved in general to be the most challenging.
Since this acquisition is still very recent, it has not been possible to evaluate its implementation phase to a full extent. However, some aspects such as the management of communication, cultural differences and implementation leadership, are briefly discussed below.

Communication Management
The Managing Director’s resignation fueled anxiety among the staff and because of this, UT has experienced very high staff turnover. This has however been worsened by the fact that the two newly licensed national operators are setting up at this time and therefore are targeting to recruit good skilled and experienced staff from UT. In a personal interview, Norah Ddamulira, Quality Assurance Analyst at Uganda Telecom, asserted that this has hard a significant impact on the day to day operations and business continuity (Ddamulira, 2007).

As evidenced from the memos attached in appendices 1-6, there have been press reports through out the period and many times, these memos were reactionary to the extent that the press communicated the information and the internal memos were used only to validate or dispute the press reports. I believe that in a proper setting, the memos should have been sent out before and press reports would only be supplementary and not the other way around. Although internal communication existed, the fact that it was not sustained, regular and was reactionary. This combined with the fact that it was almost nine months of several due diligence exercises before final closure has had devastating effect on the staff morale as well as company performance over this period.

Integration Approach and Implementation Management

There has been apprehension from management but this is expected because in this case they are naturally being blamed for the poor performance to an extent and may obviously be replaced in the process of integration and streamlining of operations. There has been high staff turnover because the new national operations launch this year and are recruiting heavily – effectively the need for resources for the sector has doubled. Because the integration has just taken off, it is too early to assess. Currently there is speculation of senior management replacement, downsizing and restructuring of the company to ensure profitability and efficiency. This has had its tow in low staff morale levels. However in some cases, morale has been raised in anticipation of better management and efficiency.

There has been no direct post-agreement integration coordination team but *UCOM* have appointed a Managing Director who will ensure the turn around and protect the interests of the main shareholder[32]. Among the actions likely to happen is the replacement of senior management. This seems to have started with the replacement of the Chief Human Resources Manager[33] and the resignation of the Chief Finance Office and former acting MD and appointment of an acting Chief Finance Officer. There has not been direct disregard to day-to-day business activity but so far there are actions indicative of changing internal processes. This has caused disruption in some cases as suppliers' relationships and terms are revisited and new suppliers are nominated and enlisted. It is still hard to judge whether the implementation of this partnership will be speedy but early signs suggest that LAP Greencom might be considering the long term objective which might weigh negatively on the staff morale and ability to achieve continuity and short-term results.

Impact of Partnership on Market and Industry

This acquisition by *LAP Greencom* will allow UT to be more competitive with a stronger financial base and a multinational outlook just like its main competitors. The telecom market in Uganda shall be controlled almost entirely by foreign companies whose repatriation of profits will have negative impact on the economy in the long term. Although there may be loss of jobs in one instance, because two new national operators have been licensed it will allow opportunities for those who may be laid off. In terms of quality of service, the customers are able to maximize on the benefits of the latest technology and very good quality for the cheapest rates because of the stiff competition among the now five companies competing for a small market. As an entity competing in the telecom sector in Africa, LAP Greencom must consider acquisition of other licenses or the set up of strategic partnerships with other operators to counter competition ability to leverage economies of scale and translate this into preferential (cheaper) pricing of services for customers as well as trends in technology of convergence and the breakdown of roaming across borders for mobile services[34]. This wave of merger activity has resulted in an increasing concentration of the telecommunications industry in Uganda and East Africa.

Conclusions

Based on the analysis of the recent acquisition of *UT by LAP Greencom* it is too early to assess whether or not the partnership in which *UT* has entered is the best because it has just taken off. However, some observations can be made and some questions can be asked.

Although *LAP Greencom* has no telecom experience, it has multinational outlook and seems to have a sufficient capital base and the commitment to expand and grow in Africa which would allow UT to grow on the whole. This commitment is seen in the recent investments in East Africa highlighted earlier[27]. They have invested in oil business and real estate in the Ugandan market which suggests that they would like to develop the portfolio within Uganda and the region in general. Being a conglomerate merger, it provides the company that holds majority shareholding in UT some financial risk reduction in terms of holding a diversified business portfolio where losses in one area may be compensated by profits in another.

There is some potential for negative synergies because of this potential lack of focus from *LAP Greencom;* being a large diversified group it may not give priority to this new investment in telecoms. Therefore, it can be questioned to what extent *UT* may have missed out on the expertise that would have come from a horizontal acquisition by *Telkom SA*. The synergies and immediate benefits on how to revamp the company and create operational efficiency would have come swiftly from Telkom SA who is reputed to be one of the few highly profitable incumbent operators not only in Africa but in the world.

Because it is an acquisition on its early stages of implementation very little can be said about its post-agreement implementation stage. Communication could have been better managed to avoid the degree of rumor and uncertainty. The integration approach shows that the acquiring company is active in reorganising and running the new business. This is evident from high levels of turnover in personnel and changes in senior managerial positions. However, the key issue arising from this acquisition is related to the pre-acquisition phase. To what extent shareholders of UT should have preferred a different acquiring company with expertise and experience in the telecommunications industry in order to be able to realise the necessary synergies and operational and strategic efficiencies?

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Uganda Communications Commission, UCC www.ucc.co.ug
Celtel Uganda, www.celtel.com
MTN Uganda, www.mtn.co.za
Uganda Telecom, www.utl.co.ug
Tamoil, www.tamioil.com
Telkom SA www.telkom.co.za
About VTEL www.tectonic.co.za/view.php?id=1246
Africa Online www.africaonline.com
Uganda Securities Exchange www.use.or.ug

Appendix 1 – Managing Director's Resignation

uganda telecom

MEMORANDUM TO ALL STAFF

MOVING ON – MANAGING DIRECTOR

On behalf of the Board of Directors of Uganda Telecom, I would like to inform you that after 6 years of dedicated leadership, Aimable Mpore, the Managing Director of Uganda Telecom, will be leaving us at the end of August 2006 to pursue other career opportunities.

From the negotiations with the government of Uganda during the privatization of Uganda Posts & Telecommunications to overseeing the restructuring and modernization of the company, Aimable distinguished himself as a gifted Chief Executive. With his calm, intelligent and committed approach to management he contributed greatly to Uganda Telecom's current market position as a leading communication and information service provider.

The Board Members and I, request you to all join me in appreciating Aimable's leadership during the time he has been in Uganda Telecom. When he took over as Managing Director, the company only provided landline services and had just over 30,000 customers. Six years later, the company has aggressively restructured and transformed from a landline provider with parastatal practices into a competitive and business oriented company.

Today, Uganda telecom offers the widest range of communication and information services in Uganda. The customer base has grown to over 600,000. This is no doubt owed to the visionary and passionate leadership of Aimable.

Prior to his departure, Aimable will oversee the smooth transition of leadership and will have the full support and backing of the Board of Directors.

I also take the opportunity to reassure you of the great future ahead for Uganda telecom. The Board of Directors and the shareholders have agreed to inject 80 million USD and UCOM, the major shareholder has invited Telecom South Africa to participate in the consortium. This new addition to the consortium will provide the company with new competitive advantages that are much needed to remain competitive within an Industry that is quickly consolidating.

Aimable will be missed by all of us at Uganda Telecom and we wish him well in his future endeavors.

Patrick Kabonero
CHAIRMAN, UGANDA **TELECOM BOARD OF DIRECTORS**

22 June 2006

Appendix 2 – Internal Memo Press Report Response

uganda telecom

RED PEPPER ARTICLE

Our attention has been drawn to the newspaper article that was in the Red Pepper of Saturday August 5, 2006 entitled "UTL Sacks 200 Staff". We would like to inform you that the article was full of false reporting and intended to tarnish Uganda Telecom's standing in the market.

As you are well aware Telkom South Africa did carry out a due diligence exercise with the intention of acquiring some shares in UCOM, the 51% shareholder of Uganda Telecom. If Telkom South Africa acquires shares in UCOM there will be no change in Uganda Telecom's shareholding structure which will remain as follows:-

- Government of Uganda 49%
- UCOM 51%

The publication in the Red Pepper newspaper was a mere fabrication intended to cause sensation.

The results of the due diligence are a matter between the shareholders of UCOM and have not been released. We do not expect the results to have any effect on Uganda Telecom staff.

We would like to assure you that there are no staff changes that are planned and we would like you to continue to give your full and undivided attention to your work.

....

AIMABLE MPORE
MANAGING DIRECTOR

DATE – 7TH AUGUST 2006

Appendix 3 – Telkom SA loses exclusivity and VTEL and LAPs start due diligence

From: Nantege, Barbara
Sent: Monday, January 08, 2007 12:07 PM
To: DL-UTL-Complete
Subject: CONFIDENTIAL - VTEL Due Diligence Exercise

UTL Team,

Firstly let me wish you all a Happy New Year for 2007 and best wishes for all that it may bring for us.

As you are aware Telkom South Africa Limited (TSA) recently performed a due diligence exercise (DDE) at UTL with a view to purchasing an interest in UCOM Limited, the major shareholder in UTL. To date negotiations in this regard have not been concluded. However, the Memorandum of Understanding (MoU) between TSA and UCOM has expired, which has allowed UCOM shareholders to invite other bidders to the table. Accordingly, VTEL Holdings of Dubai have expressed an interest in purchasing a shareholding in UCOM. VTEL operates in several countries and has recently won the second national operator (SNO) licence in Kenya.

VTEL's team is with us today and senior UTL executives have met with them already. They will be interacting and interviewing certain members of management and staff in the course of the DDE, which is expected to take three weeks (viz second week of February 2007).

I just wanted everyone to be aware of what was happening before inappropriate conclusions or rumours started.

Regards,

Emil Moul
AG MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER

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Website: www.utl.co.ug

-----Original Message-----
From: Nantege, Barbara **On Behalf Of** Moul, Emil
Sent: Thursday, February 08, 2007 9:57 AM
To: DL-UTL-Complete
Subject: Red Pepper Article

Dear Staff

Today's Red Pepper has claimed that the Libyans (LAP) have purchased a majority stake in UTL. This is not an official statement and I will communicate the official position in due course.

Emil Moul
Ag. Managing Director

Appendix 3 - Sale of UCOM shareholding

uganda telecom

February 9, 2007

Dear Staff,

Our attention has been drawn to the article that was published in yesterday's Red Pepper entitled "Libyans buy off UTL, 200 Staff Face Knife".

We wish to inform you that the information in the article was false. As far as we are aware, the Libyans have not bought Uganda Telecom. What we do know is that the 51% shareholder of Uganda Telecom, Ms. UCOM is in discussions and negotiations with the following companies for the sale of some shares in UCOM:

1. Telkom South Africa
2. VTel - Dubai
3. LAPs – Libya

These discussions and negotiations as far as we are aware are not concluded yet.

We wish to point out to you that it is not Uganda Telecom which is being sold but UCOM is selling part of its shareholding in Uganda Telecom.

We will inform you of any shareholding changes in UCOM once we are informed about them.

Donald Nyakairu
**COMPANY SECRETARY/
LEGAL COUNSEL**

Emil Moun
AG. MANAGING DIRECTOR

Rwenzori Courts, Plot 2/4A, Nakasero Road, P O Box 7171, Kampala, Uganda Tel: +256 41 333200, Fax: +256 41 345907, E-mail: info@utl.co.ug Website: www.utl.co.ug

Appendix 4 – Departure of Chief Finance Officer and Acting Managing Director

uganda telecom

March 12, 2007

Dear Staff,

I would like to announce the resignation of Mr. Emil L. Moul who will take on another job at the end of March, 2007. Mr. Donald Nyakairu has been appointed by the Board of Directors to act as Managing Director with immediate effect.

Yours faithfully,

Patrick Kabonero
CHAIRMAN
UGANDA TELECOM BOARD OF DIRECTORS

Rwenzori Courts, Plot 2/4A, Nakasero Road. P O Box 7171, Kampala, Uganda. Tel: +256 41 333200, Fax: +256 41 345907, E-mail: info@utl.co.ug, Website: www.utl.co.ug

Appendix 5 - Sale of Share

uganda telecom

March 26, 2007

Dear Staff,

SALE OF SHARES IN UCOM LTD

I wish to inform you that I have been informed by UCOM Ltd that negotiations for sale of shares in UCOM Ltd are in their final stages.

We will be informed of the outcome after the Uganda Telecom Board of Directors meeting which is scheduled for Wednesday 4th April, 2007.

Thank you,

Donald Nyakairu
Ag. MANAGING DIRECTOR

Appendix 6 - Sale of UCOM shareholding in UT and Appointment of New Managing Director

uganda telecom

Dear Staff,

I am more than glad to inform you that LAP GREENCOM, the telecommunications arm of Libyan African Portfolio (LAP) has acquired majority shares in UCOM Limited.

The Libyan African Portfolio is an initiative by the Government of Libya geared towards the enhancement of development in Africa. It has so far set up a fund of over US$ 8 Billion for this purpose.

As a result of the capital call made in July 2006 by the shareholders of Uganda Telecom, Government of Uganda opted to offer its shares to UCOM Limited at a premium which resulted in UCOM contributing US$ 27.375 million towards the equity of the Company. The Company received these funds two weeks ago. This had a resultant effect of changing the shareholding of Uganda Telecom to the following:

UCOM Limited	69%
Government of Uganda	31%

The Board of Directors of Uganda Telecom at its last meeting approved the appointment of Eng. Abdulbaset Elazzabi as Managing Director, Uganda Telecom.

Eng. Elazzabi is a graduate of the University of Tripoli and majored in Telecommunications Engineering. He has vast experience in the telecom industry and was instrumental in establishing the first GSM service provider in Libya in 1994. He has served on several boards including the Thuraya and Rascom boards. His recent assignment has been Managing Director SahelCom Telecommunication Company in Niger.

I would like you, to join me in welcoming Eng. Abdulbaset Elazzabi to Uganda Telecom. He will have an opportunity to meet with all of you soon.

His appointment takes effect from today Tuesday the 10th day of April 2007

10/4/2007

Donald Nyakairu
COMPANY SECRETARY/ LEGAL COUNSEL

1

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Appendix 7 - Departure of Chief Human Resources Officer

MANAGING DIRECTOR'S OFFICE

uganda telecom

It's all about U

Memo

From	:	**MANAGING DIRECTOR**
To	:	**ALL STAFF**
Date	:	**5/3/2007**
Re	:	**MS. CONSOLATE MUKADISI**

We wish to inform you that Ms. Consolate Mukadisi who has been our Chief Human Resources and Administration Officer left the Company on 30th April, 2007.

Consolate has contributed a lot to the Company in managing the Human Resources Department. We wish her all the best in her new endeavors.

In the meantime before an acting Chief Human Resources and Administration Officer is appointed, the Company Secretary/Legal Counsel will be handling Human Resources Issues.

Yours sincerely,

Eng. Abdulbaset Elazzabi
MANAGING DIRECTOR

Appendix 8 - Appointment of acting Chief Finance Officer

uganda telecom

OFFICE OF THE
MANAGING DIRECTOR

memo

To: All Staff

Date: 4/26/2007

Re: **APPOINTMENT – AG. CHIEF FINANCE OFFICER**

This is to inform you that during the last Board meeting, Mr. James Wanjogu was appointed Acting Chief Finance Officer for Uganda Telecom effective 4 April 2006.

Mr. Wanjogu has been with Uganda Telecom as Manager, Finance & Accounts from December 2000. He holds a Bachelor of Commerce Degree, Accounting option, and is a Certified Public Accountant of Kenya and Uganda. He was previously an Audit Manager with KPMG – Uganda.

As he embarks on carrying out his new duties, I urge you all to give Mr. Wanjogu all the support he will need in this role and count on your usual cooperation.

Regards,

Eng. Abdulbaset Elazzabi
Managing Director

Rwenzori Courts, Plot 2/4A, Nakasero Road. P O Box 7171, Kampala, Uganda. Tel: +256 41 333200,

Endnotes

[1] Telecel was the first multinational mobile operator in Africa. Most of its assets and operations have been divested and sold to other companies and currently only retains interests in telecoms in Uganda and Burundi www.telecel.com
[2] Orascom is a multinational mobile operator which is dominant in North Africa and the Middle East www.orascom.com
[3] Detecom GmBH is the private arm of Deutsche Telecom http://www.detecon.com/en/index.html
[4] Uganda Communications Commission, UCC www.ucc.co.ug
[5] Celtel Uganda is part of Celtel Group whose headquarters are in the Netherlands. www.celtel.com
[6] MTN Uganda is a fully owned subsidiary of the MTN Group currently the biggest multinational telecom operator in Africa and Middle East www.mtn.co.za
[7] Mango is a mobile brand owned by the Telecel group
[8] CDMA 2000 1x is a wireless technology based on the Code Division Multiple Access technology of using frequency spectrum for communication
[9] Refer to Uganda Telecom's corporate website for information on products www.utl.co.ug
[10] This duopoly for MTN Uganda and Uganda Telecom as exclusive National Operator licensees expired at the end of July 2006 and a new policy regime was reinstated allowing more national operators to be sold
[11] Statistics of teledensity are available on the UCC , www.ucc.co.ug
[12] This article contains information of how the shareholding of UT has changed since privatisation which partly explains why a new partnership was needed http://www.globalinsight.com/SDA/SDADetail8574.htm
[13] A management situation where managers work for their own interest instead of that of the shareholders
[14] 3G is a technology built on top of the GSM mobile standard that allows it to support mobile data and multimedia applications
[15] A company owned by the Warid Telecom www.ioltechnology.co.za/article_inter.php?iFeedArticleId=10421354 and www.ameinfo.com/104841.html
[16] HITS Telecom information http://www.allafrica.com/stories/200704300040.html
[17] Number portability allows and individual to be reached on a single number for several mobile and fixed subscriptions
[18] Refer to Appendix 1 Memo from the Chairman of the Board
[19] Telkom SA is Africa's largest integrated telecom company and the incumbent operator in South Africa www.telkom.co.za
[20] About VTEL www.tectonic.co.za/view.php?id=1246
[21] Refer to Appendix 6
[22] Telkom SA bought Africa Online for £10.32m according to Talk Telecom www.totaltele.com/View.aspx?ID=6320&t=1
[23] Africa Online has operations in 8 countries according to their corporate website www.africaonline.com
[24] The trend voice and data convergence forced by technology efficiency as well as the long term prediction of data loads eventually becoming more significant revenue earners as compared to voice for operators
[25] Refer to article at http://www.mybroadband.co.za/nephp/?m=show&id=5515
[26] They won an oil company Tamoil that recently won the bid to invest and build the Uganda-Kenya oil pipeline www.nationmedia.com/dailynation/nmgcontententry.asp?category_id=25&newsid=98181 and www.tamioil.com
[27] LAPs Greencom is majority shareholder in National Housing and Construction Corporation www.allafrica.com/stories/200703061080.html and www.globalinsight.com/SDA/SDADetail8574.htm
[28] Refer to Week M47BS Module Notes on Managing Partnerships
[29] Uganda's national financial securities and stock exchange bourse www.use.or.ug
[30] Refer to Appendix 6
[31] USE is Uganda Securities Exchange www.use.or.ug
[32] Refer to Appendix 6 on the appointment of the new Managing Director
[33] Refer to Appendix 7 on the Chief Human Resources Manager's exit
[34] It has become part of the standard offering to provide one rate across the region of East Africa. See press release where Celtel was announcing one rate across 5 countries http://www.celtel.com/en/news/press-release53/index.html and MTN product of roaming at home rate across East Africa and no charges to receive calls http://www.mtn.co.ug/coverage/eanetwork.htm