

Principal accounting policies

for the year ended 31 December 2006

1. **Summary of principal accounting policies**

1.1 **Basis of preparation**

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to all periods presented, unless otherwise stated.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the South African Companies Act, 1973 (Act 61 of 1973), as amended, (the Companies Act). The financial statements have been prepared under the historical cost convention as modified for investments held at fair value through profit or loss or equity. Amounts are rounded to the nearest million with the exception of earnings per shares and the weighted average number of shares (note 7).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period based on management's best knowledge of current events and actions. Actual results may differ from these estimates. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group financial statements are disclosed in note 1.26.

1.2 **Consolidation**

The Group financial statements incorporate the financial statements of MTN Group Limited and all its subsidiaries, joint ventures, associates and special purpose entities for the year ended 31 December 2006.

1.2.1 **Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or currently convertible are considered when assessing whether the Group has the power to control another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are de-consolidated from the date that control ceases.

All inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Special purpose entities ("SPE") (including insurance cell captives and the various MTN Group staff incentive schemes) are consolidated when the substance of the relationship indicates that the SPE is controlled by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Minority shareholders are treated as equity participants and, therefore, all acquisitions of minority interests or disposals by the Group of its minority interests in subsidiary companies where control is maintained

subsequent to the disposal are accounted for as equity transactions with minorities. Consequently, the difference between the purchase price and the book value of a minority interest purchased is recorded in equity. All profits and losses arising as a result of the disposal of interests in subsidiaries to minorities, where control is maintained subsequent to the disposal, are also recorded in equity.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

1.2.2 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under this method, the Group's share of post-acquisition accumulated profits or losses of associated companies, which are generally determined from their latest audited financial statements, is included in the carrying value of the investments, and the annual profit attributable to the Group is recognised in the income statement. The Group's share of post-acquisition movement in reserves is recognised in other reserves. The carrying amount of such interests is reduced to recognise any potential impairment, other than a temporary decline, in the value of individual investments.

The Group's investment in associates includes goodwill (net of accumulated impairment loss) identified on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations, issued guarantees or made payments on behalf of the associate.

Where another Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies of the Group.

1.2.3 Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest, are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using the proportionate consolidation method of accounting. The Group's share of the assets, liabilities, income and expenses and cash flows of jointly controlled entities are combined with the equivalent items in the financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture, except where unrealised losses provide evidence of an impairment of the asset transferred.

Accounting policies of joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

Principal accounting policies

for the year ended 31 December 2006 (*continued*)

1. *Summary of principal accounting policies (continued)*

1.3 *Segment reporting*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographic segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The geographic location of the Group's telecommunication network facilities constitutes the primary segment. The basis of the segment reporting is representative of the internal structure used for management reporting.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other Group segments. Intersegment transfer pricing is based on cost plus an appropriate margin. Unallocated items mainly comprise corporate expenses which do not directly relate to the operating activities of the segments or which cannot be re-allocated on a reasonable basis. Segment results are determined before any adjustment for minority interest. Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet.

1.4 *Foreign currency translation*

1.4.1 *Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the primary economic environment in which the entity operates ("the functional currency"). The Group financial statements are presented in South African rand, which is the functional and presentation currency of the parent company.

1.4.2 *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash-flow hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale equity reserve.

1.4.3 *Group companies*

The financial statements of all Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at rates of exchange ruling at the balance sheet date;
- Equity is translated at rates of exchange ruling at the transaction date;
- Income and expenditure and cash flow items are translated at weighted average exchange rates for the period;
- Foreign exchange translation differences are recognised as a separate component of equity in a foreign currency translation reserve; and
- On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity (refer to note 42). When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate ruling at the balance sheet date.

1.5 *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Property, plant and equipment acquired through business combinations are shown at fair value in accordance with IFRS 3, and are subsequently carried at the initially determined fair value less accumulated depreciation and impairment losses.

Cost includes all costs directly attributable to bringing the asset to working condition for its intended use. Depreciation of property, plant and equipment is calculated to write off the cost of the asset to its residual value, on the straight-line basis, over its expected useful life as follows:

Buildings – owned	10 – 50 years
Buildings – leased	3 – 11 years (shorter of lease term and useful life)
Generators	2 – 15 years
Network infrastructure	3 – 12 years
Information systems equipment	3 – 10 years
Furniture and fittings	3 – 10 years
Leasehold improvements	1 – 11 years (shorter of lease term and useful life)
Office equipment	2 – 10 years
Motor vehicles	3 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Land is not depreciated. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the expected term of the relevant lease.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Borrowing costs are not capitalised in accordance with Group policy.

Principal accounting policies

for the year ended 31 December 2006 (continued)

1. Summary of principal accounting policies (continued)

1.5 Property, plant and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the fair value of the sales proceeds and the carrying amount of the asset, and is included in operating profit.

1.6 Leases

Leases over property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised at the lower of the fair value of the leased asset and the estimated present value of the minimum lease payments at the inception of the lease. The corresponding liability to the lessor, net of finance charges, is included in the balance sheet under borrowings. Each lease payment is allocated between the liability and finance charges. Finance costs, which represent the difference between the total lease commitments and fair value of the assets acquired, are charged to the income statement over the term of the relevant leases so as to produce a constant periodic rate of interest on the remaining balance of the obligations for each accounting period.

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant leases.

In all significant leasing arrangements in place during the period, the Group acted as the lessee.

1.7 Intangible assets

1.7.1 Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the specific software into use. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Expenditure that enhances or extends the performance of computer software programs beyond their original specifications is recognised as a capital improvement and added to the original cost of the software.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

1.7.2 Licences

Licences are initially shown at historical cost. Licences have a finite useful life and are subsequently carried at costs less accumulated amortisation and impairment losses. Licences acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives from the commencement of service of the network. The useful lives and renewal periods of licences are given in note 36, and are determined primarily with reference to the unexpired licence period, the conditions for licence renewal and whether licences are dependent on specific technologies.

1.7.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is presented separately in the balance sheet. Goodwill arising on the acquisition of an associate is included in "investments in associates".

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose. Each of those cash-generating units represents the Group's investment in each country of operation.

1.7.4 Customer relationships

Customer relationships acquired through business combinations are initially shown at fair value as determined in accordance with IFRS 3, and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the value of the customer bases over their estimated useful lives. Pre-paid customer bases are amortised over three years and postpaid customer bases are amortised over three to five years.

1.7.5 Other intangible assets

Other intangible assets with finite lives are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The estimated useful life for brands is twenty years.

Principal accounting policies

for the year ended 31 December 2006 (*continued*)

1. *Summary of principal accounting policies (continued)*

1.8 *Impairment of non-financial assets*

Goodwill is deemed to have an indefinite useful life and is not subject to amortisation. The useful life is reviewed on an annual basis as is impairment testing. Assets that are subject to amortisation/depreciation are also reviewed for impairment on an annual basis. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date, in the event of which the impairment reversal is credited to the income statement, limited to what the carrying amount of the asset would have been, if the original impairment had not taken place.

1.9 *Financial instruments*

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

1.9.1 *Financial assets*

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification is dependent on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling the item in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Financial assets held for trading are accounted for in accordance with note 1.23.2.

(b) Loans and other receivables

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. For the accounting policy in respect of trade receivables, refer to note 1.12.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management has expressed their intention of holding the investment for less than 12 months from the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets held at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss, including interest and dividend income, are included in the income statement in the periods that they arise. Loans and other receivables are carried at amortised cost using the effective interest rate method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest rate method is recognised in the income statement. Dividend income on available-for-sale equity instruments and financial assets at fair value are recognised in the income statement when the Group's right to receive payment is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

The Group assesses at each balance sheet date if there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in note 1.12.

Assets are derecognised when the enterprise loses control of contractual rights that comprise the assets and liabilities or when the obligation is extinguished.

1.9.2 Financial liabilities and equity

Financial liability and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

1.9.3 Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Principal accounting policies

for the year ended 31 December 2006 (*continued*)

1. Summary of principal accounting policies (*continued*)

1.10 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised liabilities (fair value hedge);
- (b) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge);
- (c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedged transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 38. Movements on the hedging reserve in shareholdings' equity are shown in note 18. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment of the carrying amount of a hedge item for which the effective method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(d) Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify are recognised immediately in the income statement.

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value on a weighted average cost basis. Cost is determined using the weighted average method. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition, excluding borrowing costs. Net realisable value represents the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Where appropriate, an impairment provision is raised in respect of obsolete and defective inventories.

1.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision made for the impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount provided is the difference between the asset carrying amount and the estimated recoverable amount, being the present value of expected future cash flows, discounted at the effective rate of interest. The movement in the impairment provision is recognised in the income statement.

1.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call and investments in money market instruments, net of bank overdrafts, all of which are available for use by the Group. Bank overdrafts are included within current liabilities on the balance sheet, unless the entity has a legally enforceable right to set off the amounts and intends to settle on a net basis, or realise the asset and settle the liability simultaneously. Derivative financial instruments with a maturity date of three months or less are included in cash and cash equivalents.

Principal accounting policies

for the year ended 31 December 2006 (*continued*)

1. *Summary of principal accounting policies (continued)*

1.14 *Share capital*

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of new shares or options, other than in connection with a business combination, are shown in equity as a deduction, net of tax, from the proceeds.

Share issue costs incurred directly in connection with a business combination are included in the cost of the acquisition. Where the company or its subsidiaries purchase the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental external costs net of income taxes, is deducted from total shareholders' equity as treasury shares until they are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in shareholders' equity.

1.15 *Borrowings*

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred, when the relevant contracts are entered into. Borrowings are subsequently stated at amortised cost using the effective interest rate method; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings as interest.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

1.16 *Deferred income tax*

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income taxes arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The principal temporary differences arise from depreciation on property, plant and equipment.

Deferred taxation assets relating to the carry forward of unused tax losses and tax credits are recognised to the extent that it is probable that future taxable profits will be available in the foreseeable future against which the unused tax losses and tax credits can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.17 *Employee benefits*

Short-term employee benefits

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. Provision is made for accumulated leave and for non-vested short-term benefits when there is no realistic alternative other than to settle the liability, and at least one of the following conditions is met:

- there is a formal plan and the amounts to be paid are determined before the time of issuing the financial statements; or
- achievement of previously agreed bonus criteria has created a valid expectation by employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements.

Share-based compensation

The Group issues equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Fair value is measured using the stochastic model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where employees exercise options in terms of the rules and regulations of the various Group staff incentive schemes, treasury shares if available within the MTN Group Share Trust, are allocated, or alternatively new shares are issued to participants as beneficial owners. The directors procure a listing of these shares on the JSE on which the company's shares are listed. In exchange, employees entitled to such shares or share options pay a consideration equal to the nominal debenture value or the option price allocated to them. The nominal value of shares issued is credited to share capital and the difference between the nominal value and the option price is credited to share premium. Further details of equity compensation schemes are provided in the Directors' report.

Defined contribution plans (pension and provident funds)

Group companies operate various pensions and defined contribution schemes.

A defined contribution plan is one under which the Group pays a fixed percentage of employees' remuneration as contributions into a separate entity (a fund), and will have no further legal or constructive obligations to pay additional contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans in respect of services rendered during a period are recognised as an employee benefit expense when they are due. The Group does not have any material defined benefit plans.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the period in which they arise. Past-service costs are recognised immediately in income, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Principal accounting policies

for the year ended 31 December 2006 (continued)

1. Summary of principal accounting policies (continued)

1.17 Employee benefits (continued)

Termination benefits

Termination benefits may be payable when an employee's employment is terminated before the normal retirement date due to death or retrenchment. Termination benefits are charged against income when the Group is demonstrably committed to any such plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

1.18 Basis of accounting of underwriting activities

Underwriting results are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

- Premiums written relate to business incepted during the period and exclude value added tax.
- Unearned premiums represent the portion of premiums written during the period that relate to unexpired terms of policies in force at the balance sheet date, generally calculated on a time-apportionment basis.
- Claims incurred comprise claims and related expenses paid in the period and changes in the provisions for claims incurred but not reported and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect settlement costs) arising from events that have occurred up to the balance sheet date, including provision for claims incurred but not yet reported, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

1.19 Provisions

A provision is recognised when there is a present legal or constructive obligation as a result of a past event for which it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The Group provides for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

1.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of indirect taxes, estimated returns and trade discounts and after eliminating sales within the Group.

Revenue from the sale of goods and the rendering of services is recognised when it is probable that the economic benefits associated with a transaction will flow to the Group and the amount of revenue, and associated costs incurred or to be incurred, can be measured reliably. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

The main categories of revenue and the bases of recognition are as follows:

1.20.1 Contract products

- Connection fees: Revenue is recognised on the date of activation by the GSM operator of a new Subscriber Identification Module (SIM) card.
- Access charges: Revenue is recognised in the period to which it relates.
- Airtime: Revenue is recognised on the usage basis commencing on the date of activation.

1.20.2 Pre-paid products

- SIM kits: Revenue is recognised on the date of sale.
- Connection fees: Revenue is recognised on the date of activation.
- Airtime: Revenue is recognised on the usage basis commencing on the date of activation.

1.20.3 Other revenue

- Equipment sales: All equipment sales to third parties are recognised only when risks and rewards of ownership are transferred to the buyer.
- Interconnect/Roaming/Data: Revenue is recognised on a usage basis, unless it is not probable on transaction date that the interconnect revenue will be received; in which case interconnect revenue is recognised only when the cash is received.
- Interest income: Revenue is recognised on the time proportion basis with reference to the principal amount receivable and the effective interest rate applicable. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

1.21 Connection incentives

Connection incentives are expensed in the period in which they are incurred.

1.22 Dividends

Dividend income is recognised when the right to receive the payment is established.

Principal accounting policies

for the year ended 31 December 2006 (*continued*)

1. Summary of principal accounting policies (*continued*)

1.23 Financial risk management

1.23.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk, cash flow and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments, such as forward exchange contracts, to hedge certain exposures, but as a matter of principle, the Group does not enter into derivative contracts for speculative purposes.

Risk management is carried out under policies approved by the board of directors of the company and of relevant subsidiaries. The MTN Group Executive Committee identifies, evaluates and hedges financial risks in co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as for specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, and investing excess liquidity.

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Certain entities in the Group use forward contracts to hedge their exposure to foreign currency risk in connection with the functional currency. The Group's Nigerian subsidiary manages foreign currency risk on major foreign purchases by placing foreign currency on deposit as security against Letters of Credit ("LCs") when each order is placed. The company has foreign subsidiaries whose assets are exposed to foreign currency translation risk, which is managed primarily through borrowings denominated in the relevant foreign currencies to the extent that such funding is available on reasonable terms in the local capital markets.

Price risk

The Group is not exposed to commodity price risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed facilities. The Group remains confident that the available cash resources and borrowing facilities will be sufficient to meet its funding requirements.

Credit risk

The Group has no significant concentrations of credit risk, due to its wide spread of customers across various operations. The Group has policies in place to ensure that retail sales of products and services are made to customers with an appropriate credit history. The recoverability of interconnect debtors in certain international operations is uncertain; however, this is actively managed within acceptable limits (this fact has been incorporated in the assessment of an appropriate revenue recognition policy in this regard [refer to note 1.20.3] and the impairment of trade receivables as applicable). Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group actively seeks to limit the amount of credit exposure to any one financial institution.

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group's exposure to interest rate risk is reflected under the respective borrowings and loans and other non-current receivables (notes 19 and 13).

1.23.2 *Accounting for derivative financial instruments*

Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently re-measured to their fair value through the income statement. Embedded derivatives separated from their host contracts are initially recognised in the balance sheet at the fair value of the consideration received/paid, if any, and are subsequently re-measured to their fair value through the income statement. Also refer note 38.

1.23.3 *Fair value estimation*

The fair value of forward foreign exchange contracts is determined using quoted forward exchange market rates at the balance sheet date. In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade payables and receivables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

1.24 *Earnings per ordinary share*

Earnings per ordinary share are calculated using the weighted average number of ordinary shares in issue during the period and are based on the net profit attributable to ordinary shareholders.

Headline earnings per ordinary share are calculated using the weighted average number of ordinary shares in issue during the period and are based on the earnings attributable to ordinary shareholders, after excluding those items as required by Circular 7/2002 issued by the JSE.

1.25 *New accounting standards and International Financial Reporting Interpretation Committee ("IFRIC") interpretations*

Certain new accounting standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2006 or later periods, which the Group has elected not to early adopt.

Principal accounting policies

for the year ended 31 December 2006 (*continued*)

1. **Summary of principal accounting policies (continued)**

1.25 ***New accounting standards and International Financial Reporting Interpretation Committee ("IFRIC") interpretations (continued)***

The following standards and interpretations are considered not to be relevant to the Group's operations and will therefore have no impact on the Group when they become effective:

- *Circular 2/2006, Clarification of certain sections of the Financial Intelligence Centre Act*
- *IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- *IFRIC 8, Scope of IFRS 2*
- *IFRIC 9, Reassessment of Embedded Derivatives*
- *IFRIC 10, Interim Financial Reporting and Impairment*
- *IFRIC 11, IFRS 2: Group and Treasury Share Transactions*
- *IFRIC 12, Service Concession Arrangements*

The standards and interpretations included hereafter may have an impact on the Group's operations; an assessment of which has been included in the analysis of each respective standard/interpretation below: (a) *IFRS 7, Financial Instruments: Disclosures*, and a complementary amendment to *IAS 1, Presentation of Financial Statements – Capital Disclosures* (effective from January 2007).

The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment to IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 for annual periods beginning 1 January 2007.

(b) *Presentation of financial statements : Capital Disclosures* (effective 1 January 2007)

(c) *IFRS 8, Operating Segments* (effective 1 January 2009)

IFRS 8 replaces *IAS 14: Segment Reporting* and amongst others:

- extends the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets;
- requires identification of operating segments based on internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. This is because the requirements of the Exposure Draft are based on the information about the components of the entity that management uses to make decisions about operating matters;
- includes a component of an entity that sells primarily or exclusively to other operating segments of the entity in the definition of an operating segment if the entity is managed that way;
- requires the amount of each operating segment item reported to be the measure reported to the chief operating decision maker for the purposes of allocating resources to the segment and assessing its performance; and
- requires reconciliations of total reportable segment revenues, total profit or loss, total assets, and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

The Group will apply IFRS 8 for annual periods beginning 1 January 2009.

1.26 *Critical accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and the input factors most sensitive to change have been disclosed in note 9. The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors results in any of the goodwill allocated to appropriate cash generating units being impaired. Based on the analysis performed, there are no indications that an impairment of goodwill related to any of its cash generating units is required at period end.

Connection incentives and subscriber acquisition costs

Connection incentives paid to service providers are currently expensed by the Group in the period incurred. Service providers utilise the incentives received from the Group to fund a variety of administrative costs and/or to provide incentives to maintain/sign up customers on behalf of the Group, at their own discretion. The portion of the incentive used by the respective service providers as an incentive to retain/obtain existing/new subscribers on behalf of the Group, should be capitalised only to the extent that it is reliably measurable (pre-paid discount). In accordance with the framework under IFRS, the Group has resolved not to capitalise these fees due to the portion of incentives utilised to acquire/retain subscribers on behalf of the Group by the respective independent service providers, not being reliably measurable.

In accordance with the recognition criteria in terms of *IAS 38 Intangible Assets*, the Group has also resolved not to capitalise commissions paid to dealers, utilised to acquire new subscribers, as intangible assets (subscriber acquisition cost), due to the portion utilised to acquire subscribers on behalf of the Group not being reliably measurable.

Interconnect revenue recognition

Due to the receipt of interconnect revenue in certain operations not being certain at transaction date, the Group has resolved only to recognise interconnect revenue relating to these operations as the cash is received.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many calculations and transactions for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.