

Risk management

Introduction

MTN's risk philosophy is underpinned by the following extract from the King II report on corporate governance.

"Enterprise is the undertaking of risk for reward. A thorough understanding of the risks accepted by a company in the pursuance of its objectives, together with those strategies employed to mitigate those risks, is thus essential for a proper appreciation of the company's affairs by the board and stakeholders."

As a company that operates in emerging markets, MTN believes that risk management is fundamental to effective corporate governance and the development of a sustainable business. The Group has adopted a risk philosophy that is aligned to King II and is aimed at maximising business success and shareholder value by effectively balancing risk and reward.

MTN's overall governance structure and integrated risk management framework guides the operations of our business units, which are primarily responsible and accountable for risk management.

MTN's objective with risk management is to embed the process into the day-to-day running of the business. This involves

continuous pro-active identification and understanding of risk factors and events that may impact business objectives, development of appropriate response strategies, continuous monitoring and reporting. This is done by making risk management a key performance measure for managers.

The process of risk management in the Group is guided by a risk framework which is based on best practice risk management processes. The Group business risk management function, together with management, has the mandate and task to ensure that adequate risk management processes are implemented in all areas of the business in line with the risk framework. MTN is expanding the business risk management function to improve support to the operations on the implementation of risk management practices. The focus of the Group business risk management function will be to ensure that the maturity of risk management practices in all operations is improved. MTN has further strengthened its commitment to risk management by appointing Shauket Fakie (previous Auditor-General of the Republic of South Africa) as a member of the executive management team of the Group.

Roles and responsibilities for risk management have been clearly defined. In summary these are:

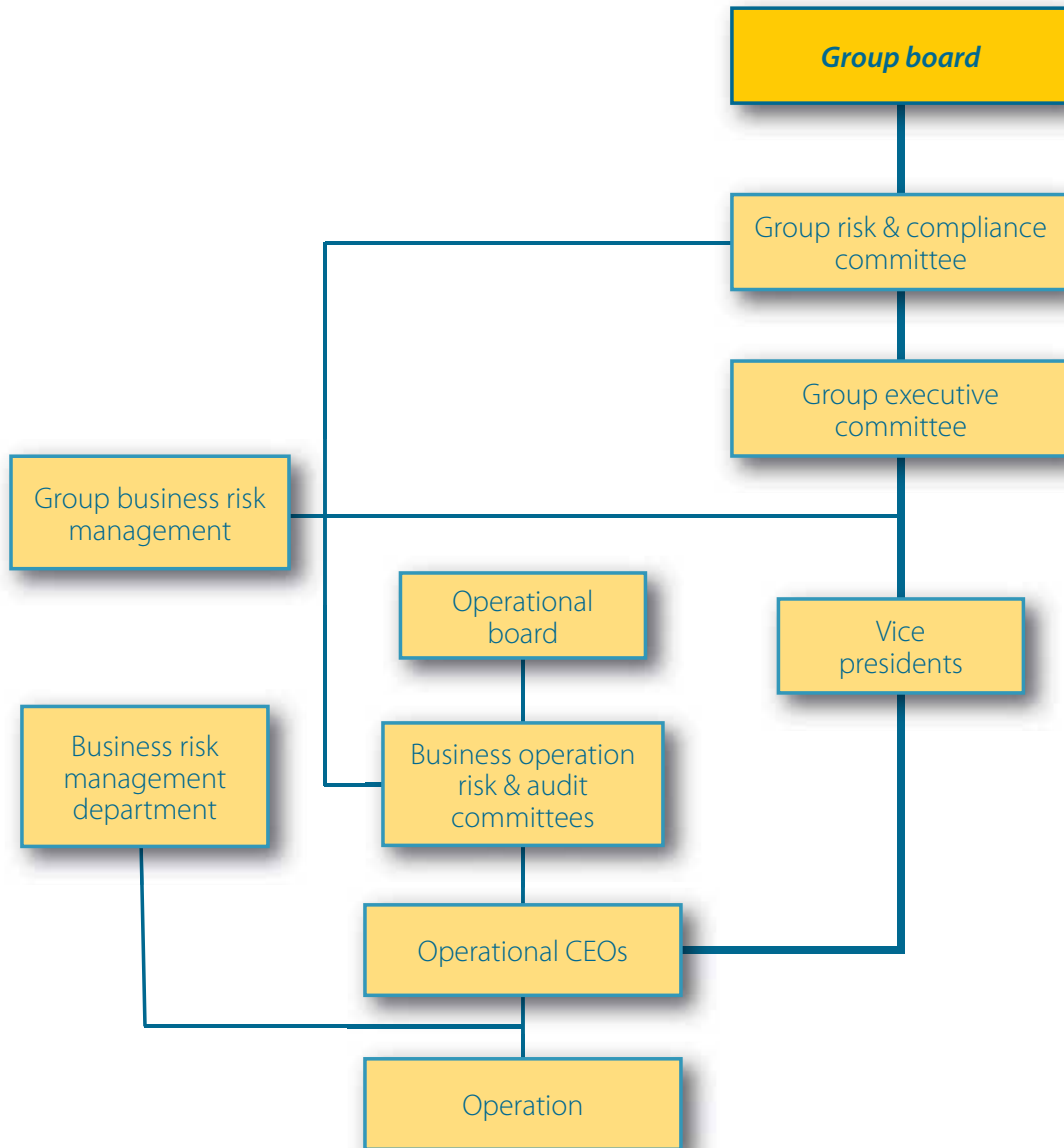
- **Group board:** The board has the ultimate responsibility for risk management. It considers risk reports from the Group risk management and compliance committee and input from the Group audit committee in assessing the effectiveness of MTN's risk management.
- **Risk management and compliance committee:** This sub-committee of the board is the oversight body for risk management. It sets and approves the Group risk management framework and reviews the overall effectiveness of risk management structures and practices. It reviews the Group risk profile and management's reports on mitigating key risks and oversees reporting on risk matters to stakeholders. This committee and those for each country operation meet regularly.
- **Group risk officer:** The Group risk officer is not responsible for managing risk as this is a management responsibility but is responsible for ensuring an effective

framework for risk management and for driving its implementation throughout the Group. This is done by assisting and educating management on the topic. The Group risk officer also assists with the effective reporting, appropriate escalation and awareness of risks.

- **Business operation risk and audit committees:** These are the oversight bodies for each country operation and are sub-committees of their respective boards. In South Africa, this function is performed by the risk management and compliance committee. In all other countries, the audit committee or board also fulfils the role of the risk committee with a separate agenda for risk management.
- **The chief executive and management of each operation:** Take ownership for day-to-day management of the operation and its risks, supported by the local risk champion or the head of internal audit. Chief executives regularly report the risk profile of their operations to Group management as well as to the risk and audit committees of their operation.

Risk management continued

This is diagrammatically summarised as follows:



Risk management process:

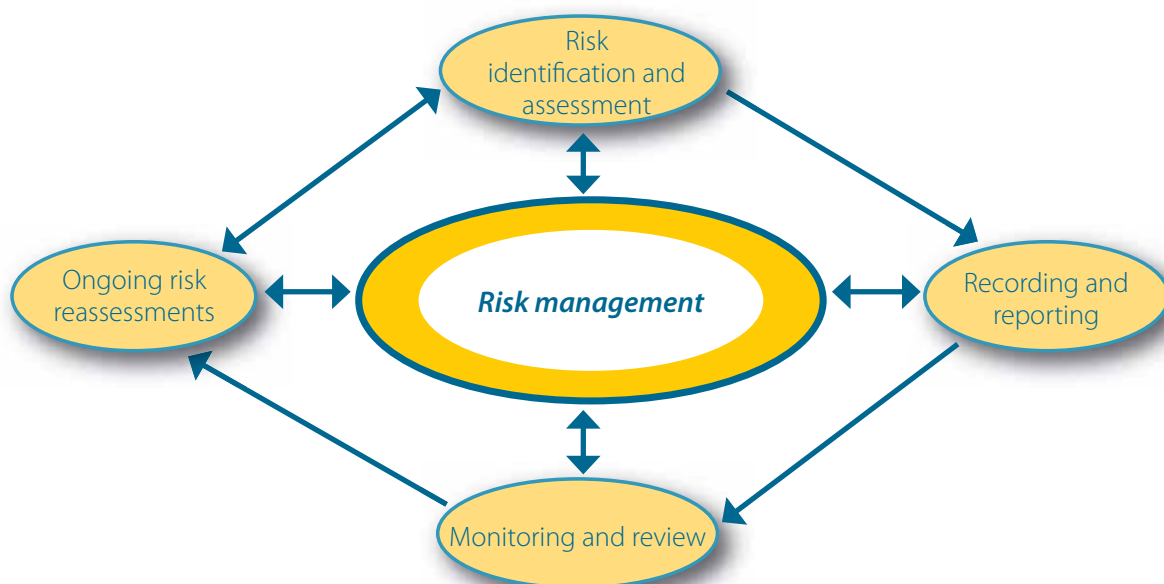
The risk management process broadly consists of the following iterative phases:

- **Risk identification** – Risks are continuously identified through focused discussions, workshops and scenario analysis.
- **Risk evaluation** – Risks are evaluated for their potential impact on the organisation and probability of occurrence and are classified according to their nature.
- **Response strategies** – Response strategies depend on the nature of the risk and may often combine various actions, including insurance, outsourcing, risk avoidance or active risk management through people,

processes and systems. The cost of risk mitigation is considered in determining response strategies. Certain risks are accepted based on their impact on the organisation and the Group risk appetite. Risks such as political, economic, currency and regulatory are largely beyond MTN's control and mitigation is limited to responsive actions to counter their impact. This could include continuous monitoring, compliance, insurance, diversification, hedging or acceptance of the risk.

- **Monitoring and reporting** – Risks are reported to the right levels of management and response strategies are continuously monitored for progress and changes.

This is diagrammatically summarised below:



Risk management continued

MTN's risk landscape

MTN's risk landscape comprises the following main categories of risk:

- Operating environment risk
- Regulatory risk
- Marketing and pricing risk
- Technology risk
- Human resources risk
- Financial risk
- Investment risk
- Physical interruption risk
- Governance risk
- Reputational risk
- Relationship and partnership risk

The MTN Group has expanded significantly during the last year with the addition of the Investcom operations. As a result, MTN's risk landscape has changed.

Operating environment risk

The possibility of a change in the stability of operating environments and the impact on MTN's profits and strategic objectives is an inherent risk to a company such as ours which operates in varied markets. With the acquisition of Investcom and our investment in Iran, the addition of 10 operations to the Group has increased MTN's perceived exposure to this risk. This was a key consideration in our expansion strategy as far as risk and reward are concerned. These perceived risks are further heightened by the

UN Security Council sanctions passed against Iran. As a result, control measures to mitigate against potential negative outcomes have been strengthened.

These include:

- Focus on corporate citizenship and social responsibility programmes in each country
- Development and implementation of crisis management plans
- Continuous monitoring of the political environment in operating countries
- Ring-fencing operations where appropriate to limit systemic risk from possible failure in operations
- Appropriate risk transfer structures such as insurance.

Regulatory risk

The regulatory bodies in a number of MTN's operating countries are not fully matured, exposing MTN to some risk in this area. The response strategies implemented to manage this risk include:

- Strict compliance with regulations
- Legal and regulatory compliance functions in each country
- Active participation in establishing regulatory frameworks
- Active participation in regulation and rule-making procedures
- Policy-lobbying actions at legislative, executive and ministerial level where appropriate

- Relationship management with governments and regulators.

Marketing and pricing risk

Overall MTN's marketing and pricing risk has decreased over the last year. MTN's expansion into new territories has further diversified its risk profile and reduced its dependence on certain markets as a multinational company operating in two continents. Adverse changes in certain markets will now have less of an impact on the broader group although overall dependence on the South African and Nigerian markets is still significant.

In contrast, the move into Middle Eastern markets exposes MTN to strong multinational players with whom the Group did not compete previously. This forces MTN to adapt its marketing strategy and test its products to ensure it will satisfy market needs. In addition, the use of local suppliers in combination with global suppliers ensures that local market needs are understood and addressed. The Investcom staff has brought extensive skills and knowledge of Middle Eastern markets to the Group.

Pricing risk in certain markets remains an area of focus in the Group. This is mitigated by segment-driven value

propositions to control churn as a result of pricing.

Technology risk

Technology risk in MTN is viewed from an internal and external perspective. The internal perspective refers to the availability, scalability, quality and efficiency of MTN's networks and information systems. The external perspective refers to the risk and/or opportunity coming from changes in the technology world.

As far as the internal perspective is concerned, the addition of operations over the last year has brought challenges to the Group in terms of varying levels of maturity of information systems, network infrastructure and the processes surrounding these. As a result, the focus continues to be on the standardisation and improvement of the availability, scalability, quality and efficiency of the Group's networks and information systems and associated processes. Good progress has already been made with standardisation of our billing and customer care systems, management information systems, GSM core and radio networks as well as the standardisation of network roll out and maintenance procedures. As a large multinational, the risk of depending on a single supplier

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across all operations must be balanced with the synergistic opportunities from vendor standardisation. As a group, MTN is mitigating this risk by avoiding single-vendor, Group-wide dependencies.

From the external perspective, technology developments that could raise MTN's technology risk profile include technologies such as WiMax as well as the next-generation of converged services and new mobile digital broadcast technologies including DVB-H. MTN has moved from the research and development stage on WiMax and DVB-H to fully operational deployments in certain operations, enabling the Group to reduce the risk exposure to these technologies and better compete in the broader telecommunications arena. The next-generation converged services include technologies such as voice over internet protocol (VoIP), mobile instant messaging and other IP-based technologies that are entering and converging with the traditional telecommunications space. MTN has made good progress in this area in South Africa, in Nigeria where MTN recently acquired an internet service provider, and in other operations of the Group. MTN constantly monitors the maturity of these technologies and market requirements to ensure it

leverages these technologies at the right time. Converged internet media, content, communication and social networking services continue to grow rapidly and are making aggressive moves to enable their services on mobile devices. MTN is actively investigating partnerships or competing services to capitalise on this wave of next-generation converged services.

Human resource risk

Overall, MTN's human resource risk has reduced with the expansion of the Group over the last year. This is largely due to the extensive knowledge and skill brought into the Group by Investcom, specifically on operating in unfamiliar territories. MTN's resource capacity has also increased which enables the Group to move staff between operations where required.

MTN's ability to attract and retain staff has improved as it is truly viewed as a large multinational company with opportunities for staff to be exposed to many aspects of the business in different operating environments.

The creation of regional structures in management is creating cohesion and synergies between operations as well as a platform for cross-skilling.

The further roll out of the notional share scheme and bonus programme across all the new MTN Group operating units further enhances MTN's ability to attract and retain staff in all operating environments.

A focus area on the human resources side will be to completely embed the integration of the MTN and Investcom groups from the perspective of culture, ethics and values as well as exploration of regional cluster opportunities and best practice sharing.

Financial risk

Repatriation of earnings

MTN was able to successfully repatriate earnings as dividends, loan repayments or management fees from some operations where this was required over the last year. This included Nigeria where dividends were declared for the first time since inception. The availability of US dollars in certain markets remains a risk to the Group and is constantly monitored. A part of the treasury management activities of the Group is to spread the flow of revenue streams from operations to reduce this risk.

Currency

The risk of currency losses in certain of the Group's operating countries remains an inherent risk and specific treasury management activities are in place to mitigate this. These include an active hedging policy and hedging of foreign currency in operations where possible, non- or limited-recourse project finance where required in operations as well as maximisation of local currency funding to limit asset/liability mismatch.

Credit risk

The risk of bad debts from MTN's subscriber base has always been low as a result of the predominantly pre-paid client base.

The risk of bad debts from key distributors is equally low given the credit policy on payment which is often cash-on-collection.

The recoverability of interconnect debt from other operators in certain of MTN's operating countries remains a risk. The expansion of the Group has, however, reduced the overall impact of this risk given the reduced dependence on certain markets.

Risk management continued

Tax

MTN's exposure to changes in tax legislation and the resultant impact has increased over the last year, as the Group now operates in more jurisdictions where tax bodies are less mature. This risk is, however, actively managed by ensuring compliance with tax regulations, and the use of external tax advisers whenever necessary. The Group also has a Group tax function to advise operations and ensure consistency.

Revenue assurance

The risk of revenue leakages from system and/or process inefficiencies remains a risk and has received significant focus over the last year with the introduction of a Group-wide revenue assurance project to drive the implementation of consistent procedures.

Investment risk

MTN believes that as a company aiming to be the leading telecommunications provider in emerging markets, it is vitally important to exploit opportunities in these markets while balancing reward and risk. Given the high upfront investment required in the mobile telephony business, it is crucial that investment decisions are based on proper due diligence studies and that the

risk involved is understood and factored into risk/return calculations. Failure in this regard could result in significant losses to the Group. The investment decisions made over the last year with the acquisition of Investcom and our investment in Iran were based on these principles. Although investment risk exists in MTN's portfolio of operations, the Group believes its investment portfolio is diversified and the overall impact of possible investment failure/loss in parts of MTN investment portfolio has been reduced.

Physical interruption risk

Extended failure of key infrastructures including our GSM networks, international gateways and information systems, due to disasters, sabotage, hardware/software failure is a risk that MTN wants to prevent as far as possible. Often it is not possible to eliminate the probability of this occurring, but it is possible to reduce the impact of such events. MTN has embarked on a Group-wide project to ensure that network operational management is consistently applied across all operating companies in an attempt to identify and rectify any key areas of risk in the processes and infrastructure. The integrity of switch power systems is key to maintaining

high availability and we have taken steps to address the system design in all new operating companies. Redundancy of infrastructure is an important control to ensure that the impact of disasters and/or failures is minimised. Similarly, redundancy is also expensive. The challenge therefore is to balance the risk with the cost impact. Equally important is the development and implementation of business continuity and disaster recovery plans to enable operations to react quickly to a disaster event and to recover from such event in the shortest possible time. Redundancy and disaster recovery ability remains a strong feature of MTN's older operations. MTN is currently focusing on increasing the maturity of these aspects in all operations.

Governance risk

As a large multinational company operating in two continents and listed on the JSE, MTN is expected to have the highest governance standards in place, which it does. These include board oversight structures, management structures and policies and procedures. MTN is currently focusing on ensuring that these structures are consistent in all operations, especially after the integration of the new operations.

Reputational risk

MTN's reputation from a subscriber and investment point of view continues to improve. MTN regards management of reputational risk as of utmost importance and has various processes and strategies in place to manage this risk. These include our marketing strategies, investor relations management and corporate communications management. This is evidenced among others by the growth in our subscriber numbers and share price.

Relationship and partnership risk

MTN's business partners and shareholders in subsidiaries fulfil an important role in establishing good relations with local regulatory bodies and our customer base, and are a key strength. A breakdown in these relationships or loss of financial strength by current partners could have a negative impact on our business or cause reputational damage. MTN mitigates this risk by ensuring careful selection of business partners, local shareholder representation on boards of operations, shareholder agreements and regular interaction and discussions between local shareholders/directors and MTN Group directors.