

Risk management

Introduction

MTN's risk philosophy continues to be 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 and understands 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 objective with risk management is to embed the process into the day-to-day running of the business. This involves continual pro-active identification and understanding of risk factors and events that may impact business objectives,

development of appropriate response strategies and continual monitoring and reporting. This is done by making risk management a key performance measure for managers.

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.

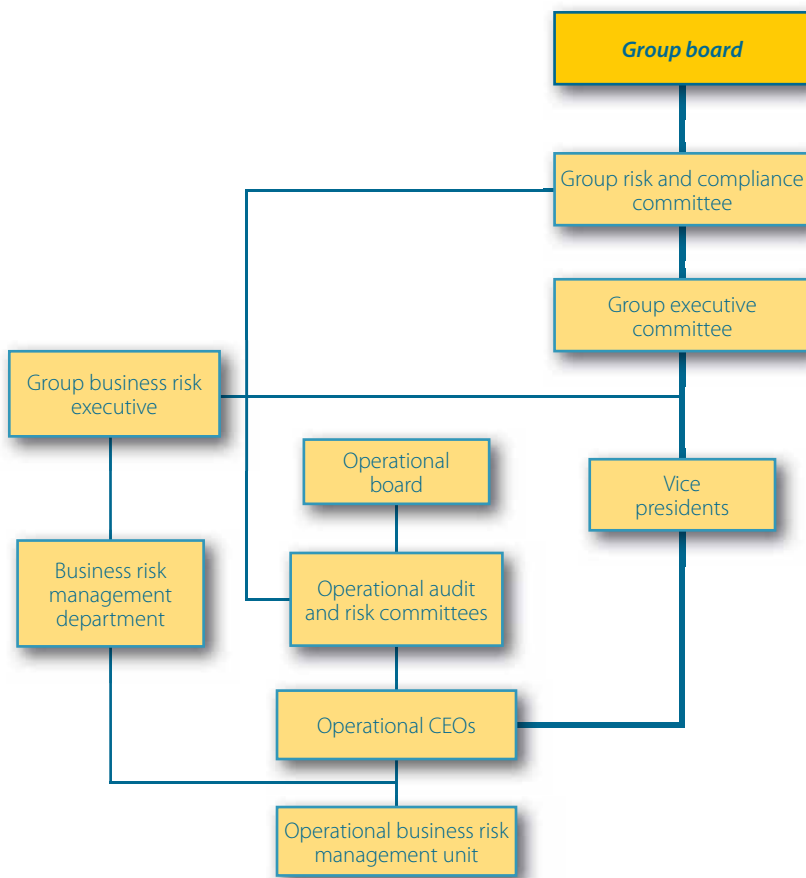
The process of risk management in the Group is guided by a risk framework which is based on best practice risk management processes. The Group business risk management function, together with management, has the mandate and task of ensuring that adequate risk management processes are implemented in all areas of the business in line with the risk framework. The focus of the Group business risk management function is to provide support and guidance to ensure that the maturity of risk management practices in all operations is improved. MTN has, over the last year, expanded its business risk management function at Group and at operational level. This has further embedded risk management processes across the Group.

Risk management *continued*

Governance roles and responsibilities for risk management are clearly defined. In summary, these are:

- **Group board:** The board has 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.
- **Group 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 the mitigation of key risks, and oversees reporting on risk matters to stakeholders. This committee meets regularly. At the various country operations, this oversight is performed by operational audit and risk committees.
- **Group risk executive:** The Group risk executive is not responsible for managing risk – 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 executive also assists with the effective reporting and escalation of risks.
- **Operational audit and risk committees:** These are the oversight bodies for each country operation and are sub-committees of their boards. In all countries, the audit and risk committee also fulfils the role of 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 manager or head of internal audit. CEOs report the risk profile of their operations regularly to Group management as well as to the risk and audit committee of their operation.

These roles and responsibilities are diagrammatically summarised as follows:



Risk management *continued*

Risk management process

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

- **Risk identification** – Risks are continually identified through focused discussions, workshops and scenario analyses.
- **Risk evaluation** – Risks are evaluated for their potential impact on the organisation, probability of occurrence and classified according to the nature of the risk.
- **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's 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 continual 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 continually monitored for progress and changes.

During 2007, risk assessments were conducted at all 21 MTN operations and mitigating action plans produced. All operations currently report the status of their risks at least quarterly.

MTN's risk landscape

MTN's risk landscape largely consists of 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.

Changes in MTN's risk landscape over the last year as well as progress made on the mitigation of risks were as follows:

Operating environment risk

The possibility of changes in the stability of countries in which MTN operates and the impact on profits and strategic objectives is an inherent risk to a company such as MTN which operates in varied markets. This is a key consideration in MTN's expansion strategy as far as risk and reward is concerned and, as a result, active mitigation of this risk is a priority. During the last year, challenges were experienced in countries such as Benin, Guinea Conakry and Afghanistan. In Benin, MTN went through a challenging period due to changes in licence conditions. This has, however, been resolved and the Benin operation is fully functional again. In Guinea Conakry, political unrest resulted in temporary instability in the country. This, however, did not have a material impact on the performance of MTN's operation in this country. In Afghanistan, continued political instability has made operating conditions challenging. MTN and other mobile operators have suffered minor losses as a result of political violence. There has been

significant focus on managing risk during the past year and control measures to mitigate against potential negative outcomes have been strengthened. These measures include:

- Ongoing focus on corporate citizenship and social responsibility programmes in each country
- The appointment of a Group crisis manager and development and implementation of a crisis management and monitoring process
- Physical and staff security measures
- Travel risk management
- Continual monitoring of the political environment in operating countries
- Ring-fencing operations to limit systemic risk from possible failure in operations
- Appropriate risk transfer structures and strategies.

Regulatory risk

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

- Strict compliance with existing regulations
- Legal and regulatory compliance functions in each country

Risk management *continued*

- 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
- Ongoing focus on corporate citizenship and social responsibility programmes in each country.

Marketing and pricing risk

MTN's expansion into various African and Middle Eastern markets has reduced its dependence on certain markets. Adverse changes in these markets will now have less of an impact on the Group. However, overall dependence on the South African and Nigerian markets is still significant.

Large multinational players are increasingly entering markets in which MTN operates. This, in turn, demands that MTN adapts its marketing strategy and tests its products and services to remain competitive and satisfy customer demand. Furthermore the use of local suppliers and skills in combination with

global suppliers ensures that local market needs are understood and addressed. Pricing risk in certain markets remains an area of focus in the Group. This is mitigated by targeted segment-driven value propositions to manage and control churn and build customer loyalty.

Technology risk

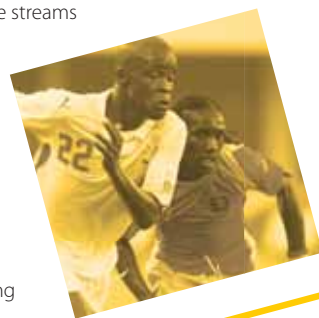
Technology risk in MTN is viewed from an internal and external perspective. The internal perspective refers to the availability, scalability, quality and efficiency of MTN's networks and information system. The external perspective refers to the risk and/or opportunity from changes in the technology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

From an internal perspective, rapid growth in demand in certain countries like Nigeria and Ghana, for example, has resulted in network capacity constraints and MTN had to fast track its network roll-out programme. MTN will continue its significant network capitalisation programme in 2008. MTN has also made significant progress in improving the maturity of its information systems and business processes, surrounding these with the roll out of Group-wide standardisation projects.

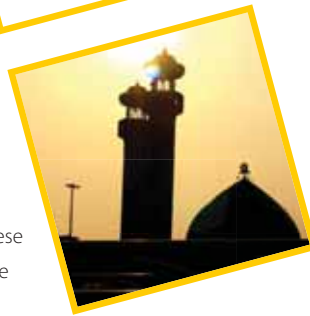
Standardisation of processes directed by industry best practice, eg eTOM and ITIL, ensures common business experiences across the Group and reduces operational risk. During 2008 business processes and common technical functionality in all operations will be standardised in the billing, revenue assurance and fraud areas. The implementation of regional management and support structures will further assist with this process.

From the external perspective, technology developments that could raise MTN's technology risk profile include technologies like WiMax, 3G Evolution and LTE as well as the next generation of converged services and network infrastructure. MTN has moved from the research and development stage on WiMax to fully operational phase in certain operations, thus enabling MTN to compete in this space. The next generation of converged services and NGN infrastructure include technologies such as voice-over internet protocol (VoIP), instant messaging and other IP technologies and mobile internet/telco2.0 services that are entering and converging with the fixed, mobile,

internet and media space. MTN has made good progress in competing in this area with the diversification of revenue streams by establishing internet service providers in a number of existing operations. Additionally, MTN has made good progress in providing innovative solutions leveraging the benefits of convergence to its consumers. This has been realised by providing increased internet access through mobile networks and the launch of social network solutions such as NokNok in South Africa. MTN constantly monitors the maturity of these technologies and market requirements to ensure that it competes with these technologies at the right time.



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



Risk management *continued*

Human resource risk

MTN's expansion and evolution into a truly international company has brought more skills into the Group and increased its ability to attract the right skills. It has also given MTN more flexibility in the deployment of its staff. However, the limited availability of skills in the telecommunications industry is an ongoing challenge from a staff attraction and retention point of view. We know that the key to our success lies in our people. A number of initiatives are in place to address this challenge, one of which is the creation of a talent management board which is a sub-committee of the Group executive committee. The objective of this board is to focus on the development and retention of talent across the Group. Other initiatives include leadership development programmes, performance management programmes and succession planning. MTN plans to introduce a corporate learning centre to focus on building skills in MTN in 2008. The integration of the MTN and Investcom groups from a cultural, ethical and values perspective as reported previously has progressed well.

Financial risk

Repatriation of earnings

MTN continued to successfully repatriate earnings in the form of dividends, loan repayments and/or management fees from the majority of its operations. Remittances from Syria have been negatively affected by the slow pace of implementation of legislation, creating uncertainty following the liberalisation of financial markets. No dividends have been declared in the Ghanaian operation (due to an unresolved shareholder dispute). Part of treasury management activities is to manage conversion from local currency to ensure effective pricing and limit liquidity risk. The availability of foreign currency as well as the impact of sanctions do, however, remain risks to the Group. This is closely monitored.

Currency

The Group operates internationally and is exposed to foreign exchange risk. Currency exposures are diverse and complex. Some of these exposures are due to translation of local currency reporting to South African rand. Currency risks that are more tightly

managed are those relating to the mismatch of operational or capital expenses and/or asset and liabilities to revenues streams. We match these as much as possible by securing contracts in local currencies to ensure natural hedges. Where this is not possible, we hedge through derivatives, if these are available in the markets. MTN does not hedge translation risk nor does it take speculative positions in currencies. A foreign exchange policy contained in the treasury policy regulates the management of these risks.

Credit risk

The risk of bad debts from MTN's subscribers has always been low because MTN has a predominantly prepaid client base.

The risk of bad debts from key distributors is equally low as a result of the stringent credit policy and payment terms.

The recoverability of interconnect debt from other operators in certain of MTN's operating countries remains a risk to the Group and is problematic in certain operations. The expansion of the Group has reduced the overall impact of this as a result of reduced dependency on certain markets relating to this risk.

Tax

MTN's exposure to changes in tax legislation and its resultant impact remains a risk. The Group operates in jurisdictions where the maturity of tax bodies is varied. This risk is managed by ensuring compliance with tax regulations, external audits and the use of external tax advisers whenever necessary. Group tax functions advise operations and ensure consistency. Further progress has been made in this area with the implementation of a tax risk management programme.

Revenue assurance

The risk of revenue leakage as a result of system and/or process inefficiencies remains a risk. Progress with the implementation and standardisation of revenue assurance procedures in all operations has been slower than expected. This is as a result of the complex nature of the issue and resource constraints. Some changes have, however, been made and the project is progressing satisfactorily.

Risk management *continued*

Investment risk

MTN believes that as a company whose vision is to be the leading provider of telecommunications services in emerging markets, it is vital to exploit opportunities in these markets while balancing reward and risk. Given the high upfront investment levels required in the industry, it is crucial that investment decisions are based on sound due diligence studies and that risks are understood and factored into risk/return calculations. Failure in this regard could result in significant losses. Although investment risks are a reality, MTN believes its investment portfolio is sufficiently diversified to mitigate the overall impact of possible investment failure/loss.

Physical interruption risk

Extended failure of our GSM networks, international gateways and information systems due to disasters, sabotage, hardware/software failure could significantly affect the profitability and sustainability of an operation. Often it is not possible to eliminate the probability of this occurring but it is possible to reduce the impact of such an event.

Mitigating strategies such as redundancy of infrastructure and disaster recovery plans are important controls to ensure that the impact of failures and/or disasters is minimised. MTN's significant capital expansion programme for 2008, as well as the drive to standardise processes, will further improve its ability to recover from disaster events.

Governance risk

As a multinational company operating on two continents and listed on the JSE, MTN has extensive structures in place to ensure high standards of governance. These include board oversight and management structures as well as policies and procedures. The focus over the period was to embed these structures across the Group after the acquisition of Investcom in 2006. Significant progress has been made with the establishment of audit and risk committees in all the new operations, the creation business risk management functions in most new operations and the performance of risk assessments in all operations. MTN will continue to enhance its governance practices in 2008.

Reputational risk

The management of MTN's reputation from a subscriber, investment and media point of view is an integral part of the day-to-day focus of the Group executive committee. In addition, MTN has also strengthened its corporate affairs department by the appointment of Nozipho January-Bardill as the Group corporate affairs executive. A former South African ambassador to Switzerland, Nozipho brings a wealth of experience to MTN. In addition, MTN continues to focus on sustainability management as well as dedicated investor relations functions. MTN has received many awards in the past for its focus on sustainability management, including its corporate social responsibility contributions through the MTN foundations.

Relationship and partnership risk

MTN's business partners and subsidiary shareholders 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 partners could have a negative impact on our business or cause reputational damage. MTN mitigates this risk by 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.

