

Principal accounting policies

for the year ended 31 December 2008

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the South African Companies Act.

The financial statements have been prepared on the historical cost basis, except for the following which is measured at fair value; derivative financial instruments, financial instruments at fair value through profit or loss and available-for-sale financial assets. The methods used to measure fair value are discussed further in accounting policy note 1.26.

Amounts are rounded to the nearest million with the exception of earnings per share and the weighted average number of shares (note 7).

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in notes 1.23 and 1.24.

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 2008.

1.2.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, 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 deconsolidated from the date that control ceases.

All intercompany 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. 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 disposals 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 or 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 align them with the policies adopted by the Group.

The Company accounts for investments in subsidiaries at cost, which includes transaction costs, less accumulated impairment losses.

1.2.2 Associates

Associates are all entities over which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method and are recognised initially at cost. The Group's investment in associates includes goodwill identified on acquisition. The consolidated financial statements include the Group's share of post-acquisition accumulated profits or losses of associated companies in the carrying value of the investments, which are generally determined from their latest audited financial statements 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 cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The carrying amount of such interests is reduced to recognise any potential impairment, in the value of individual investments. 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 an obligation, issued guarantees or made payments on behalf of the associate.

Where another Group entity transacts with an associate of the Group, unrealised profits or 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 align them with the policies of the Group.

The Company accounts for investments in associates at cost, which includes transaction costs, less accumulated impairment losses.

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 Group annual financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits or 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 align them with the policies adopted by the Group.

The Company accounts for investments in joint ventures at cost, which includes transaction costs, less accumulated impairment losses.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1.1 Basis of preparation (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 as well as those that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other Group segments. Inter-segment 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 at the dates of the transactions. Foreign exchange gains or 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.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. 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 accumulated impairment losses. Property, plant and equipment acquired through business combinations are initially shown at fair value and are subsequently carried at the initially determined fair value less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the present value of future decommissioning costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment. Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the income statement as incurred. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Capital work-in-progress

Property, plant and equipment under construction is stated at initial cost and depreciated from the date the asset is placed in use over its useful life. Assets are transferred from capital work-in-progress to an appropriate category of property, plant and equipment when commissioned and ready 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	5 – 50 years
Buildings – leased	3 – 11 years (shorter of lease term and useful life)
Network infrastructure	3 – 20 years
Information systems equipment	3 – 10 years
Furniture and fittings	3 – 10 years
Leasehold improvements	3 – 10 years (shorter of lease term and useful life)
Office equipment	3 – 10 years
Motor vehicles	3 – 10 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. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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. 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 program 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, 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 program 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).

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 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 35, and are determined primarily with reference to the unexpired licence period.

1.7.3 Goodwill

Goodwill arises on the acquisition of subsidiaries and joint ventures. Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's interest in the net fair value of the identifiable assets, liabilities of the acquiree at the date of acquisition. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

Goodwill arising on the acquisition of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill arising on the acquisition of an associate is included in "investments in associates", and is tested for impairment as part of the overall balance.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

1.7.4 Customer relationships

Customer relationships acquired through business combinations are initially shown at fair value, 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. Prepaid customer bases are amortised over two years and postpaid customer bases are amortised over five years.

1.7.5 Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives are stated at cost less accumulated amortisation and impairment losses. Other intangible assets acquired through business combinations are initially shown at fair value and are subsequently carried at the initially determined fair value less accumulated amortisation and impairment losses. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use.

1.8 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.

1.8.1 Non-derivative financial instruments

The Group classifies its financial instruments into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. 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.

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise 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.

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

An instrument is classified at fair value through profit or loss if it is held for trading, i.e. acquired principally for the purpose of selling the item in the short term. Upon initial recognition attributable transaction costs are recognised in the income statement when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in the income statement.

(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. Loans and receivables comprise loans, trade and other receivables (excluding prepayments), restricted cash and cash and cash equivalents. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1.8 Financial instruments (continued)

1.8.1 Non-derivative financial instruments (continued)

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not classified in any of the other categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

(d) Financial liabilities

Financial liabilities comprise trade and other payables, borrowings and other non-current liabilities (excluding provisions). Financial liabilities are measured at amortised cost using the effective interest method.

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.

Derecognition

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.

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

1.8.2 Derivative financial instruments

Derivatives are initially recognised at fair value on the date the derivative contract is entered into and attributable transaction costs are recognised in the income statement when occurred. Subsequently derivatives are 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 shareholder's equity are shown in note 16. 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.

1.8.2 Derivative financial instruments and hedging activities

(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 hedged 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 to 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, hedge accounting is discontinued prospectively. Any cumulative gain or loss existing in equity 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.

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

(c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similar 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 or losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(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.

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

1.9 Impairment

1.9.1 Financial assets

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. 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.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset previously recognised in equity, is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1.9 Impairment (continued)

1.9.1 Financial assets (continued)

Trade and other receivables

An 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 of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the trade receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

1.9.2 Non-financial assets

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. Goodwill is deemed to have an indefinite useful life.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each balance sheet date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.10 Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expenses on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognised on financial assets, foreign exchange losses and any losses on hedging instruments that are recognised in the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventory 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.

1.12 Share capital

Ordinary shares are classified as equity. Incremental external costs directly attributable to the issue of ordinary shares or share options are recognised in equity as a deduction, net of tax.

Where the Company or its subsidiaries purchase the Company's equity share capital (treasury shares), the amount paid, including any directly attributable incremental external costs net of income taxes, is deducted from total shareholders' equity as treasury shares. When treasury shares are subsequently reissued or sold, the amount received, net of any directly attributable incremental transaction costs and the related income tax effects, is recognised as an increase in equity.

1.13 Current and deferred income tax

Current income tax

Current income tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date in the countries where the Group's subsidiaries and joint ventures operate and generate taxable income, and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income tax is recognised using the liability method, providing for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax is not recognised for the following temporary differences: the 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, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred income tax is measured at tax rates (and laws) that have been enacted or substantially enacted at the balance sheet date and are expected to apply to temporary differences when they reverse.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.14 Employee benefits

Short-term employee benefits

Remuneration to employees in respect of services rendered during a reporting period is recognised on an undiscounted basis 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.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1.14 Employee benefits (continued)

Share-based payment transactions

The Group operates two staff share incentive schemes, the MTN Group share option scheme and the MTN Group share appreciation rights scheme.

These schemes are accounted for as 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. The expense is adjusted to reflect the actual number of share options for which the related service and non-market-based vesting conditions are met.

Where employees exercise options in terms of the rules and regulations of the option 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 Limited on which the Company's shares are listed. For the share option scheme, in exchange for the share options the participants entitled to such share options pay a consideration equal to 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. The share appreciation rights scheme is exercised at the participants' election in terms of the vesting period and on the date exercised the benefits associated with the share appreciation rights will be received by the participant. At the participants' election any tax associated with the rights awards and the settlement of the strike price can either be settled in cash or MTN would act as agent and dispose of the shares on the participants' behalf. The proceeds of the disposal will be used to settle the participants' obligations. Further details of equity compensation schemes are provided in the directors' report.

Defined contribution plans

Group companies operate various 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.

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 and it is probable the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

1.15 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.

1.16 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. 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.

1.17 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.

Contract and prepaid products with multiple deliverables are defined as multiple element arrangements. Postpaid products typically include the sale of a handset, activation fee and a service contract; and prepaid contract include a SIM card and airtime. These arrangements are divided into separate units of accounting, which is based on the determination of each deliverable's separate value to the customer on a stand-alone basis. The arrangement consideration is then allocated to the units of accounting based on their relative fair value.

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

1.17.1 Contract (postpaid) products

- Connection revenue: 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.

The terms and conditions of bundled airtime products, may allow for the carry over of unused minutes. The revenue related to the unused airtime is deferred and recognised when utilised by the customer or on termination of the contract.

1.17.2 Prepaid products

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

Unused airtime is deferred and recognised when utilised by the customer or on termination of the customer relationship.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1.17 Revenue recognition (continued)

1.17.3 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.

1.17.4 Interest income

Finance income 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.

1.18 Connection incentives

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

1.19 Dividends payable

Dividends payable are recorded in the financial statements in the period in which they are approved by the Company's shareholders.

1.20 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.

1.21 Headline earnings per ordinary share

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 8/2007 issued by the South African Institute of Chartered Accountants ("SAICA").

1.22 Secondary taxation on companies

Secondary taxation on companies ("STC") is provided for at a rate of 10% on the amount by which dividends declared by the Group exceeds dividends received. Deferred tax on unutilised STC credits is recognised to the extent that STC payable on future dividend payments is likely to be available for set-off.

1.23 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. Actual results may differ from these estimates. 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 1.9. 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 that have been tested is required at year-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 (prepaid discount). In accordance with 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.

1.24 Critical judgements in applying the entity's accounting policies

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 outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

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

(a) The following accounting standards, amendments and interpretations, none of which had a material impact on the operations of the Group, became effective in 2008:

- IAS 39, (Amendment), *Financial Instruments: Recognition and Measurement* and IFRS 7, (Amendment), *Financial Instruments: Disclosures* (effective 1 July 2008)

The amendments introduce the possibility of reclassifications for certain financial assets previously classified as "held for trading" or "available for sale" to another category under limited circumstances. Various disclosures are required where a reclassification has been made. Derivatives and assets designated as "at fair value through profit or loss" under the fair value option are not eligible for this reclassification.

- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* (effective 1 March 2007)
IFRIC 11 addresses how to apply IFRS 2 to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (eg equity instruments of its parent).
- IFRIC 12, *Service Concession Arrangements* (effective 1 January 2008)
IFRIC 12 addresses how service concession operators should apply existing IFRS to account for the obligations they undertake and rights they receive in service concession arrangements.
- IFRIC 14, IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective 1 January 2008)
IFRIC 14 provides general guidance on how to assess the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected when there is a statutory or contractual minimum funding requirement.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

(b) 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 2009 or later periods, and which the Group has elected not to early adopt.

Management is still in the process of assessing the impact of these standards and interpretations on the operations of the Group. These standards and interpretations will be adopted in the year in which they become effective.

- IAS 1 (Amendment), *Presentation of Financial Statements (effective from 1 January 2009)*
The objective of this standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities.

In addition, there was an amendment as part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, *Financial Instruments: Recognition and Measurement* are examples of current assets and liabilities respectively.

- IAS 23 (Amendment), *Borrowing Costs (effective from 1 January 2009)*
The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense, borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

In addition, there was an amendment as part of the IASB's annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 *Financial Instruments: Recognition and Measurement*. This eliminates the inconsistency of terms between IAS 39 and IAS 23.
- IAS 27R, *Consolidated and Separate Financial Statements (effective 1 July 2009)*
The objective of this standard is to reduce the alternatives in accounting for subsidiaries in consolidated financial statements and in accounting for investments in the separate financial statements of the parent, venturer or investor. The amendments relate, primarily, to accounting for non-controlling interests and the loss of control of a subsidiary.
- IAS 28 (Amendment), *Investments in Associates (and consequential amendments to IAS 32, Financial Instruments: Presentation and IFRS 7, Financial Instruments: Disclosures) (effective from 1 January 2009)*
The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.
- IAS 36 (Amendment), *Impairment of Assets (effective from 1 January 2009)*
The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.
- IAS 38 (Amendment), *Intangible Assets (effective from 1 January 2009)*
The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.

- IAS 39 (Amendment), *Financial Instruments: Recognition and Measurement (effective from 1 January 2009)*
The amendment is part of the IASB's annual improvements project published in May 2008.

This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash-flow or net-investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. IFRS 8, *Operating Segments*, which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with Group treasury as fair-value or cash-flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the Group will not formally document and test this relationship.

When remeasuring the carrying amount of a debt instrument on cessation of fair-value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) is used.

- IFRS 2R, *Share-based Payments (effective 1 January 2009)*
The objective of this standard is to:
 - (a) clarify that vesting conditions are service and performance conditions only;
 - (b) all cancellations, whether by the entity or by another party, should receive the same accounting treatment.
- IFRS 3R, *Business Combinations (effective 1 July 2009)*
The objective of this standard is to enhance the relevance, reliability and comparability of the information that an entity provides in its financial statements about a business combination and its effects.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement.

There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

- IFRIC 13, *Customer Loyalty Programmes (effective 1 July 2008)*
IFRIC 13 addresses accounting by entities that grant loyalty award credits to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services to customers who redeem award credits.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

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

- IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective 1 October 2008)
IFRIC 16 provides guidance on:
 - (a) identifying the foreign currency risks that qualify as a hedged risk;
 - (b) where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting;
 - (c) how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item.
- IFRIC 17, *Distributions of Non-cash Assets to Owners* (effective 1 July 2009)
The interpretation clarifies that:
 - (a) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity;
 - (b) an entity should measure the dividend payable at the fair value of the net assets to be distributed;
 - (c) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

(c) The following standards, amendments and interpretations are not yet effective nor are they relevant for the Group's operations:

- IFRS 1 (Amendment), *First-time Adoption of International Financial Reporting Standards* and IAS 27, (Amendment), *Consolidated and separate financial statements* (effective 1 January 2009)
- IFRS 8, *Operating Segments* (effective 1 January 2009)
- 32, (Amendment), *Financial Instruments: Presentation* and IAS 1 (Amendment), *Presentation of financial statements* (effective 1 January 2009)
- IAS 19 (Amendment), *Employee Benefits* (effective from 1 January 2009)
- IAS 20 (Amendment), *Accounting for Government Grants and Disclosure of Government Assistance* (effective from 1 January 2009).
- IAS 16 (Amendment), *Property, Plant and Equipment* (and consequential amendment to IAS 7, *Statement of Cash Flows*) (effective from 1 January 2009)
- IAS 27 (Amendment), *Consolidated and Separate Financial Statements* (effective from 1 January 2009)
- IAS 28 (Amendment), *Investments in Associates* (and consequential amendments to IAS 32, *Financial Instruments: Presentation* and IFRS 7, *Financial Instruments: Disclosures*) (effective from 1 January 2009)
- IAS 29 (Amendment), *Financial Reporting in Hyperinflationary Economies* (effective from 1 January 2009)
- IAS 31 (Amendment), *Interests in Joint Ventures* (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009)
- IAS 38 (Amendment), *Intangible Assets* (effective from 1 January 2009)
- IAS 40 (Amendment), *Investment Property* (and consequential amendments to IAS 16) (effective from 1 January 2009)
- IAS 41 (Amendment), *Agriculture* (effective from 1 January 2009)
- IFRIC 15, *Agreements for Construction of Real Estates* (effective from 1 January 2009)
- IFRIC 18, *Transfers of Assets from Customers* (effective 1 July 2009)
- IFRS 5 (Amendment), *Non-current Assets Held-for-sale and Discontinued Operations* (and consequential amendment to IFRS 1, *First-time Adoption*) (effective from 1 July 2009)

1.26 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair value has been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on depreciated replacement cost.

(b) Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(c) Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price at the balance sheet date. 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 and discounted cash flow analysis.

(d) Derivatives

The fair value of forward foreign exchange contracts is based on marked-to-market valuations.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(f) Share-based payment transactions

The 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. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(g) Long-term receivables

The fair value of long-term receivables is determined using a discounted cash flow method using market-related rates at 31 December.

Principal accounting policies *continued*

for the year ended 31 December 2008

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

1.27 Financial risk management

1.27.1 Overview

The Group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk (foreign exchange and interest-rate risk). This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

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.

1.27.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Trade and other receivables

The Group has no significant concentrations of credit risk, due to its widespread 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 1.17) 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.

1.27.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

1.27.4 Market risk

Market risk is the risk that changes in market prices (currency and interest rate risk) will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group operates internationally and is exposed to currency risk arising from various currency exposures. Currency risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. MTN is also exposed to translation risk as holding companies do not report in the same currencies as operating entities. Where possible entities in the Group use forward contracts to hedge their actual exposure to foreign 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.

Interest rate risk

Interest rate risk arises from the repricing of the Group's forward cover and floating rate debt, incremental funding or new borrowings, the refinancing of existing borrowings and the magnitude of the significant cash balances which exist.

Debt in the South African entities and all holding companies (including MTN Dubai and MTN International (Mauritius) Limited) is managed on an optimal fixed versus floating interest rate basis, in line with the approved Group Treasury Policy. Significant cash balances are also considered in the fixed versus floating interest rate exposure mix.

Debt in the majority of MTN's non-South African operations is at floating interest rates. This is due to the under-developed and expensive nature of derivative products in these financial markets. MTN continues to monitor developments which may create opportunities as these markets evolve in order that each underlying operation can be aligned with the Group Treasury Policy.

The Group makes use of various products including interest rate derivatives and other appropriate hedging tools as a way to manage these risks; however, derivative instruments may only be used to hedge existing exposures.

1.27.5 Price risk

The Group is not exposed to commodity price risk on material equity securities price risk.

1.27.6 Capital risk management

The Group's policy is to maximise borrowings at an operating company level, on a non-recourse basis, within an acceptable level of debt for the maturity of the local company. Equity funding for existing operations or new acquisitions is raised centrally, first from excess cash and then from new borrowings while retaining an acceptable level of debt for the consolidated Group. Where funding is not available to the operating company locally or in specific circumstances where it is more efficient to do so, funding is sourced centrally and on-lent. The Group's policy is to borrow using a mixture of long-term and short-term capital market issues and borrowing facilities from the local and international capital markets as well as multi-lateral organisations together with cash generated to meet anticipated funding requirements. The board of directors has approved three key debt protection ratios at a consolidated level, being: net debt : EBITDA; net debt : equity; and net interest : EBITDA. Net debt is defined as (cash and cash equivalents) less (interest-bearing borrowings). Equity approximates share capital and reserves attributable to equity holders of the Company.

These internal ratios establish levels of debt that the Group should not exceed other than for relatively short periods of time and are shared with the Group's debt rating agencies, being Moody's and Fitch.