

Risk management and internal control

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Overview

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

MTN's objective has always been to embed risk management and internal control into the day-to-day running of the business in a practical manner. This involves continual proactive identification and understanding of risk factors and events that may impact business objectives, development of appropriate response strategies and internal control mechanisms, continual monitoring and reporting and independent assurance. This is achieved through the implementation of various risk management and governance mechanisms. These include:

- Monitoring the effective implementation by the various operations' chief executives and other management of corporate governance measures.
- Embedding risk management procedures into day-to-day activities such as business planning, operational reviews, projects etc.
- Business risk management functions in most operations to facilitate, co-ordinate and monitor the effective implementation of risk management mechanisms.
- Assurance from internal audit and external audit on the internal control environment.
- Audit and risk committees in all operations.
- Group oversight.

MTN has taken cognisance of the new requirements of King III and has initiated a project to assess gaps between MTN's current risk management practices and the requirements of King III. The gaps will be assessed and current practices and systems will be adapted where necessary.

Roles and responsibilities

Board of directors

The Group board of directors is ultimately responsible for oversight of proper risk management and internal control mechanisms and is supported by two subcommittees, namely the Group audit committee and the Group risk management and compliance committee. The Group audit committee is the oversight body for the implementation of adequate and effective internal control mechanisms in the Group. The Group risk management and compliance committee is the oversight body for risk management in the Group. It sets and approves the risk management framework, and reviews the overall effectiveness of risk management structures and response strategies. At a lower level, each operating company has its own audit and risk committee which is a subcommittee of the board of directors of that operating company. These committees are chaired by independent non-executive directors and essentially mirror on a lower level the role of the Group audit committee and Group risk management and compliance committee. These committees report to the Group committees on a regular basis to ensure oversight from a Group perspective.

Management

Management of the Group is responsible for the implementation of adequate and effective internal control mechanisms at an operational level. Management is represented at a Group level by the Group executive committee, headed by the Group president and chief executive officer, and at an operating company level by the chief executive officer of each operating company.

Independent business risk management function

Business risk management is an independent function responsible for the disciplines of enterprise risk management, internal audit and fraud risk management. It has more than 160 risk, internal audit, fraud risk and forensic specialists across the 21 operating countries of which more than two-thirds are internal audit specialists. The internal audit discipline within business risk management is independent from the risk management discipline and does not get involved in risk management activities. Business risk management is headed by a Group executive who reports directly to the Group president and chief executive officer and has direct access to, and regular meetings with, the chairpersons of the Group audit committee and Group risk management and compliance committee. MTN now has business risk management functions in all of its operations with oversight from the Group business risk management function. The activities of the business risk management function are guided by a set of policies, frameworks and methodologies which have been approved by the Group audit committee and Group risk management and compliance committee.

Risk management and internal control mechanisms

Risk appetite

MTN's risk appetite is determined by type of risk. This allows for a more controlled way of managing risk levels. A formal risk escalation structure was implemented at the end of 2009 based on MTN's risk-bearing capacity and a set of risk thresholds at various levels in the Group. Aggregation of total risk is done qualitatively and the Group risk management and compliance committee assesses the acceptability of MTN's consolidated risk profile.

Risk management and internal control *continued*

Enterprise risk management

As far as enterprise risk management is concerned, the business risk management function is responsible for ensuring the existence of an effective framework for risk management and driving the implementation of this framework throughout the Group. This is done by assisting and advising management on the topic and by ensuring effective reporting and escalation of risks.

The process of risk management in the Group is guided by a risk framework which is based on best practice risk management procedures. The Group business risk management function, together with management, has the mandate and responsibility of ensuring that adequate risk management processes are implemented in all areas of the business in line with the risk framework. During the year under review, significant progress was made with the migration of decentralised risk databases to a consolidated risk database. This will allow for better analysis, monitoring and reporting.

Insurance and risk transfer

MTN has a comprehensive insurance programme in place which covers perils such as material damage/business interruption, political risk, public liability, directors' and officers' liability, crime and professional indemnity. The limits of indemnity for these covers have been structured to optimise the balance between maximum potential loss and containing premiums. MTN also believes that risk retention and self-insurance are necessary to keep premiums at reasonable levels and show commitment towards risk management. MTN's risk retention levels differ from policy to policy.

Fraud risk management

The fraud risk management function is responsible for assessing fraud risk across the Group and driving the implementation of fraud prevention activities, which include whistleblowing processes. Fraud risk management is also responsible for detecting and investigating fraud. The implementation of fraud prevention mechanisms in the Group remains a priority. There was an increase in the number of fraud and theft cases reported in 2009. We believe that this was not because of an increase in fraud and theft activities, but mainly the result of the implementation of improved fraud prevention and detection mechanisms. These included the implementation of a Group-wide fraud incident register, conducting fraud risk assessments in most operations and the use of improved whistleblowing mechanisms. The overall value of fraud and theft incidents uncovered to date is not material.

In 2010, MTN will focus on the following inherent fraud risk categories from both a fraud risk and internal audit point of view:

- Procurement – conflict of interest and collusion with suppliers
- Asset and inventory theft
- Site acquisition and construction
- Manipulation of billing data
- Bribery and corruption

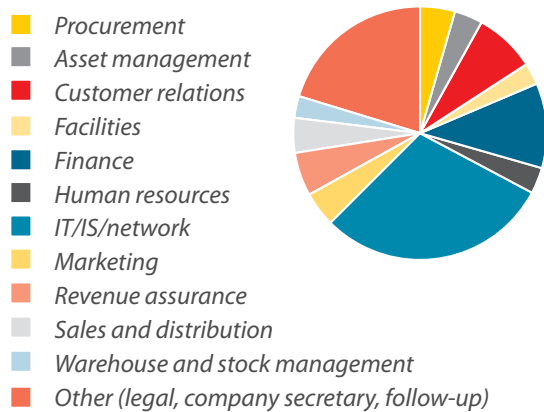
Internal audit

MTN has a substantial internal audit discipline function which is responsible for providing independent internal audit assurance to the Group. The independence of the internal audit discipline is maintained by ensuring that internal audit employees are not involved in risk management activities and by virtue of the fact

that internal audit work is ultimately governed by the Group audit committee. The internal audit charter, which has been approved by the Group and the operating companies' audit committees, also provides for the independence of the internal audit function.

Internal audit activity in the Group has been increasing for the past few years with total internal audit hours in 2009 rising to 110 000 from 98 000 in 2008. Internal audit assurance is guided by extensive risk evaluation. Projected internal audit hours for 2010 are in excess of 130 000 hours. The Group is now reaching the point where internal audit coverage extends to most operations and most high-risk processes. The distribution of these hours in the various core business areas can be illustrated as follows:

% audit hours



The split of audit hours planned for 2010 between the various country operations is illustrated as follows:

Total audit hours



There has been major focus on the improvement of the quality and maturity of internal audit coverage over the past year and these efforts will continue into 2010 with an eventual external quality assessment planned for 2011. Outsourcing arrangements on some internal audits add to the objectivity and independence of the internal audit work undertaken.

Risk management and internal control *continued*

Principal risks

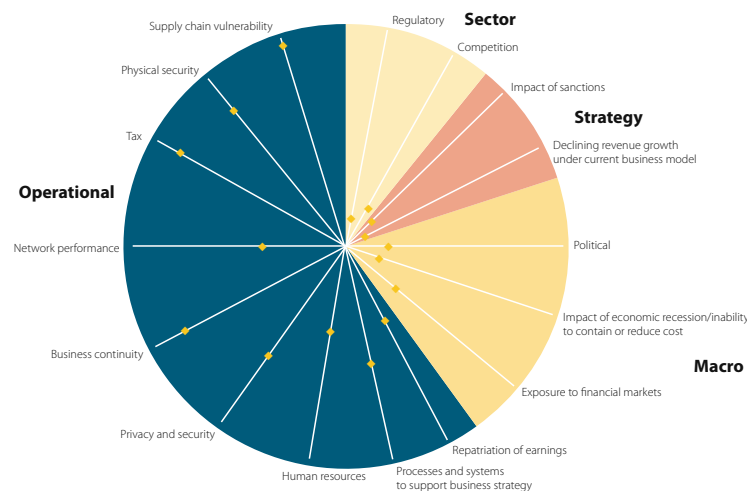
The board believes that management has identified the core risks in relation to the Group. These, as displayed in the graphic alongside, are categorised into operational, telecoms sector, strategy and macro-economic risks. MTN's principal risks fall mainly into the macro-economic, telecoms sector and strategic categories.

The year under review

Strategy

The steep growth experienced by the telecommunications industry in the past is starting to slow. This is because of a number of factors ranging from strong competition, regulatory pressures as well as converging technologies. A challenge for MTN and most mobile operators is to adapt its business model and technologies from the traditional voice offerings to a converged offering including voice, data and content. MTN has made good progress in this regard with various offerings including MTN MobileMoney, MTNPlay as well as a number of business solutions through MTN Business. MTN MobileMoney has been launched in a number of countries with good uptake. MTN has committed in excess of USD191 million of investment in various submarine broadband cables to ensure high-speed connectivity and improved quality and capacity of voice and data offerings.

In addition to building new revenue growth models, MTN is continuing to focus on improving operational efficiencies in order to keep operational expenditure under control and maintain competitive EBITDA levels.



International sanctions against some countries in which MTN operates, pose a threat to the MTN Group with regards funding arrangements, supply chain management, investor relations etc. The Group is actively aware of these situations and has taken appropriate mitigating action wherever possible.

Sector

The regulatory environments in the MTN operating countries define special conditions under which MTN operates. These conditions are very dynamic, changing from time-to-time and are becoming more complex. During the period under review, MTN has seen a number of regulatory instruments introduced in many markets. These include the registration of SIM cards, changes to mobile termination rates, site sharing and the promulgation or repeal of telecommunication legislation and regulations. These are deemed to have been made under legislative and licensing regimes that gave rise to the first wave of licences to MTN. Regulatory pressure will continue to impact the Group. The Group continues to monitor and engage with policy makers and regulators in order to align its investment with the various regulatory and policy road maps.

MTN will likely face increased competition as the telecoms industry continues to consolidate.

Macro

The political situation in some of the countries in which MTN operates continues to be challenging. The year under review has been characterised by security, political and social unrest challenges.

These challenges are often beyond MTN's ability to control and may negatively impact on the Group. MTN is confident that its risk management strategies in response to these risks have mitigated the risk to the Group. These strategies include strict compliance with regulations, physical security measures, the establishment of a Group crisis operations centre, risk transfer and insurance strategies and good corporate citizenship.

Exposure to financial markets remains a risk to the Group. This risk has many facets including exposure to currency fluctuations, interest rate changes, liquidity and counterparty risk. These risks are managed through a centralised treasury function with the implementation of various mechanisms and procedures including a Group treasury policy.

Operational

In the past few years, MTN has made significant progress in reducing the risks associated with network performance in certain countries. This is a result of considerable capital expenditure which peaked at more than R32 billion in 2009.

The repatriation of earnings from most of the Group's operations has continued as planned in 2009, and good progress was made

in overcoming the existing barriers to repatriation in certain countries.

MTN has stepped up its efforts to standardise processes across the Group with specific attention given to capital project management, network site build, activity-based costing and human resources. However, ongoing focus is still required.

The business continuity management project has made good progress in the past year with a number of countries now having formal business continuity projects in progress or, in certain cases, completed.

Increased requirements from King III on the governance of information technology are being assessed and any potential shortcomings will be addressed.

A comprehensive tax risk management strategy has been implemented to improve the management of tax risk.

The availability and depth of technical and leadership skills in certain MTN operating countries remains a challenge to the Group. However, the MTN Academy is now well established and its focus on leadership development and e-learning on technical aspects, together with other leadership development initiatives, will assist in the years ahead.