

## Group finance director's report

Revenue increased by 9,2% on subscriber growth of 28% to 116 million users . . . Had there been no change in currency rates during the year, revenue growth would have been 11 percentage points higher.



**Nazir Patel**  
*Group finance director*

### Introduction

As described by the Group president and CEO in his review, MTN Group operations performed well in 2009 in the face of challenging market conditions. These market conditions were a function of difficult economic circumstances, increased competition and increased regulatory intervention. Notwithstanding this, the majority of the 21 operations in MTN's footprint reported strong subscriber growth and, other than South Africa, all operations maintained or improved their market share.

Revenue increased by 9,2% on subscriber growth of 28% to 116 million users, while earnings before interest, taxation, depreciation and amortisation (EBITDA) rose by 6,7%.

This resulted in an erosion of the EBITDA margin. The muted growth in revenue and EBITDA relative to the strong increase in subscribers clearly reflects the dampening effect of movements in exchange rates in the full year, compounded by the strength of the South African rand (rand) against the US dollar (USD), in the second half of the year. Reported financial results were negatively impacted as almost 70% of MTN Group earnings were generated outside South Africa but translated to rand for reporting purposes. The EBITDA margin reduced by 1 percentage point to end the year at 41,1%. This was mainly a result of the weaker performance in the South African operation and an increase in the revenue share to the authorities in Syria.

Finally, the Group's extensive capital expenditure (capex) roll out programme, initiated in 2008, was sustained throughout the year supporting the strong subscriber growth. R31,2 billion was spent in 2009 which is expected to be the peak amount for the Group.

### Changes in ownership

MTN Group concluded a number of transactions that impacted the financial statements:

- In January 2009, MTN increased its shareholding in **iTalk Cellular (Proprietary) Limited** from 41% (equity accounted) to 100% (consolidated) at a cost of R355 million.
- In January 2009, **MTN Zambia** issued a 2,2% shareholding to a minority shareholder as part of a private placement arrangement, diluting MTN's shareholding from 100% to 97,8%.
- In January 2009, MTN disposed of its 50% joint venture investment in **Digital Mobile TV Africa (Proprietary) Limited** (DMTV) for a consideration of R58 million.
- In February 2009, MTN acquired 100% of **Verizon South Africa (Proprietary) Limited** at a cost of R1,8 billion.
- In October 2009, MTN increased its shareholding in **MTN Uganda** from 95% to 96% at a cost of USD6,5 million.
- In November 2009, MTN acquired a 20% investment in **Belgacom International Carrier Services SA** (BICS). The purchase consideration was in exchange for MTN International Carrier Services and Uniglobe assets and a contract for 70% of the international traffic from selected operations over a period of five years to 2014.

## Group finance director's report *continued*

### Foreign exchange

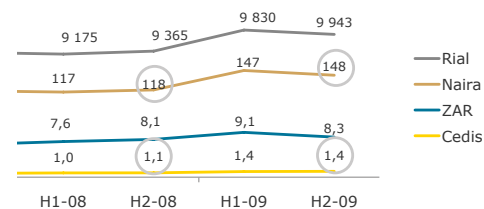
Currency volatility had a substantial bearing on numerous items in the Group's income statement and balance sheet. Had there been no change in currency rates during the year, revenue growth at year-end would have been 11 percentage points higher, and EBITDA growth would have been 12 percentage points above that reported. A more detailed analysis of the foreign exchange rate (FX) impact on revenue and EBITDA is detailed below under the respective headings. Functional currency losses of R3,2 billion were recorded, compared with gains in the previous year of R2,4 billion. This reduced adjusted headline EPS by 124,6 cents from a gain of 94,2 cents the previous year. Adjusted headline EPS, excluding the impact of the functional currency losses, increased by 8,5% to 878,9 cents for the year.

The strong rand, however, had a positive impact on capex, reducing the effective spend of the Group by R3,5 billion.

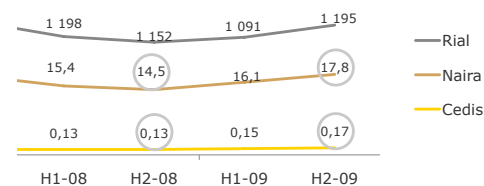
It is appropriate to consider the performance in the first half of the year against the second half largely in light of the movements of foreign currencies both in South Africa, as well as our key markets such as Nigeria and Ghana. In H1, revenue was up 24% and EBITDA was 24,8% higher. In H2, revenue was down 3% and the EBITDA margin declined by 8,8%. Both of these are directly related to the weakening of the Nigerian naira (NGN) on a cross-rate basis against the rand of approximately 30% and the Ghanaian cedi of approximately 22%.

Income statement analysis (the complete income statement appears on page 46).

### USD: Local currency



### ZAR: Local currency



## MTN Group revenue

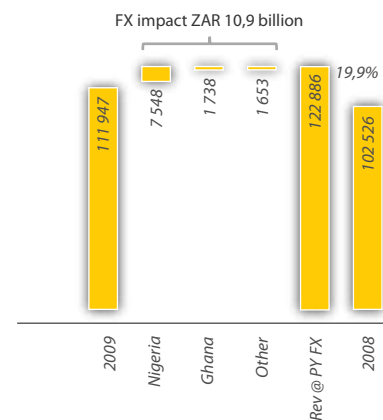
	December 2009 Rm	December 2008 Rm	% change	Local currency % change
<b>Revenue by region</b>				
Iran	7 625	4 935	54,5	60,0
Syria	6 987	6 508	7,4	8,2
Other operations	6 913	5 771	19,8	
<b>Middle East and North Africa</b>	<b>21 525</b>	17 215	25,0	
Nigeria	33 326	31 558	5,6	30,0
Ghana	5 667	6 047	(6,3)	25,1
Other operations	11 550	10 078	14,6	
<b>West and Central Africa</b>	<b>50 543</b>	47 682	6,0	
South Africa	33 149	32 148	3,1	3,1
Other operations	6 520	5 335	22,2	
<b>South and East Africa</b>	<b>39 669</b>	37 483	5,8	
<b>Head office companies</b>	<b>210</b>	146	43,8	
<b>Total</b>	<b>111 947</b>	102 526	9,2	

MTN Group revenue increased by 9,2% to R111,9 billion (2008: R102,5 billion), driven largely by the strong growth in the subscriber base. When prior year FX rates are used, 2009 revenue was negatively impacted by R10,9 billion due to foreign exchange currency movements.

When local currency growth in the various markets is analysed, it is evident that growth remained robust, indicating a sound operational performance despite the weak rand reported numbers. MTN's major markets, with the exception of South Africa and Syria, enjoyed growth above 20% with Iran showing an increase of 60%. Due to the very high level of competition, it was especially pleasing that Ugandan growth was still strong at 26,4%.

The slower growth in revenue in Syria was due to subscriber acquisitions lagging in the first half of the year resulting in limited revenue contribution from the substantial increase in subscribers in the second half of the year.

### FX impact on revenue



## Group finance director's report *continued*

### Revenue analysis

	December 2009	December 2008	% change
Airtime and subscription	<b>76 814</b> 68,6%	70 963 69,2%	8,2
Data	<b>3 329</b> 3,0%	2 690 2,6%	23,8
SMS	<b>5 437</b> 4,9%	4 394 4,3%	23,7
Interconnect	<b>19 516</b> 17,4%	18 364 17,9%	6,3
Cellular phones and accessories	<b>3 279</b> 2,9%	3 551 3,5%	(7,7)
Other	<b>3 572</b> 3,2%	2 564 2,5%	39,3
<b>Revenue</b>	<b>111 947</b>	102 526	9,2

South Africa's contribution to airtime and subscription revenues remained flat year-on-year, despite the 1,1 million reduction in subscribers over the period indicating that the disconnected subscribers were not significant revenue generating customers. Airtime revenue was the major contributor to revenue in the remaining operations which increased in line with overall organic revenue growth. Data and SMS revenue showed a strong increase due to solid mobile data growth in South Africa and to a lesser extent Nigeria and Iran. During the year, investments made in 3G infrastructure, fibre capability and data solutions, which together with improved products (including those in support of our sponsorship of the FIFA World Cup), allowed us to grow this particular revenue stream as part of our data strategy.

The contribution of interconnect to total revenue dropped as a result of a 6% fall in Nigerian interconnect revenue, where nearly 80% of all traffic is now on-net. In South Africa, however, interconnect revenue growth was ahead of airtime revenue growth.

Revenue generated on cellular phones and accessories dropped due to a considerable reduction in the selling prices, not withstanding an increase in handset volumes from approximately 4,1 million to 5,1 million units. Handsets are mainly purchased for distribution in South Africa.

Other revenues of R3,6 billion were generated which mostly related to the acquisition of Verizon SA in February 2009.

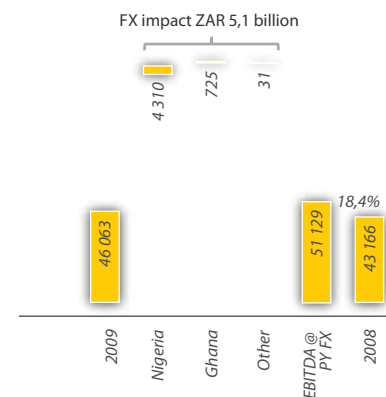
## MTN Group EBITDA

	December 2009 Rm	December 2008 Rm	% change	Local currency % change
<b>EBITDA by region</b>				
Iran	2 664	1 492	78,6	85,3
Syria	1 373	1 829	(24,9)	(23,5)
Other operations	1 745	1 334	30,8	
<b>Middle East and North Africa</b>	<b>5 782</b>	4 654	24,2	
Nigeria	19 746	18 248	8,2	32,4
Ghana	2 566	2 743	(6,5)	25,1
Other operations	4 717	4 327	9,0	
<b>West and Central Africa</b>	<b>27 029</b>	25 318	6,8	
South Africa	10 410	10 586	(1,7)	(1,7)
Other operations	2 291	2 292	—	
<b>South and East Africa</b>	<b>12 701</b>	12 878	(1,4)	
<b>Head office companies</b>	<b>551</b>	316	74,4	
<b>Total</b>	<b>46 063</b>	43 166	6,7	

MTN Group EBITDA increased by 6,7% to R46,1 billion (December 2008: R43,2 billion), with foreign exchange currency movements negatively impacting this figure by R5,1 billion.

Again as indicated in the revenue section, growth remains more robust in local currency. Iran and Nigeria increased its EBITDA in local currency by 85,3% and 32,4%, respectively. This is more reflective of the organic growth in the various markets.

### FX impact on EBITDA



## Group finance director's report *continued*

The Group's EBITDA margin dropped by one percentage point to 41,1%. The drop in the EBITDA margin was mainly attributable to the weaker performance of the South African operation and the increased share of revenue paid to the authorities in Syria, in line with the conditions of the BOT contract in that country. The Nigerian operation continued to contribute positively to the Group's EBITDA margin. The Nigerian EBITDA margin improved 1,4 percentage points to 59,3% mainly due to an increase in revenue together with a containment of operating expenses, in particular an 18% decline in the price of fuel. This was marginally weaker than the 61% EBITDA margin reported in H1 of 2009, due to exceptional charges taken on impairment provisions, FIFA-related promotional activity and an increase in the cost of site leasing for the increased number of BTS's rolled out during the year.

Iran raised its EBITDA margin by 4,7 percentage points to 34,9% due to an increase in economies of scale benefits, cost optimisation from single vendor maintenance and locally manufactured vouchers.

South Africa's EBITDA margin declined 1,5 percentage points to 31,4% due to reduced fixed to mobile interconnect traffic; reduced number of subscribers, especially in the postpaid segment; migration to lower-value packages; an increase in handset sales as margins reduced and higher distribution costs following the integration of iTalk and Cell Place.

EBITDA restated at constant prior year FX rates would have been approximately 12 percentage points higher than the 6,7% growth reported.

### EBITDA reconciliation

<b>EBITDA margin 2008</b>	<b>42,1</b>
Nigeria	0,7
Syria	(0,6)
South Africa	(0,5)
Other operations	(0,6)
<b>EBITDA margin 2009</b>	<b>41,1</b>

**EBITDA analysis**

	<b>December 2009</b>	December 2008	% change
<b>Revenue</b>	<b>111 947</b>	102 526	9,2
Direct network operating costs	<b>15 925</b> 14,2%	14 140 13,8%	12,6
Cost of handsets and other accessories	<b>6 297</b> 5,6%	5 985 5,8%	5,2
Interconnect and roaming	<b>15 166</b> 13,5%	13 217 12,9%	14,7
Employee benefits	<b>5 843</b> 5,2%	4 776 4,7%	22,3
Selling, distribution and marketing expenses	<b>14 649</b> 13,1%	13 274 12,9%	10,4
Other expenses	<b>8 004</b> 7,1%	7 968 7,8%	0,5
<b>EBITDA</b>	<b>46 063</b>	43 166	6,7
<b>EBITDA margin %</b>	<b>41,1%</b>	42,1%	

Direct network operating costs due to network roll out together with the Syrian revenue share charge had a substantial impact on total costs. Interconnect and roaming costs increased in South Africa mainly due to higher prices charged by the fixed line operator on outgoing international traffic to neighbouring operations. Following the integration of Verizon, iTalk and Cell Place in the South African operation, employee-related and distribution costs also increased. Moving forward, we would expect to reduce these costs through the headcount restructuring exercise announced late last year. The closure of poorly positioned or under-performing distribution points will also assist in reducing costs. Included in other expenses is the positive impact of a claim settlement by a smaller competitor of R354 million.

## Group finance director's report *continued*

### Depreciation and amortisation

MTN Group's depreciation charge increased by 18,8% or R1,9 billion to R11,8 billion as a result of a continued investment in network infrastructure by the Group's operations, particularly in the past two years. Nigeria, Iran and South Africa were the main contributors to depreciation in their respective regions, indicative of the heavy infrastructure roll out in these countries. The Group's amortisation charge decreased by R0,2 billion to R2,7 billion. This is largely due to the unwinding of the intangible assets recognised on the Investcom acquisition in 2006.

### Net finance costs

Net finance costs increased by 203% or R3,9 billion to R5,8 billion. The strengthening of the rand relative to the dollar, which resulted in the recognition of a functional currency loss of R3,2 billion (December 2008: R2,4 billion functional currency gain) is the main driver for this movement. Much of the loss was attributable to foreign currency denominated loans, receivables and cash balances in Mauritius (a functional currency rand entity). A net gain of R0,7 billion for the Nigerian put option was recognised in the 2009 year, compared to a net charge of R1,3 billion in 2008 mainly as a result of the weakening of the NGN on a cross-rate basis against the rand. Net interest paid increased due to a 4% increase in the interest rates in Nigeria lending combined with further draw-down on the Nigerian local facilities.

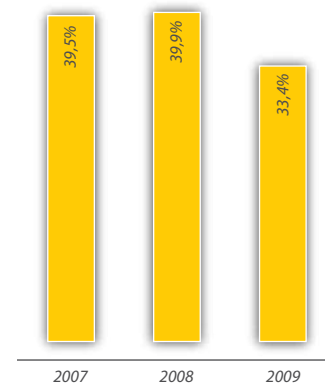
### Taxation

The Group's taxation charge decreased by 24,2% or R2,7 billion to R8,6 billion, resulting in a decline in the effective tax rate from 39,9% in 2008 to 33,4% in 2009. The expiration, in March 2008, of the one-year commencement period in Nigeria and the positive effect of the Nigerian put option on profit before tax strongly impacted the decline in the effective tax rate. The one-year commencement period began in March 2007, marking the beginning of the reversal of the deferred tax asset that had been created during the five-year tax holiday granted in Nigeria.

### Non-controlling interests

Non-controlling interests increased to R2,5 billion from R1,8 billion in the prior reported period. The higher profit after tax in Nigeria and the increase in the non-controlling share in that particular operation were largely responsible for this increase.

### Effective tax rate



## Headline earnings per share

Adjusted headline earnings per share (HEPS) decreased by 16,6% to 754,3 cents compared with 904,4 cents in 2008. The core contributor to this decrease was the functional currency loss of R3,2 billion in 2009, compared to a functional currency gain of R2,4 billion in 2008. Adjusted HEPS, excluding the functional currency impact, increased by 8,5% to 878,9 cents compared to 2008.

IFRS requires the Group to account for a written put option held by a non-controlling shareholder of one of the Group subsidiaries, which provides the non-controlling shareholder with the right to require the subsidiary to acquire its shareholdings at fair value. Prior to the implementation of IFRS the shareholding was treated as a non-controlling shareholder in the subsidiary as all risks and rewards associated with these shares, including dividends, accrue to the non-controlling shareholder.

IAS 32 requires that in the circumstances described in the previous paragraph:

- (a) the present value of the future redemption amount be reclassified from equity to financial liabilities and the financial liability so reclassified subsequently be measured in accordance with IAS 39;
- (b) in accordance with IAS 39, all subsequent changes in the fair value of the liability together with the related interest charges arising from present valuing the future liability be recognised in the income statement;
- (c) the non-controlling shareholder holding the put option no longer be regarded as a non-controlling shareholder but rather as a creditor from the date of receiving the put option.

Although the Group has complied with the requirements of IAS 32 and IAS 39 as outlined above, the board of directors has reservations about the appropriateness of this treatment in view of the fact that:

- (a) the recording of a liability for the present value of the future strike price of the written put option results in the recording of a liability that is inconsistent with the framework, as there is no present obligation for the future strike price;
- (b) the shares considered to be subject to the contracts are issued and fully paid up, have the same rights as any other issued and fully paid up shares and should be treated as such;
- (c) the written put option meets the definition of a derivative and should therefore be accounted for as a derivative in which case the liability and the related fair value adjustments recorded through the income statement would not be required.

## Group finance director's report *continued*

The full balance sheet and cash flow statement appear on pages 48 and 50, respectively.

### Balance sheet and cash flow statement

#### Capex

MTN's extensive network expansion and investment strategy resulted in capex for the year of R31,2 billion, a 10,6% increase on 2008. This was lower than the R42 billion approved capex budget for the year due to a R7,2 billion expenditure rollover into 2010 and a R3,5 billion saving due to rand strength. We expect 2009 to have been our peak year for capital expenditure. The approved budget for 2010 is R23,6 billion (including rollover capex), 44% lower than the 2009 budgeted amount.

#### Assets and liabilities

Assets and liabilities were also impacted by foreign currency translation adjustments. Property, plant and equipment was adversely affected by foreign currency translation adjustments approximately R13 billion. Goodwill and other intangible assets decreased by 21% or R9,7 billion to R36,1 billion, mainly due to foreign currency translation adjustments and the unwinding of the intangible assets recognised on the Investcom acquisition in 2006.

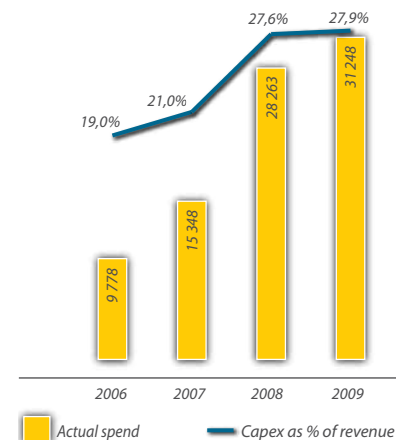
Other non-current liabilities include a deferred gain of R1,3 billion recognised on the sale or swap of the specific MTN International Carrier Services, Uniglobe and MTN Dubai assets to BICS. This will be released over a five-year period until 2014.

#### Net debt

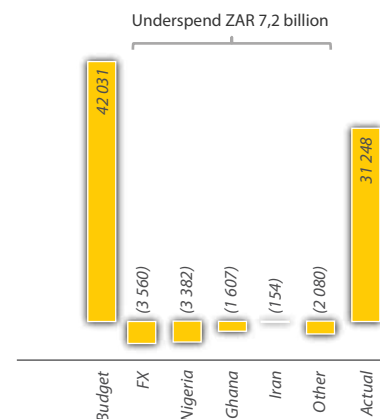
The net debt to EBITDA of 0,26 times has allowed the board to relax the dividend policy of the Company, and a dividend of 192 cents has accordingly been paid. MTN has continued financing its underlying subsidiary companies on a non-recourse basis. During the year, approximately USD462 million was raised in the various operations, including Côte d'Ivoire, Uganda, Rwanda, Benin, Liberia and Afghanistan. Most of this, other than Afghanistan, had been drawdown at year end. MTN's South African holding company raised a R6 billion term loan facility in December 2009 as part of refinancing maturing debt and creating headroom facilities.

The repayment profile shows significant debt repayments in 2010. These are made up of a R5 billion repayment on the MTN01 bond, approximately R6 billion due in Nigeria in October 2010 as well as approximately R3 billion on the continued amortisation of MTN's jumbo syndication facility. MTN is well advanced in refinancing these liabilities which will result in an improved profile not only for the 2010 debt but also the significant debt due in 2012, principally for MTN Nigeria.

### Capex spend



### Capex spend to budget in 2009



MTN eliminated the last R600 million of unproductive interest from the Investcom transaction shortly after year-end. Intercompany loans (excluding holding companies and South Africa) totalling R7,6 billion were mainly to Iran, Sudan and Afghanistan.

Cash generated from operating activities increased to R36,3 billion from R34,2 billion, reflecting a strong operational performance. Cash outflows from investing activities increased by R6,0 billion to R33,2 billion. Investing activities include the cash spent on the acquisitions of Verizon SA, iTalk and Cell Place in the current period.

### Looking forward

Capex of R23,6 billion has been approved for 2010, although approximately R20 billion is actually expected to be spent in the year ahead. The capex budget is based on the current average exchange rate assumption of R8,07 to the USD.

#### Capital expenditure

<b>South Africa</b>	4 245
<b>Nigeria</b>	6 424
<b>Ghana</b>	1 551
<b>Iran</b>	2 666
<b>Syria</b>	456
<b>Other operations</b>	8 257
<b>Total</b>	<b>23 599</b>

#### Net addition subscriber guidance for 2010:

<b>South Africa</b>	800
<b>Nigeria</b>	6 000
<b>Ghana</b>	800
<b>Iran</b>	5 000
<b>Syria</b>	400
<b>Other operations</b>	7 000
<b>Total</b>	<b>20 000</b>

#### Nazir Patel

Group finance director

10 March 2010

### Debt repayment profile

