

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS *(continued)*

1.5 Critical accounting judgements, estimates and assumptions

The Group makes judgements, estimates and assumptions concerning the future when preparing the consolidated financial statements. 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. The judgements, 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.

The "Critical accounting judgements, estimates and assumptions" note should be read in conjunction with the "Principal accounting policies" disclosed in note 1.3.

1.5.1 Provisions

The Group exercises judgement in determining the expected cash outflows related to its provisions. Judgement is necessary in determining the timing of the outflow as well as quantifying the possible range of the cash outflows that may occur.

The present value of the Group's provisions is based on management's best estimate of the future cash outflows expected to be required to settle the obligations, discounted using appropriate pre-tax discount rates that reflect the current market assessment of the time value of money and the risks specific to each provision.

The Nigerian Communications Commission (NCC) imposed a fine on MTN Nigeria that related to the timing of the disconnection of subscribers. The Group provided R9.3 billion based on management's judgement. The ultimate resolution of the imposed fine may be different to the amount provided. Additional information on provisions is disclosed in note 6.3.

1.5.2 Impairment of goodwill

The Group tests goodwill for impairment on an annual basis, in accordance with the accounting policy disclosed in note 5.2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations are performed internally by the Group and require the use of estimates and assumptions.

The input factors most sensitive to change are management estimates of future cash flows based on budgets and forecasts, growth rates and discount rates. Further detail on these assumptions has been disclosed in note 5.2. The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the changes in input factors result in any of the goodwill allocated to appropriate cash-generating units being impaired. Goodwill impairment in the current year amounted to R504 million (2014: R2 033 million), refer to note 5.2.

1.5.3 Sale of tower assets

The Group applies judgement and follows the guidance in IFRS 3 *Business Combinations* to determine whether the sale of tower assets constitutes the sale of a business or an asset.

The Group determined that its tower assets in Nigeria, which were sold in two tranches during the current and prior years (note 2.3), were an integrated set of activities capable of being conducted and managed for the purpose of providing a return and therefore constituted the sale of businesses. In exercising its judgement, the Group considered the following:

- the transfer of assets resulted in the transfer of employees that are key to the inputs and processes being transferred;
- the sale agreements provide for the transfer of all substantial assets required to operate the tower business, including related tower rights, site maintenance agreements, tenant leases and inventory;
- the processes involved in the tower businesses such as site management systems and site maintenance programmes, were transferred along with the assets; and
- the tower assets are able to produce outputs through the management and leasing of sites to other parties.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS *(continued)*

1.5 Critical accounting judgements, estimates and assumptions *(continued)*

1.5.4 Income taxes

The Group is subject to income taxes in numerous jurisdictions. As a result, significant judgement is required in determining the Group's provision for income taxes. There are numerous calculations and transactions for which the ultimate tax position is uncertain during the ordinary course of business. The Group recognises tax liabilities for anticipated tax issues based on estimates of whether additional taxes will be payable. Where payment is possible but not probable, the tax exposure is disclosed as a contingent liability, refer to note 6.8. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact current and deferred tax in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deferred tax assets can be utilised. When recognising deferred tax assets, the Group exercises judgement in determining whether sufficient taxable profits will be available; this is done by assessing the future financial performance of the underlying Group entities to which the deferred tax assets relate. The Group's deferred tax assets for the current year amounted to R542 million (2014: R1 109 million), refer to note 3.2.

1.5.5 Determining whether an arrangement contains a lease

The Group applies the principles of IFRIC 4 *Determining whether an Arrangement contains a Lease* in order to assess whether its arrangements constitute or contain leases. The requirements to be met in order to conclude that an arrangement constitutes or contains a lease are as follows:

- the provision of a service in terms of the arrangement should be dependent on the use of one or more specific assets; and
- the arrangement must convey a right to use these assets.

All other arrangements that do not constitute or contain leases are treated as service level agreements; the costs are expensed as incurred.

For the purpose of applying IFRIC 4 on tower space lease arrangements, the Group considers the tower asset as a whole in assessing whether the arrangement contains a lease. This is consistent with the guidance on determining a component of an asset in IAS 16 *Property, Plant and Equipment*. The Group has resolved that an arrangement contains a lease as defined in IAS 17 *Leases* where the arrangement provides an exclusive right to use specific tower space which is more than an insignificant part of the tower asset.

1.5.6 Determining whether an arrangement qualifies as an operating lease or a finance lease

The Group applies its principal accounting policies for leases to account for arrangements which constitute or contain leases and follows the guidance of IAS 17 to determine the classification of leases as either operating or finance leases.

During the current and prior year, the Group entered into sale and leaseback transactions with IHS that resulted in the sale of its mobile network towers in Nigeria, refer to note 2.3.

The critical elements that the Group considered with respect to the classification of the lease transaction were:

- whether the lease terms are for the major part of the economic life of the tower assets; and
- whether at inception of the leases, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the tower assets.

The Group estimated that the lease term of the tower assets is not for a major part of the economic life of the tower assets, taking into account the non-cancellable period for which the Group has contracted, and any options to renew such period where it is reasonably certain that the Group will exercise the option.

The minimum lease payments were determined by separating the payments required by the lease arrangements into those pertaining to the lease and those pertaining to other elements such as services and cost of inputs on the basis of their relative fair values. Management exercised judgement in estimating the fair value of the other elements by reference to comparable cost structures of the Group and other independent tower operators. The discount rate used in calculating the present value of the minimum lease payments reflects the rate of interest MTN Nigeria Communications Limited would incur in borrowing the funds necessary to purchase similar assets.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS *(continued)*

1.5 Critical accounting judgements, estimates and assumptions *(continued)*

1.5.6 Determining whether an arrangement qualifies as an operating lease or a finance lease *(continued)*

The fair value of the tower assets was determined by reference to the amounts at which the tower assets were sold which represents the prices at which the assets could be sold in an orderly transaction between market participants under current market conditions. The Group determined that the present value of the minimum lease payments did not equal substantially all of the fair value of the underlying tower assets.

Following the Group's assessment, the leaseback transactions were classified as operating leases.

1.5.7 Hyperinflation

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, associates or joint ventures is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- interest rates, wages and prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgement as to when a restatement of the financial statements of a Group entity becomes necessary. Following management's assessment, the Group's subsidiaries, MTN Sudan Company Limited and MTN Syria (JSC), have been accounted for as entities operating in hyperinflationary economies. The results, cash flows and financial positions of MTN Sudan Company Limited and MTN Syria (JSC) have been expressed in terms of the measuring units current at the reporting date.

Iranian economy

The decreasing inflation rates and other factors related to the characteristics of the economic environment in Iran have indicated that the economy ceased to be hyperinflationary, effective for financial periods ending 31 December 2015. Accordingly, the amounts expressed in terms of the measuring unit current at 30 June 2015 are treated as the basis for the carrying amounts with no further hyperinflation adjustments being passed from 1 July 2015 onwards. Refer to note 9.2.

The general price indices used in adjusting the results, cash flows and financial position of the Group's subsidiaries are set out below:

MTN Sudan Company Limited

The general price index used as published by the International Monetary Fund is as follows:

Date	Base year	General price index	Inflation rate (%)
31 December 2015	2007	541	15,5

The cumulative inflation rate over three years as at 31 December 2015 is 106,6%. The average adjustment factor used for 2015 was 1,16.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions (continued)

1.5.7 Hyperinflation (continued)

MTN Syria (JSC)

Reliable inflation data could not be obtained on the inflation rate in Syria. The general price index set out below was calculated by reference to the change in the United States dollar:Syrian pound exchange rate.

Date	Base year	General price index	Inflation rate (%)
31 December 2015	2014	170	70

The cumulative inflation rate over three years as at 31 December 2015 is 289,2%. The average adjustment factor used for 2015 was 1,39.

The impact of adjusting the Group's results for the effects of hyperinflation is set out below:

	2015 Rm	2014 Rm
Income statement		
Increase in revenue	710	776
Increase in EBITDA	231	241
Net monetary gain	1 348	878
(Decrease)/increase in share of results of associates and joint ventures after tax ¹	(1 768)	529
(Decrease) in profit after tax ²	(758)	(612)

¹ Including share of net monetary gain amounting to R390 million (2014: R927 million).

² Including goodwill impairment for the 2014 year relating to MTN Sudan Company Limited (note 5.2).

1.6 Restatements

1.6.1 Reclassification of expenses

Following a review of expenses disclosed in the Group income statement for the year ended 31 December 2014, the expenses detailed below have been disclosed separately or reclassified between expense categories to present the expenses in accordance with the classification in the current year.

Government and regulatory costs

Government and regulatory costs that had previously been included in direct network operating costs and other operating expenses which comprises: government revenue share, regulatory fees and levies and spectrum fees, have been disclosed as a significant separate category of expense in the income statement.

Value-added services (VAS) costs

VAS costs were previously included in the costs of handsets and other accessories. Based on the underlying nature of these costs, they were reclassified and included in selling, distribution and marketing expenses.

The impact of these reclassifications as disclosed in the financial statements for the year ended 31 December 2014 is provided below:

	31 December 2014		
	Previously reported Rm	Adjustments Rm	Restated Rm
Group income statement			
Expenses			
Direct network and technology operating costs	(21 604)	5 250	(16 354)
Costs of handsets and other accessories	(11 957)	1 643	(10 314)
Selling, distribution and marketing expenses	(15 531)	(1 643)	(17 174)
Government and regulatory costs	–	(5 734)	(5 734)
Other operating expenses	(10 084)	484	(9 600)