

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK

7.1 Financial risk management and financial instruments

Accounting for financial instruments

Financial assets and liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

All financial assets and liabilities are initially measured at fair value, including transaction costs, except for those classified as at fair value through profit or loss which are initially measured at fair value excluding transaction costs. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Financial assets are recognised (derecognised) on the date the Group commits to purchase (sell) the instruments (trade date accounting).

Financial assets and liabilities are classified as current if expected to be realised or settled within 12 months; if not, they are classified as non-current.

Offsetting financial instruments

Offsetting of financial assets and liabilities is applied when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The net amount is reported in the statement of financial position.

Financial instrument classification

The Group classifies its financial instruments into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale;
- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification is dependent on the purpose for which the financial instruments were acquired. Management determines the classification of financial instruments at initial recognition.

Financial instruments comprise investments in equity and debt securities, loans receivable, trade and other receivables (excluding prepayments), investments in self-insurance cell captives, cash and cash equivalents, restricted cash, borrowings, other non-current liabilities (excluding provisions), bank overdrafts, derivatives and trade and other payables.

Subsequent measurement

Subsequent to initial recognition, financial instruments are measured as described below.

Financial assets at fair value through profit or loss

Financial instruments at fair value through profit or loss are subsequently measured at fair value and changes therein are recognised in profit or loss. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Loans and receivables

The Group's loans and receivables comprise loans and other receivables, certain of its current investments, trade and other receivables (excluding prepayments), restricted cash and cash and cash equivalents. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

Held-to-maturity investments

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale

Available-for-sale financial assets are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are subsequently measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in other comprehensive income.

Financial liabilities

Financial liabilities comprise trade and other payables, bank overdrafts, borrowings, derivative liabilities and other non-current liabilities (excluding provisions).

All financial liabilities, excluding derivative liabilities, are subsequently measured at amortised cost using the effective interest method. Derivative liabilities are subsequently measured at fair value and changes therein are recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligations specified in the contracts are discharged, cancelled or expire.

Substantial modification

A substantial modification of the terms of an existing debt instrument or part of it is accounted for as an extinguishment of the original debt instrument and the recognition of a new debt instrument.

Impairment

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. A financial asset or group of financial assets is impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and its recoverable amount, being the present value of the estimated future cash flows discounted at the original effective interest rate.

When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the effective interest rate.

Significant financial assets are tested for impairment on an individual basis. The financial assets that are not impaired or are not individually significant are collectively assessed for impairment in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

Impairment of trade 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 carrying amount of the trade receivable is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. 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 profit or loss.

Gains or losses arising on modification of debt instruments

Gains or losses arising from the modification of the terms of a debt instrument are recognised immediately in profit or loss where the modification does not result in the derecognition of the existing instrument.

Risk management

Introduction

The Group has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk (foreign exchange, interest rate and price 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.

Risk profile

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 and interest rate swaps to hedge certain exposures, but as a matter of principle, the Group does not enter into derivative contracts for speculative purposes. The Group does not apply hedge accounting.

Risk management is carried out under policies approved by the board of directors of the Group 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.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.1 Categories of financial instruments

	Assets				Liabilities		
	Loans and receivables Rm	Fair value through profit or loss ¹ Rm	Held-to- maturity Rm	Available- for-sale Rm	Amor- tised cost Rm	Fair value through profit or loss ¹ Rm	Total carrying amount Rm
2015							
Non-current financial assets							
Loans and non-current receivables	8 269	–	–	–	–	–	8 269
Investments	–	–	262	9 707	–	–	9 969
Current financial assets							
Trade and other receivables	38 587	–	–	–	–	–	38 587
Current investments	802	1 187	6 822	–	–	–	8 811
Derivative assets	–	163	–	–	–	–	163
Restricted cash	1 735	–	–	–	–	–	1 735
Cash and cash equivalents	34 177	–	–	–	–	–	34 177
	83 570	1 350	7 084	9 707	–	–	101 711
Non-current financial liabilities							
Borrowings	–	–	–	–	52 661	–	52 661
Other non-current liabilities	–	–	–	–	1 514	–	1 514
Current financial liabilities							
Trade and other payables	–	–	–	–	37 957	–	37 957
Borrowings	–	–	–	–	22 472	–	22 472
Bank overdrafts	–	–	–	–	38	–	38
	–	–	–	–	114 642	–	114 642

¹ All financial instruments at fair value through profit or loss are held for trading.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.1 Categories of financial instruments (continued)

	Assets				Liabilities		Total carrying amount Rm
	Loans and receivables Rm	Fair value through profit or loss ¹ Rm	Held-to-maturity Rm	Available-for-sale Rm	Amor- tised cost Rm	Fair value through profit or loss ¹ Rm	
2014							
Non-current financial assets							
Loans and other non-current receivables	5 277	–	–	–	–	–	5 277
Investments	–	–	223	5 912	–	–	6 135
Current financial assets							
Trade and other receivables	29 655	–	–	–	–	–	29 655
Current investments	1 276	906	3 469	–	–	–	5 651
Derivative assets	–	183	–	–	–	–	183
Restricted cash	893	–	–	–	–	–	893
Cash and cash equivalents	43 098	–	–	–	–	–	43 098
	80 199	1 089	3 692	5 912	–	–	90 892
Non-current financial liabilities							
Borrowings	–	–	–	–	39 470	–	39 470
Other non-current liabilities	–	–	–	–	1 016	–	1 016
Current financial liabilities							
Trade and other payables	–	–	–	–	31 208	–	31 208
Borrowings	–	–	–	–	13 783	–	13 783
Derivative liabilities	–	–	–	–	–	2	2
Bank overdrafts	–	–	–	–	26	–	26
	–	–	–	–	85 503	2	85 505

¹ All financial instruments at fair value through profit or loss are held for trading.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.2 Financial assets and liabilities subject to offsetting

The following table presents the Group's financial assets and liabilities that are subject to offsetting:

	Gross amount Rm	Amount offset Rm	Net amount Rm
2015			
Current financial assets			
Trade and other receivables	4 320	(826)	3 494
Current financial liabilities			
Trade and other payables	858	(826)	32
2014			
Current financial assets			
Trade and other receivables	3 130	(987)	2 143
Current financial liabilities			
Trade and other payables	1 920	(987)	933

The amounts subject to offsetting include interconnect receivables and payables and sundry receivables and payables.

7.1.3 Fair value estimation

A number of the Group's accounting policies and disclosures require the measurement of fair values.

The table on the next page presents the Group's assets and liabilities that are measured at fair value. The classification into different levels is based on the extent that quoted prices are used in the calculation of fair value and the levels have been defined as follows:

- level 1: fair value based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2: fair value based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); or
- level 3: fair value based on inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.3 Fair value estimation (continued)

The following table presents the fair value measurement hierarchy of the Group's assets and liabilities:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2015				
Current financial assets				
Investments	–	–	9 707	9 707
Investment in cell captives	–	–	1 187	1 187
Derivative assets	–	163	–	163
Total assets	–	163	10 894	11 057
2014				
Current financial assets				
Investments	–	5 912	–	5 912
Investments in cell captives	–	–	906	906
Derivative assets	42	141	–	183
Total assets	42	6 053	906	7 001
Current financial liabilities				
Derivative liabilities	–	2	–	2

Valuation methods and assumptions

The following methods and assumptions were used to estimate the fair values:

Unquoted ordinary shares – The fair values of the unquoted ordinary shares have been estimated using a discounted cash flow and earnings multiple model. The valuation requires management to make certain assumptions about the model inputs, including forecast cash flows, the discount rate, credit risk and volatility. The probabilities of the various estimates within the range can be reasonably assessed and are used in management's estimate of fair value for these unquoted equity investments.

Derivatives – The Group enters into derivative financial instruments with various counterparties. Interest rate swaps, foreign exchange contracts and equity derivatives are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves.

Investment in insurance cell captives – The fair value of the investment in cell captives is determined based on the net asset value of the cell captive at the reporting date.

Loans and receivables and financial liabilities at amortised cost – The carrying value of current receivables and liabilities measured at amortised cost approximates their fair value.

For the majority of the non-current receivables and liabilities measured at amortised cost, their fair values are also not significantly different to their carrying values.

The listed long-term fixed interest rate senior unsecured notes in issue with a carrying amount of R11 633 million (2014: R8 686 million) have a fair value of R10 268 million (2014: R8 686 million) at 31 December 2015. The fair value of this instrument is determined by reference to published market values on the relevant exchange. This instrument is classified as a level one instrument in the fair value hierarchy.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.3 Fair value estimation (continued)

Valuation techniques and significant unobservable inputs

The significant unobservable inputs used in the fair value measurements categorised within level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis are as shown below:

Type	Valuation technique	Significant unobservable inputs	Range	Sensitivity of the input to the fair value
Available-for-sale financial assets – unquoted ordinary shares	Earnings multiples	Average tower industry earnings multiple	2015: 10-14 2014: 12-14	1 multiple (2014: 1 multiple) increase would result in an increase in the fair value of R792 million (2014: R434 million), and 1 multiple decrease would result in a decrease in the fair value of R792 million (2014: R434 million).

Reconciliation of level 3 financial assets

The table below sets out the reconciliation of financial assets that are measured at fair value based on inputs that are not based on observable market data (level 3):

	Cell captives Rm
Balance at 1 January 2014	691
Contributions paid	563
Claims received	(390)
Gain recognised in profit or loss (unrealised)	42
Balance at 31 December 2014	906
Balance at 1 January 2015	906
Contributions paid	965
Claims received	(13)
Loss recognised in profit or loss (unrealised)	(671)
Balance at 31 December 2015	1 187
	Investments Rm
Balance at 1 January 2015	–
Transfers from level 2 ¹	5 912
Acquisitions	1 410
Foreign exchange differences	2 385
Balance at 31 December 2015	9 707

¹ The fair value of investments was previously determined with reference to recent transactions between market participants. The absence of recent transactions resulted in the fair value being determined using models considered to be appropriate by management, consequently investments have been transferred from level 2 to level 3 of the fair value hierarchy. The Group considers transfers between fair value hierarchy levels to have occurred at the beginning of the reporting period.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.4 Credit risk

Credit risk, or the risk of financial loss to the Group due to customers or counterparties not meeting their contractual obligations, is managed through the application of credit approvals, limits and monitoring procedures.

The Group's maximum exposure to credit risk is represented by the carrying amount of the financial assets that are exposed to credit risk.

The Group considers its maximum exposure per class, without taking into account any collateral and financial guarantees, to be as follows:

	2015 Rm	2014 Rm
Loans and other non-current receivables	8 269	5 277
Investments	262	223
Trade and other receivables	38 587	29 655
Current investments	8 811	5 651
Derivative assets	163	183
Restricted cash	1 735	893
Cash and cash equivalents	34 177	43 098
	92 004	84 980

Cash and cash equivalents and current investments

The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate values of transactions concluded are spread among approved financial institutions. The Group actively seeks to limit the amount of credit exposure to any one financial institution and credit exposure is controlled by counterparty limits that are reviewed and approved by the credit risk department.

The operations in Nigeria, Dubai and South Africa (including head office entities) hold their cash balances in financial institutions with a rating range from B- to AAA.

Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

Trade receivables

The Group has no significant concentrations of credit risk, due to its wide spread of customers across various operations and dispersion across geographical locations. 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 receivables in certain international operations is uncertain; however, this is actively managed within acceptable limits and has been incorporated in the assessment of an appropriate revenue recognition policy (note 2.2) and the impairment of trade receivables where applicable. In addition, in certain countries there exists a right of set-off with interconnect parties to assist in settling outstanding amounts.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.4 Credit risk (continued)

Trade receivables (continued)

Ageing and impairment analysis

	2015 Rm Gross	2015 Rm Impaired	2015 Rm Net	2014 Rm Gross	2014 Rm Impaired	2014 Rm Net
Fully performing trade receivables	13 478	–	13 478	12 994	–	12 994
Interconnect receivables	1 922	–	1 922	2 165	–	2 165
Contract receivables	1 863	–	1 863	3 826	–	3 826
Other receivables	9 693	–	9 693	7 003	–	7 003
Past due trade receivables	9 286	(3 459)	5 827	4 259	(2 514)	1 745
Interconnect receivables	4 180	(1 437)	2 743	1 352	(752)	600
0 to 3 months	1 047	–	1 047	234	(1)	233
3 to 6 months	841	(3)	838	103	–	103
6 to 9 months	454	(187)	267	54	–	54
9 to 12 months	1 838	(1 247)	591	961	(751)	210
Contract receivables	3 330	(1 524)	1 806	2 195	(1 344)	851
0 to 3 months	1 373	(219)	1 154	674	(243)	431
3 to 6 months	653	(471)	182	592	(454)	138
6 to 9 months	149	(17)	132	183	(48)	135
9 to 12 months	1 155	(817)	338	746	(599)	147
Other receivables	1 776	(498)	1 278	712	(418)	294
0 to 3 months	644	(126)	518	102	(4)	98
3 to 6 months	236	(65)	171	137	(27)	110
6 to 9 months	149	–	149	210	(126)	84
9 to 12 months	747	(307)	440	263	(261)	2
Total	22 764	(3 459)	19 305	17 253	(2 514)	14 739

Total past due per significant operation

	Inter- connect receivables Rm	Contract receivables Rm	Other receivables Rm	Total Rm
2015				
MTN South Africa	157	1 129	196	1 482
MTN Nigeria	1 729	587	171	2 487
MTN Côte d'Ivoire	277	379	516	1 172
MTN Yemen	464	165	48	677
MTN Cameroon	185	264	–	449
MTN Benin	193	16	152	361
Other operations	1 175	790	693	2 658
	4 180	3 330	1 776	9 286
2014				
MTN South Africa	59	850	80	989
MTN Nigeria	839	327	26	1 192
Other operations	454	1 018	606	2 078
	1 352	2 195	712	4 259

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.4 Credit risk (continued)

Trade receivables (continued)

Allowance for impairment of trade receivables

	At beginning of the year Rm	Additions ¹ Rm	Reversals ¹ Rm	Utilised Rm	Net monetary gain Rm	Exchange differences and other movements ² Rm	At end of the year Rm
2015							
Allowance for impairment of trade receivables	(2 514)	(1 200)	49	485	45	(324)	(3 459)
2014							
Allowance for impairment of trade receivables	(2 679)	(650)	364	443	43	(35)	(2 514)

¹ A net impairment loss of R1 151 million (2014: R286 million) was recognised during the year. This amount is included in other operating expenses in profit or loss (note 2.4).

² Including the effect of hyperinflation.

The Group does not hold any collateral for trade receivables.

Loans and other non-current receivables

The recoverability of all loans were assessed at reporting date and were not found to be impaired.

An impairment reversal of R230 million in respect of non-current interconnect receivables was recognised in 2014. The impairment analysis is set out below and on the next page:

	Gross Rm	Impaired Rm	Net Rm
2015			
Non-current interconnect receivables	405	–	405
2014			
Non-current interconnect receivables	355	–	355

	At beginning of the year Rm	Additions Rm	Reversals Rm	Utilised Rm	Exchange differences and other movements Rm	At end of the year Rm
2015						
Allowance for impairment on non-current interconnect receivables	–	–	–	–	–	–
2014						
Allowance for impairment on non-current interconnect receivables	(223)	–	230	–	(7)	–

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.5 Liquidity risk

Liquidity risk is the risk that an entity in the Group will be unable to meet its obligations as they become due.

The Group's approach to managing liquidity risk is to ensure that sufficient liquidity is available to meet its liabilities when due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures it has sufficient cash on demand (currently the Group is maintaining a positive cash position) or access to facilities to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following liquid resources are available:

	2015 Rm	2014 Rm
Trade and other receivables	38 587	18 895
Current investments	1 989	2 182
Cash and cash equivalents, net of overdrafts	34 139	43 072
	74 715	64 149

The Group's undrawn borrowing facilities are disclosed in note 6.1.

During the year, currency constraints in Nigeria caused loan repayment delays by MTN Nigeria amounting to R991 million on loans denominated in US dollar. The defaults resulting from the delays were remedied before year end.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.5 Liquidity risk (continued)

The following are the contractual cash flows of financial liabilities:

	Carrying amount Rm	Total Rm	Payable within one month or on demand Rm	More than one month but not exceeding three months Rm	More than three months but not exceeding one year Rm	More than one year but not exceeding two years Rm	More than two years but not exceeding five years Rm	More than five years Rm
2015								
Borrowings	75 133	83 298	4 079	8 010	14 012	17 567	28 064	11 566
Other non-current liabilities	1 514	1 524	–	–	–	373	462	689
Trade and other payables	37 957	37 957	23 160	10 352	4 445	–	–	–
Bank overdrafts	38	38	38	–	–	–	–	–
	114 642	122 817	27 277	18 362	18 457	17 940	28 526	12 255
2014								
Borrowings	53 253	68 775	442	3 227	14 510	14 288	25 537	10 771
Other non-current liabilities	1 016	1 273	–	–	–	134	323	816
Trade and other payables	31 208	31 208	14 873	9 760	6 575	–	–	–
Derivative liabilities	2	2	–	–	2	–	–	–
Bank overdrafts	26	26	26	–	–	–	–	–
	85 505	101 284	15 341	12 987	21 087	14 422	25 860	11 587

7.1.6 Market risk

Market risk is the risk that changes in market prices (such as, interest rates and foreign currencies) 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.

7.1.6.1 Interest rate risk

Interest rate risk is the risk that arises on an interest-bearing asset or liability, due to variability of interest rates.

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents, restricted cash, trade and other receivables/payables, loans receivable/payable, bank overdrafts and other non-current liabilities. The interest rates applicable to these financial instruments are a combination of floating and fixed rates in line with those currently available in the market.

The Group's 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, MTN (Mauritius) Investment Limited and all holding companies (including MTN (Dubai) Limited 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 the Group's non-South African operations is at floating interest rates. This is due to the underdeveloped and expensive nature of derivative products in these financial markets. The Group 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.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.1 Interest rate risk (continued)

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2015		2014	
	Fixed rate instruments Rm	Variable rate instruments Rm	Fixed rate instruments Rm	Variable rate instruments Rm
Non-current financial assets				
Loans and other non-current receivables	6 040	1 253	3 071	905
Investments	262	–	223	–
Current financial assets				
Trade and other receivables	136	16 235	74	5 988
Current investments	7 624	–	4 745	–
Restricted cash	498	276	155	366
Cash and cash equivalents	18 731	5 874	20 788	7 395
	33 291	23 638	29 056	14 654
Non-current financial liabilities				
Borrowings	15 785	36 938	11 947	27 523
Other non-current liabilities	1 202	279	693	298
Current financial liabilities				
Trade and other payables	1 536	945	107	54
Borrowings	3 852	18 295	4 220	9 563
Bank overdrafts	–	38	–	26
	22 375	56 495	16 967	37 464

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.1 Interest rate risk (continued)

Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable at 31 December, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation.

The Group is mainly exposed to fluctuations in the following market interest rates: JIBAR, LIBOR, NIBOR, Prime, EURIBOR and money market rates. Changes in market interest rates affect the interest income or expense of floating rate financial instruments. Changes in market interest rates only affect profit or loss in relation to financial instruments with fixed interest rates if these financial instruments are subsequently measured at their fair value.

A change in the above market interest rates at the reporting date would have increased/(decreased) profit before tax by the amounts shown below.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as was used for 2014.

	2015 (Decrease)/increase in profit before tax			2014 (Decrease)/increase in profit before tax		
	Change in interest rate %	Upward change in interest rate Rm	Downward change in interest rate Rm	Change in interest rate %	Upward change in interest rate Rm	Downward change in interest rate Rm
JIBAR	1	(118,3)	118,3	1	(102,7)	102,7
LIBOR	1	28,9	(28,9)	1	1,4	(1,4)
Three-month LIBOR	1	(0,0)	0,0	1	(0,8)	0,8
NIBOR	1	(194,7)	194,7	1	(174,9)	174,9
EURIBOR	1	(25,8)	25,8	1	(14,3)	14,3
Money market	1	14,5	(14,5)	1	22,8	(22,8)
Prime	1	25,5	(25,5)	1	–	–
Other	1	(20,4)	20,4	1	40,4	(40,4)

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.2 Currency risk

Currency risk is the exposure to exchange rate fluctuations that have an impact on cash flows and financing activities.

The Group operates internationally and is exposed to currency risk arising from various currency exposures. Refer to the table below for the Group's exposure to foreign currency risk based on notional amounts. 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. The Group 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. Refer to note 7.5 for the Group's outstanding foreign exchange contracts. 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 when each order is placed.

The Group 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.

Foreign currency exposure

Included in the Group statement of financial position are the following amounts denominated in currencies other than the functional currency of the reporting entities:

	2015 Rm	2014 Rm
Assets		
Non-current assets		
– United States dollar	419	318
– CFA franc	261	–
– Iranian rial	2 128	–
	2 808	318
Current assets		
– United States dollar	6 421	9 169
– Euro	1 435	2 477
– Iranian rial	9 592	5 640
– British pound sterling	3	–
– South African rand	16	29
	17 467	17 315
Total assets	20 275	17 633
Liabilities		
Non-current liabilities		
– United States dollar	27 677	14 651
– Euro	1 059	1 135
	28 736	15 786
Current liabilities		
– United States dollar	8 853	8 375
– Euro	2 304	1 043
– South African rand	7	57
– Ugandan shilling	75	–
– British pound sterling	9	6
– Botswana pula	–	2
	11 248	9 483
Total liabilities	39 984	25 269

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.2 Currency risk (continued)

Sensitivity analysis

The Group has used a sensitivity analysis technique that measures the estimated change to profit or loss and equity of an instantaneous 10% strengthening or weakening in the rand against all other currencies, from the rate applicable at 31 December, for each class of financial instrument with all other variables remaining constant. This analysis is for illustrative purposes only, as in practice, market rates rarely change in isolation.

The Group is mainly exposed to fluctuations in foreign exchange rates in respect of the US dollar, euro, Iranian rial and Nigerian naira. This analysis considers the impact of changes in foreign exchange rates on profit, excluding foreign exchange translation differences resulting from the translation of Group entities that have functional currencies different from the presentation currency, into the Group's presentation currency which are recognised in the foreign currency translation reserve.

A change in the foreign exchange rates to which the Group is exposed at the reporting date would have increased/ (decreased) profit before tax by the amounts shown below.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis as applied in 2014.

Denominated: Functional currency	(Decrease)/increase in profit before tax		
	Change in exchange rate %	Weakening in functional currency Rm	Strengthening in functional currency Rm
2015			
US\$:ZAR	10	(1 256,4)	1 256,4
US\$:SYP	10	(105,8)	105,8
US\$:SDG	10	(136,9)	136,9
US\$:SSP	10	(73,9)	73,9
US\$:NGN	10	(861,7)	861,7
EUR:SDG	10	(222,1)	222,1
EUR:US\$	10	9,8	(9,8)
US\$:GNF	10	(63,2)	63,2
US\$:ZMK	10	(37,1)	37,1
IRR:ZAR	10	1 028,6	(1 028,6)
2014			
US\$:ZAR	10	(144,8)	144,8
US\$:SYP	10	(42,8)	42,8
US\$:SDG	10	(109,2)	109,2
US\$:SSP	10	(265,5)	265,5
US\$:NGN	10	(492,0)	492,0
EUR:SDG	10	(160,5)	160,5
EUR:US\$	10	(28,1)	28,1
US\$:GNF	10	(155,3)	155,3
US\$:ZMK	10	(63,4)	63,4
IRR:ZAR	10	564,0	(564,0)

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.3 Price risk

The Group is exposed to equity price risk, which arises from available-for-sale investments (see note 7.2).

Refer to note 7.1.3 for disclosure of the sensitivity of the fair values of the investments to a change in the inputs used to determine their fair values. Other comprehensive income (before tax) will be affected by the amounts disclosed in respect of these investments in note 7.1.3.

The sensitivity analysis presented in the prior year assumed a 10% change in the market value of the investment. The basis on which the sensitivity analysis is presented in the current year has changed. The absence of recent market transactions resulted in a change in the valuation technique applied to determine the fair value.

7.1.7 Capital 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 operation 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 multilateral organisations together with cash generated to meet anticipated funding requirements.

Management regularly monitors and reviews the following: net debt : EBITDA, net debt : equity and net interest : EBITDA. Net debt is defined as borrowings and bank overdrafts less cash and cash equivalents, restricted cash and current investments (excluding investments in cell captives). Equity approximates share capital and reserves. Net interest comprises of finance costs less finance income and EBITDA is defined as earnings before interest, tax, depreciation, amortisation and goodwill impairment/losses.

Notes to the Group financial statements *continued*

for the year ended 31 December 2015

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.7 Capital management (continued)

The Group's net debt : EBITDA, net debt : equity and net interest : EBITDA at the end of the year are set out below:

	2015	2014
Net debt: EBITDA		
Borrowings and bank overdrafts (Rm)	75 171	53 279
Less: Cash and cash equivalents, restricted cash and current investments (Rm)	(43 536)	(48 736)
Net debt (Rm)	31 635	4 543
EBITDA (Rm)	59 125	73 191
Net debt/EBITDA ratio	0,54	0,1
Net debt: total equity		
Net debt (Rm)	31 635	4 543
Total equity (Rm)	151 838	133 442
Net debt/total equity (%)	20,8	3,4
Net interest: EBITDA		
Net finance costs (Rm)	(3 010)	(3 668)
EBITDA (Rm)	59 125	73 191
Net interest/EBITDA (%)	(5,1)	(5,0)

7.2 Investments

Investments consist of held-to-maturity and available-for-sale financial assets that are accounted for in accordance with the accounting policy disclosed in note 7.1.

	2015 Rm	2014 Rm
Held-to-maturity financial assets		
Treasury bills and bonds with fixed rates of 5,8% to 6,3% (2014: 5,9% to 6,3% and maturity dates between 2018 and 2019 (2014: 2018 and 2019) ¹	262	223
Available-for-sale financial assets		
Investment in IHS	9 250	5 773
Unlisted equity investment	457	139
	9 969	6 135

The recoverability of the investments was assessed at the reporting date and was found not to be impaired.

¹ Denominated in Côte d'Ivoire Communauté Financière Africaine franc.