

Notes to the group financial statements continued

for the year ended 31 December 2017

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.4 New accounting pronouncements

The pronouncements listed below will be effective in future reporting periods and are considered significant to the group. The group has elected not to early adopt the new pronouncements. It is expected that the group will adopt the new pronouncements on their effective dates in accordance with the requirements of the pronouncements.

Topic	Key requirements	Effective date
IFRS 16 <i>Leases</i>	IFRS 16 specifies the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 <i>Leases</i>. The group expects that the most significant impact of the new standard will result from its current property and network site operating leases. For the year ended 31 December 2017 the group has recognised lease expenses of R13,4 billion (refer to note 2.4) and non-cancellable operating lease commitments (undiscounted) of R95 billion (refer to note 6.5). On adoption of IFRS 16 operating lease costs will no longer be recognised as operating expenses. The extent of the reduction in lease expenses is dependent on the application of the practical expedients in IFRS 16 regarding the separation of lease and non-lease components and the impact of the application of the low-value asset exemption. The new standard will require the recognition of lease liabilities and corresponding right-of-use assets. The group will recognise depreciation on the right-of-use assets and interest on the lease liabilities over the lease term in profit or loss. The initial lease liabilities and right-of-use assets recognised upon transition to IFRS 16 would likely be representative of the non-cancellable lease commitments, discounted at an appropriate rate as applicable to the operation in which the lease arises, after taking into account the impact of the practical expedients and transitional elections applied by the group. It is anticipated that while the EBITDA and the related EBITDA margin will improve significantly, depreciation and finance charges will also increase significantly. Due to the impact of reducing finance charges over the life of the lease, the impact on earnings will initially be dilutive, before being accretive in later periods. Furthermore, leases denominated in currencies that are not the functional currency of the operation will increase foreign exchange exposure. Application of IFRS 16 will therefore also impact the EBITDA:net interest, net debt and net debt:EBITDA ratios significantly. IFRS 16 permits multiple transition methods, and the group is yet to determine which transition method would be the most appropriate.	1 January 2019

Notes to the group financial statements continued

for the year ended 31 December 2017

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.4 New accounting pronouncements (continued)

Topic	Key requirements	Effective date
IFRS 15 <i>Revenue from Contracts with Customers</i>	IFRS 15 replaces the two main revenue recognition standards, IAS 18 <i>Revenue</i> and IAS 11 <i>Construction Contracts</i> and their related interpretations. IFRS 15 provides a single control-based revenue recognition model and clarifies the principles for recognising revenue from contracts with customers. The core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service. IFRS 15 also includes comprehensive disclosure requirements that will provide users with information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The group has performed a preliminary assessment of the impact of IFRS 15 and the following is expected: • A change in the timing of the recognition of subscriber acquisition costs, which is currently expensed on inception of the contract but will be capitalised and expensed over the average customer life in accordance with IFRS 15. These costs include agent's commission on postpaid contracts and SIM activation costs on prepaid contracts. • Earlier recognition of revenue in respect of services acquired that are not expected to be utilised (breakage). • Recognition of interest income and a reduction in handset revenue on transactions with a significant financing component where the period between the transfer of handsets and the subscriber payment period exceeds 12 months. • The group previously anticipated early contract upgrades and based the subscriber contract period on the expected term and accounted for any consideration received beyond the anticipated upgrade period as revenue as it was earned (mainly in its South African operation). Following the adoption of IFRS 15 the group will base the subscriber contract period on the contractual term and account for early upgrades as contract modifications that reduce revenue from the subsequent contract. • The impact on earnings is being finalised by management to enable a retrospective transitional approach to be adopted and initial indications are that it is not expected to be significant.	1 January 2018

Notes to the group financial statements continued

for the year ended 31 December 2017

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.4 New accounting pronouncements (continued)

Topic	Key requirements	Effective date
IFRS 9 <i>Financial Instruments</i>	IFRS 9 replaces IAS 39. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The adoption of IFRS 9 will require a review of the current classification of financial assets and liabilities. The categories for financial assets changed from IAS 39 to IFRS 9. The IAS 39 held-to-maturity, loans and receivables and available-for-sale categories have been replaced by fair value through other comprehensive income, fair value through profit or loss and measured at amortised cost. A preliminary assessment of MTN's business model indicates that items classified as loans and receivables are likely to be classified as measured at amortised cost. The remaining classification categories are still being finalised. The hedge accounting requirements are not expected to have a significant impact on the financial results of the group. The group has determined that the application of an expected credit loss model is likely to result in an earlier recognition of credit losses, in particular on postpaid, interconnect and enterprise business unit receivables. A preliminary impact assessment which is being finalised by management indicated that the application of the expected credit loss model is unlikely to result in material adjustments. The group has determined that retrospective restatement would require the application of hindsight. The group has therefore decided not to restate comparatives. The date of initial application of IFRS 9 for the group is 1 January 2018.	1 January 2018