

Notes to the group financial statements continued

for the year ended 31 December 2017

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 its 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 and on the following pages.

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 Impairment of goodwill and property, plant and equipment

The group tests goodwill for impairment on an annual basis, in accordance with the accounting policy disclosed in note 5.2. The group tests property, plant and equipment for impairment when there is an indication of impairment, in accordance with the accounting policy disclosed in note 5.1. The recoverable amounts of cash-generating units (CGU) 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 an appropriate CGU, being impaired. Goodwill impairment in the current year amounted to R2 631 million (2016: R873 million), refer to note 5.2. Property, plant and equipment impairment in the current year amounted to R2 518 million (2016: R175 million), refer to note 5.1.

1.5.2 IHS available-for-sale investment classification and measurement

In January 2017, the group exchanged its 51% interest in Nigeria Tower InterCo B.V., the parent company of INT Towers Limited (INT), the Nigerian telecom tower operator, for an additional shareholding in IHS Holding Limited (IHS Group) (the transaction). As a result of the transaction, the group's economic interest in the IHS Group increased from approximately 15% class B non-voting shares to an economic interest of approximately 29% comprising class A voting shares and class B non-voting shares.

An investor is presumed to have significant influence over an investee when it owns 20% of the investee, unless it can be clearly demonstrated that this is not the case. The original IHS Group shareholders' agreement remains in place and there are no changes to IHS Group's independence as an operator. Neither the interest prior to, nor the interest obtained subsequent to the transaction will allow the group to appoint a board member. In addition, IHS Group has the right to decide what strategic, financial and operational information is shared with the group.

As a result of these restrictions, the group's vote is limited to matters which relate to fundamental changes in the business or which apply in exceptional circumstances and are considered to be protective in nature. The group's rights do not constitute significant influence to participate in the financial and operating policy decisions of IHS Group. Consequently, the group continues to account for its investment in IHS Group as an available-for-sale financial instrument (note 7.2).

Available-for-sale instruments are measured at fair value through other comprehensive income.

Given the confidentiality restrictions in the shareholders' agreement with IHS Group, MTN does not have access to the IHS Group business plans or 2017 actual financial information. Any estimated earnings used to derive the existing fair value are therefore solely based on MTN management assumptions and market estimates on financial growth, currency movements, costs and performance. The investment has therefore been transferred from level 2 to level 3 of the fair value hierarchy for the current reporting period. An increase of one in the low and high end of the multiple range, keeping other inputs constant, would have resulted in an increase in the fair value of R2 148 million and a decrease of one in the low and high end of the multiple range, keeping other inputs constant, would have resulted in a decrease in the fair value by R2 148 million as at 31 December 2017. An increase of 10% in the estimated earnings used, keeping other inputs constant, would have resulted in an increase in the fair value of R3 201 million and a decrease of 10% in the estimated earnings used, keeping other inputs constant, would have resulted in a decrease in the fair value of R3 201 million as at 31 December 2017 (note 7.1.3).

Notes to the group financial statements continued

for the year ended 31 December 2017

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions (continued)

1.5.3 Dual exchange rates

The group operates in a number of foreign jurisdictions that have multiple quoted exchange rates. When several quoted exchange rates are available in a foreign jurisdiction, the group uses judgement to determine the rate at which the future cash flows represented by foreign denominated transactions or balances could have been settled if those cash flows had occurred at the measurement date in these foreign entities. For the translation of the results, cash flows and financial position of the foreign entities into the presentation currency of the group, the group uses the rate at which dividends can be remitted. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Following a review of the liquidity and sustainability of quoted exchange rates introduced in Nigeria and Sudan, the group changed the rates applicable to the relevant transactions and balances as well as the translation of the results, cash flows and financial position of these operations in the last quarter of 2017. The new quoted rates applied are considered to represent more appropriately the rate at which the future cash flows on foreign denominated transaction or balance could have been settled if those cash flows had occurred at the measurement date or the rate at which dividends can be remitted in respect of the translation of foreign entities.

Further information on the relevant exchange rates is provided in note 7.6.

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. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favourable to the group, the group seeks, where relevant, expert advice to determine whether an unfavourable outcome is probable or possible. Where payment is determined to be 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 the current and deferred tax in the period in which such determination is made.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences (as applicable) to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be used. The group applies judgement in assessing whether future taxable profits will be available. Future taxable profits are determined based on business plans for individual subsidiaries in the group and the probable reversal of taxable temporary differences in future. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Such reductions are reversed when the probability of future taxable profits improves. The group's deferred tax assets for the current year amounted to R1 593 million (2016: R1 107 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.
- 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.

Notes to the group financial statements continued

for the year ended 31 December 2017

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

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 previous years the group entered into sale and leaseback transactions with IHS that resulted in the sale of its mobile network towers in Nigeria.

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.

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 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 South 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 South Sudan Company Limited and MTN Syria (JSC) have been expressed in terms of the measuring units current at the reporting date.

MTN South Sudan Company Limited

The economy of South Sudan was assessed to be hyperinflationary effective 1 January 2016 and hyperinflation accounting was applied for the year ended 31 December 2016. Upon first application of hyperinflation, prior period losses of R123 million arising from the net monetary position were recognised directly in equity. As at 31 December 2017 and 2016, the property, plant and equipment of South Sudan was fully impaired, resulting in no hyperinflation adjustment on capital expenditure (capex) for the respective year.

Notes to the group financial statements continued

for the year ended 31 December 2017

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions (continued)

1.5.7 Hyperinflation (continued)

MTN South Sudan Company Limited (continued)

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 2017	2016	4 372	111

The cumulative inflation rate over three years as at 31 December 2017 is 2 472%. The average adjustment factor used for 2017 was 1,6.

MTN Syria (JSC)

The economy of Syria was assessed to be hyperinflationary effective 1 January 2014, and hyperinflation accounting has been applied since. 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 (US\$):Syrian pound (SYP) exchange rate.

Until 30 June 2017, hyperinflation accounting was applied by estimating Syria's inflation rate using the change in the US\$:SYP exchange rate. The SYP started strengthening against the US\$ from October 2017 onwards. Syria's 2017 estimated inflation rate using the change in US\$:SYP exchange rate, after the SYP strengthened, was negative, i.e. there was deflation in the second half of 2017.

However, the characteristics of Syria's economy continue to indicate that Syria's economy is hyperinflationary. Recognising deflation in the second half of 2017 was not considered appropriate, due to lack of sufficient available information at 31 December 2017. Therefore, a hyperinflation adjustment factor of 1 was applied from 1 July 2017 to 31 December 2017.

Date	Base year	General price index	Inflation rate (%)
31 December 2017	2014	220	(16)

The cumulative inflation rate over three years as at 31 December 2017 is 120%. The average adjustment factor used for 2017 was 1,04.

As at 31 December 2017, R1 348 million of assets previously written up for hyperinflation have been impaired with the impact being included in EBITDA during the year under review.

MTN Sudan Company Limited and Irancell Telecommunication Company Services (PJSC)

The economy of Sudan was assessed to no longer be hyperinflationary, effective 1 July 2016, and hyperinflation accounting was discontinued from this date onwards. Accordingly, the amounts expressed in terms of the measuring unit at 30 June 2016 were treated as the basis for the carrying amounts with no further hyperinflation adjustments being passed from 1 July 2016 onwards. As at 31 December 2017, the historical increase in the asset value as a result of hyperinflation accounting has been fully impaired, which resulted in a R1 690 million decrease in EBITDA in the current financial year.

In 2015, the Iranian economy was assessed to no longer be hyperinflationary and hyperinflation accounting was discontinued effective 1 July 2015 on the same basis as for MTN Sudan Company Limited with no further hyperinflation adjustments being passed from 1 July 2015 onwards. The group's results from Iran includes expenses resulting from the discontinuation of hyperinflation accounting mainly relating to the subsequent depreciation of assets that were historically written up under hyperinflation accounting. The additional income statement charge reduced equity-accounted earnings from Iran by R1 328 million for the year ended 31 December 2017 (31 December 2016: R1 853 million).

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

	2017 Rm	2016 Rm
Income statement		
Increase in revenue	504	1 026
(Decrease)/increase in EBITDA	(2 948)	246
Net monetary gain	264	1 723
Decrease in share of results of associates and joint ventures after tax	(1 328)	(1 853)
Decrease in profit after tax	(4 925)	(480)

Notes to the group financial statements continued

for the year ended 31 December 2017

1 ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS (continued)

1.5 Critical accounting judgements, estimates and assumptions (continued)

1.5.8 Accounting for the Nigeria fine

During October 2015, the Nigerian Communications Commission (NCC) imposed a fine on MTN Nigeria Communications Limited (MTN Nigeria). This fine related to the timing of the disconnection of 5,1 million MTN Nigeria subscribers who were disconnected in August and September 2015. On 10 June 2016, MTN Nigeria resolved the matter with the Federal Government of Nigeria (FGN) after the completion of an extensive negotiation process. In terms of the agreement reached, MTN Nigeria agreed to pay a total cash amount of N330 billion over three years (R25,1 billion²) to the FGN as full and final settlement of the matter in accordance with the payment terms as set out below.

The N50 billion (R4 billion³) paid in good faith and without prejudice by MTN Nigeria on 24 February 2016 formed part of the monetary component of the settlement which resulted in a cash balance of N280 billion (R21,3 billion²) outstanding on 10 June 2016, to be discharged as follows:

- N30 billion on 8 July 2016
- N30 billion on 31 March 2017
- N55 billion on 31 March 2018
- N55 billion on 31 December 2018
- N55 billion on 31 March 2019
- N55 billion on 31 May 2019

The group reclassified the provision on 10 June 2016 to a financial liability of N212,5 billion, the equivalent of R16,2 billion², for the outstanding cash payments using a discount rate of 14,71%. Management exercised judgement in determining an appropriate discount rate that represents the incremental borrowing rate for MTN Nigeria for a liability with similar cash flows. The regulatory fine was fully expensed in the prior years with an additional expense recognised in the income statement amounting to R10,5 billion for the year ended 31 December 2016. A discount unwind of R1,0 billion (2016: R1,0 billion) was recognised in finance costs during the current year relating to the outstanding liability. The balance of the liability at 31 December 2017 amounts to R6,6 billion (2016: R8,7 billion) after taking into account the payment of N30 billion (R1,3 billion³).

¹ Amount translated at an exchange rate on 24 February 2016 of R1 = N12,55.

² Amount translated on 10 June 2016 at an exchange rate of R1 = N13,15.

³ Amount translated at the March 2017 average rate R1 = N23,68.

1.5.9 Consolidation of MTN Zakhele Futhi

MTN implemented its new BBBEE transaction through a separate legal entity, MTN Zakhele Futhi (RF) Limited (MTN Zakhele Futhi) during the prior financial year. MTN Zakhele Futhi is a structured entity with the sole business of holding shares of MTN Group Limited and administering the associated funding of these shares. The group was involved in structuring MTN Zakhele Futhi, determining the level of its debt and negotiating the related debt covenants. In addition, the group holds a call option which, if exercised on the occurrence of a trigger event, entitles it to settle MTN Zakhele Futhi's debt with the third-party funders. This gives the group the ability to manage the credit risk of MTN Zakhele Futhi and consequently, the related BBBEE credentials which are dependent on the continued success of MTN Zakhele Futhi. As these activities are considered to be the relevant activities of MTN Zakhele Futhi, it is consolidated by the group.