

Notes to the group financial statements continued

for the year ended 31 December 2017

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.
- 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 and deferred income), 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 investments, trade and other receivables (excluding prepayments), restricted 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.

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.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

Subsequent measurement (continued)

Financial liabilities

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

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 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.

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. 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.

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.

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.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

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 considers natural hedges that may exist and, in addition, where possible, uses derivative financial instruments such as forward exchange contracts to hedge exposures. As a matter of principle, the group does not enter into derivative contracts for speculative purposes. The group applies hedge accounting to manage its risk of currency exchange rate volatility associated with certain of its investments in foreign operations.

Risk management is carried out under policies approved by the board of directors of the group and of relevant subsidiaries. The MTN Group treasury committee identifies, evaluates and hedges financial risks in cooperation 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 cash. Group treasury is responsible for managing the group's exposure to financial risk within the policies set by the board of directors, under the guidance of the group CFO and group board audit and risk committees.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.1 Categories of financial instruments

	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	Amortised cost Rm	Fair value through profit or loss ¹ Rm	
2017							
Non-current financial assets							
Loans and other non-current receivables	2 574	-	-	-	-	-	2 574
Investments	-	-	-	27 686	-	-	27 686
Current financial assets							
Trade and other receivables	26 368	-	-	-	-	-	26 368
Current investments	2 040	1 669	1 500	343	-	-	5 552
Derivative assets	-	205	-	-	-	-	205
Restricted cash	2 376	-	-	-	-	-	2 376
Cash and cash equivalents	16 009	-	-	-	-	-	16 009
	49 367	1 874	1 500	28 029	-	-	80 770
Non-current financial liabilities							
Borrowings	-	-	-	-	70 567	-	70 567
Nigeria regulatory fine	-	-	-	-	3 156	-	3 156
Other non-current liabilities	-	-	-	-	964	2	966
Current financial liabilities							
Trade and other payables	-	-	-	-	40 345	-	40 345
Nigeria regulatory fine	-	-	-	-	3 481	-	3 481
Borrowings	-	-	-	-	9 081	-	9 081
Derivative liabilities	-	-	-	-	-	118	118
Bank overdrafts	-	-	-	-	72	-	72
	-	-	-	-	127 666	120	127 786

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 2017

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	Amortised cost Rm	Fair value through profit or loss ¹ Rm	
2016							
Non-current financial assets							
Loans and other non-current receivables	6 249	–	–	–	–	–	6 249
Investments	–	–	221	11 620	–	–	11 841
Current financial assets							
Trade and other receivables	32 297	–	–	–	–	–	32 297
Current investments	619	1 870	5 087	282	–	–	7 858
Derivative assets	–	4	–	–	–	–	4
Restricted cash	1 020	–	–	–	–	–	1 020
Cash and cash equivalents	27 375	–	–	–	–	–	27 375
	67 560	1 874	5 308	11 902	–	–	86 644
Non-current financial liabilities							
Borrowings	–	–	–	–	67 319	–	67 319
Nigeria regulatory fine	–	–	–	–	7 369	–	7 369
Other non-current liabilities	–	–	–	–	1 122	–	1 122
Current financial liabilities							
Trade and other payables	–	–	–	–	42 243	–	42 243
Nigeria regulatory fine	–	–	–	–	1 311	–	1 311
Borrowings	–	–	–	–	19 635	–	19 635
Derivative liabilities	–	–	–	–	–	58	58
	–	–	–	–	138 999	58	139 057

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 2017

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
2017			
Current financial assets			
Trade and other receivables	3 839	(1 714)	2 125
Current financial liabilities			
Trade and other payables	4 525	(1 714)	2 811
2016			
Current financial assets			
Trade and other receivables	4 004	(1 395)	2 609
Current financial liabilities			
Trade and other payables	1 446	(1 395)	51

The amounts subject to offsetting include interconnect receivables and payables as well as sundry receivables and payables. The group has entered into agreements with the respective counterparties which permit it to offset any payables owing to the counterparty against receivables owing to the group. This right to offset exists in all circumstances and the group intends to settle on a net basis.

7.1.3 Fair value estimation

A number of the group's accounting policies and disclosures require the measurement of fair values. The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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 2017

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 measured at fair value:

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2017				
Financial assets				
Investment in IHS	–	–	27 045	27 045
Unlisted equity investments	–	–	641	641
Investment in treasury bills classified as at fair value through profit or loss	307	–	–	307
Investment in treasury bills classified as available-for-sale	343	–	–	343
Investment in cell captives	–	–	1 362	1 362
Forward exchange options	–	205	–	205
Total assets	650	205	29 048	29 903
Financial liabilities				
Fair value through profit or loss	–	–	2	2
Derivative liabilities	–	118	–	118
Total liabilities	–	118	2	120
2016				
Financial assets				
Investment in IHS	–	11 240	–	11 240
Unlisted equity investments	–	–	380	380
Investment in treasury bills classified as at fair value through profit or loss	669	–	–	669
Investment in treasury bills classified as available-for-sale	282	–	–	282
Investment in cell captives	–	–	1 201	1 201
Forward exchange contracts	–	4	–	4
Total assets	951	11 244	1 581	13 776
Financial liabilities				
Derivative liabilities	–	58	–	58
Total liabilities	–	58	–	58

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.3 Fair value estimation (continued)

Valuation methods and assumptions

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

IHS unlisted equity investment – The fair value of the investment at 31 December 2016 was determined with reference to recent transactions between market participants and consequently the investment was categorised within level 2 of the fair value hierarchy. At 31 December 2017, the absence of transactions between market participants resulted in the fair value being determined using models considered to be appropriate by management. The fair value was calculated using an earnings multiple technique and was based on unobservable market inputs including tower industry earnings multiples of between 13x to 17x applied to MTN management's estimates of earnings, less estimated net debt.

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.

An increase of R4 249 million (December 2016: R2 672 million) has been recognised for the year under review in other comprehensive income resulting from the change in fair value.

Other unlisted equity investments – Fair values have been estimated using a discounted cash flow model. The discounted cash flow model requires management to make 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. The net asset value is determined from statements received from the insurer in respect of the net assets of the cell.

Investment in treasury bills – The fair value of these investments is determined by reference to published price quotations in an active market.

Fair value measurements for financial instruments not measured at fair value

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.

The fair values of the majority of the non-current receivables and liabilities measured at amortised cost, other than for the instruments listed below, are also not significantly different to their carrying values.

The group has listed long-term fixed interest rate senior unsecured notes in issue which were issued in prior years, with a carrying amount of R9 297 million at 31 December 2017 (2016: R10 354 million) and a fair value of R9 284 million (2016: R9 494 million). The notes are listed on the Irish bond market and the fair values of these instruments are determined by reference to quoted prices in this market. The market for these bonds is not liquid and consequently the fair value measurement is categorised within level 2 of the fair value hierarchy.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.3 Fair value estimation (continued)

Fair value measurements for financial instruments not measured at fair value (continued)

During the 2016 year, the group issued US\$1 billion listed long-term fixed interest rate unsecured notes. Notes with a face value of US\$500 million are redeemable in 2022 (the 2022 notes), with the remaining US\$500 million redeemable in 2026 (the 2026 notes). At 31 December 2017, the carrying amount of the 2022 notes is R6 239 million (2016: R6 849 million) and the fair value is R6 432 million (2016: R6 958 million); and the carrying amount of the 2026 notes is R6 229 million (2016: R6 856 million) and the fair value is R6 718 million (2016: R6 727 million). The notes are listed on the Irish bond market and the fair value of these instruments is determined by reference to quoted prices in this market. The market for these bonds is not considered to be liquid and consequently the fair value measurement is categorised within level 2 of the fair value hierarchy.

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 2016	1 187
Contributions paid to insurance cell captives	527
Claims received by cell captives	(617)
Gain recognised in profit or loss	104
Balance at 31 December 2016	1 201
Balance at 1 January 2017	1 201
Contributions paid to insurance cell captives	409
Claims received by cell captives	(209)
Loss recognised in profit or loss	(39)
Balance at 31 December 2017	1 362
	Investments Rm
Balance at 1 January 2016	9 707
Transfers to level 2 (IHS) ¹	(9 250)
Acquisitions	61
Foreign exchange differences	(138)
Balance at 31 December 2016	380
Balance at 1 January 2017	380
Transfers from level 2 (IHS) ¹	11 240
Acquisition	132
Exchange right exercise (IHS)	13 767
Gain on available-for-sale investment	4 439
Foreign exchange differences	(2 272)
Balance at 31 December 2017	27 686

¹ The group considers transfers between fair value hierarchy levels to have occurred at the beginning of the year.

Notes to the group financial statements continued

for the year ended 31 December 2017

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:

	2017 Rm	2016 Rm
Loans and other non-current receivables	2 574	6 249
Investments	–	221
Trade and other receivables	26 368	32 297
Current investments	5 552	7 858
Derivative assets	205	4
Restricted cash	2 376	1 020
Cash and cash equivalents – net of overdraft	15 937	27 375
	53 012	75 024

Cash and cash equivalents and current investments

The group determines appropriate internal credit limits for each counterparty. In determining these limits, the group considers the counterparty's credit rating established by an accredited ratings agency and performs internal risk assessments. The group manages its exposure to a single counterparty by spreading transactions among approved financial institutions. The group treasury committee regularly reviews and monitors the group's credit exposure.

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 AA- (2016: B- to AA+).

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

Investment in cell captives

The group has exposure to the credit risk of the insurance company through its investment in preference shares in its cell captive arrangements. However, the group has access to the assets of the cell which reduces this risk.

Trade receivables

A large portion of the group's postpaid market revenues are generated in South Africa. There are no other significant concentrations of credit risk, since the other operations within the group operate largely within the prepaid market. The group has policies in place to ensure that retail sales of products and services are made to customers with an appropriate credit history. Before credit is granted to a customer, the group performs credit risk assessments through credit bureaus. The group insures some of its trade receivables in its South African operation, in which instance the credit risk assessments are performed by the credit insurer prior to the granting of credit by the group. In terms of this arrangement, R7,9 billion has been insured for which the group's risk is limited to R25 million. In addition, some entities within the group require potential customers to obtain guarantees from banks before credit is granted.

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 enable collection of outstanding amounts.

Notes to the group financial statements continued

for the year ended 31 December 2017

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

	2017			2016		
	Gross Rm	Impaired Rm	Net Rm	Gross Rm	Impaired Rm	Net Rm
Fully performing trade receivables	10 713	–	10 713	10 390	–	10 390
Interconnect receivables	1 528	–	1 528	1 034	–	1 034
Contract receivables	1 311	–	1 311	1 979	–	1 979
Other receivables	7 874	–	7 874	7 377	–	7 377
Past due trade receivables	8 689	(2 753)	5 936	9 438	(2 538)	6 900
Interconnect receivables	2 845	(773)	2 072	2 827	(736)	2 091
0 to 3 months	567	(17)	550	673	(1)	672
3 to 6 months	610	(94)	516	394	(39)	355
6 to 9 months	296	(33)	263	416	(96)	320
9 to 12 months	1 372	(629)	743	1 344	(600)	744
Contract receivables	2 042	(1 217)	825	2 984	(1 361)	1 623
0 to 3 months	756	(396)	360	977	(46)	931
3 to 6 months	322	(215)	107	989	(583)	406
6 to 9 months	111	(50)	61	183	(132)	51
9 to 12 months	853	(556)	297	835	(600)	235
Other receivables	3 802	(763)	3 039	3 627	(441)	3 186
0 to 3 months	1 297	(147)	1 150	1 875	(16)	1 859
3 to 6 months	1 486	(347)	1 139	979	(353)	626
6 to 9 months	121	(91)	30	109	(27)	82
9 to 12 months	898	(178)	720	664	(45)	619
Total	19 402	(2 753)	16 649	19 828	(2 538)	17 290

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.4 Credit risk (continued)

Trade receivables (continued)

Total past due per significant operation

	Interconnect receivables Rm	Contract receivables Rm	Other receivables Rm	Total Rm
2017				
MTN South Africa	72	689	1 687	2 448
MTN Nigeria	769	344	98	1 211
MTN Côte d'Ivoire	61	292	322	675
MTN Yemen	405	75	39	519
MTN Cameroon	88	49	375	512
MTN Benin	342	288	138	768
Other operations	1 108	305	1 143	2 556
	2 845	2 042	3 802	8 689
2016				
MTN South Africa	158	1 300	2 002	3 460
MTN Nigeria	718	473	–	1 191
MTN Côte d'Ivoire	356	252	237	845
MTN Yemen	504	118	37	659
MTN Cameroon	100	196	–	296
MTN Benin	193	37	146	376
Other operations	798	608	1 205	2 611
	2 827	2 984	3 627	9 438

Allowance for impairment of trade receivables

	At the beginning of the year Rm	Additions ¹ Rm	Reversals ¹ Rm	Utilised	Net monetary gain Rm	Exchange differences and other movements ² Rm	At the end of the year Rm
2017							
Allowance for impairment of trade receivables	(2 538)	(857)	21	442	2	177	(2 753)
2016							
Allowance for impairment of trade receivables	(3 459)	(1 001)	542	625	18	737	(2 538)

¹ A net impairment loss of R836 million (2016: R459 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.

Notes to the group financial statements continued

for the year ended 31 December 2017

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.

Group treasury develops strategies to ensure that the group has sufficient cash on demand or access to facilities to meet expected operational expenses, and to service financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. Group treasury performs regular cash flow forecasts, monitors cash holdings of the group, negotiates lines of credit and sets policies for maturity profiles of loans.

The following liquid resources are available:

	2017 Rm	2016 Rm
Trade and other receivables	26 368	32 297
Current investments	5 552	2 771
Cash and cash equivalents, net of overdrafts	15 937	27 375
	47 857	62 443

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

Although cash held by MTN Nigeria, MTN Sudan, MTN South Sudan and Areeba Guinea S.A. is available to settle liabilities denominated in the local currency in the respective country of operation, access to foreign currency in the country is constrained.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.5 Liquidity risk (continued)

The following are the undiscounted 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
2017								
Borrowings	79 648	91 945	2 438	1 469	9 433	9 825	50 898	17 882
Other non-current liabilities	966	1 139	–	–	–	153	252	734
Nigeria regulatory fine	6 637	7 576	–	1 894	1 894	3 788	–	–
Trade and other payables	40 345	40 345	23 634	9 997	6 714	–	–	–
Derivative liabilities	118	118	68	–	50	–	–	–
Bank overdrafts	72	72	–	72	–	–	–	–
	127 786	141 195	26 140	13 432	18 091	13 766	51 150	18 616
2016								
Borrowings	86 954	97 982	4 142	1 785	17 291	9 000	41 284	24 480
Other non-current liabilities	1 122	1 185	–	–	–	361	211	613
Nigeria regulatory fine	8 680	10 961	–	1 315	–	4 823	4 823	–
Trade and other payables	42 243	42 245	26 288	10 892	5 065	–	–	–
Derivative liabilities	58	58	36	22	–	–	–	–
	139 057	152 431	30 466	14 014	22 356	14 184	46 318	25 093

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk

Market risk is the risk that changes in market prices (such as interest rates, foreign currencies and equity prices) will affect the group's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Derivatives are entered into solely for risk management purposes and not as speculative investments. The group treasury policy specifies approved instruments which may be used to economically hedge the group's exposure to variability in interest rates and foreign currency and to manage and maintain market risk exposures within the parameters set by the group's board of directors.

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, borrowings, 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 floating rate debt, incremental funding or new borrowings, the refinancing of existing borrowings and the magnitude of the cash balances which exist. The group aims to maintain its mix of fixed and floating rate debt within internally determined parameters, however, this depends on the market conditions in the geographies where the group operates.

Holding companies' (as disclosed in note 9.1), including MTN (Mauritius) Investments Limited, debt is managed on an optimal fixed versus floating interest rate basis, in line with the approved group treasury policy.

Debt in the majority of the group's non-South African operations is mainly at floating interest rates. This is due to the environment and availability of funding in the market in which the entity operates. The group continues to monitor developments which may create opportunities as these markets evolve in order to align each underlying operation with the group treasury policy. Group treasury reports on the interest rate profile, in particular that of the holding companies, to the group treasury, board, audit and risk committees on a regular basis.

Where appropriate, the group uses interest rate derivatives and other suitable hedging tools as a way to manage interest rate risk. The group does not apply hedge accounting to these derivatives.

Notes to the group financial statements continued

for the year ended 31 December 2017

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:

	2017		2016	
	Fixed rate instruments	Variable rate instruments	Fixed rate instruments	Variable rate instruments
	Rm	Rm	Rm	Rm
Non-current financial assets				
Loans and other non-current receivables	1 357	–	3 914	1 099
Investments	–	–	221	–
Current financial assets				
Trade and other receivables	5 670	1 457	10 084	2 028
Current investments	4 190	–	6 657	–
Restricted cash	273	183	44	142
Cash and cash equivalents	4 215	4 937	11 570	9 174
	15 705	6 577	32 490	12 443
Non-current financial liabilities				
Borrowings	28 017	42 550	31 704	35 808
Other non-current liabilities	704	250	909	185
Current financial liabilities				
Trade and other payables	2 423	1 255	3 234	1 008
Borrowings	2 125	6 859	4 523	14 623
Bank overdrafts	72	–	–	–
	33 341	50 914	40 370	51 624

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.2 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.

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 2016.

	2017 (Decrease)/increase in profit before tax			2016 (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	(262,9)	262,9	1	(199,6)	199,6
LIBOR	1	(132,3)	132,3	1	(122,2)	122,2
Three-month LIBOR	1	1,9	(1,9)	1	(0,6)	0,6
NIBOR	1	(70,9)	70,9	1	(82,5)	82,5
EURIBOR	1	(5,0)	5,0	1	(18,7)	18,7
Money market	1	8,3	(8,3)	1	6,9	(6,9)
Prime	1	38,4	(38,4)	1	73,1	(73,1)
Other	1	(9,3)	9,3	1	(28,7)	28,7

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.3 Currency risk

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

Currency risk arises on recognised financial assets and liabilities which are denominated in a currency that is not the entity's functional currency. The group aims to maintain its foreign currency exposure within internally determined parameters, however, this depends on the market conditions in the geographies where the group operates. Group treasury reports on the status of foreign currency positions or derivatives to the group treasury committee on a regular basis.

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.

Sensitivity analysis

The group has used a sensitivity analysis technique that measures the estimated change to profit or loss and to 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 and Iranian rial. This analysis considers the impact of changes in foreign exchange rates on profit or loss and equity.

The analysis excludes 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.

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 group has changed the presentation to indicate the impact of the foreign exchange exposure on both profit or loss before tax and equity. Intercompany balances that are denominated in a currency other than the functional currency of the entity are reflected as either impacting profit or loss before tax, or equity in the case of loans that are not repayable in the foreseeable future.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.3 Currency risk (continued)

Sensitivity analysis (continued)

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

Denominated: functional currency	Increase/(decrease) in profit before tax, or (increase)/decrease in loss before tax				Increase/(decrease) in equity		
	Net assets/ (liabilities) denominated in foreign currency	Change in exchange rate %	Weakening in functional currency Rm	Strengthening in functional currency Rm	Change in exchange rate %	Weakening in functional currency Rm	Strengthening in functional currency Rm
2017							
US\$:ZAR ¹	2 259	10	226,0	(226,0)	10	–	–
US\$:SYP	(522)	10	(0,4)	0,4	10	(51,8)	51,8
US\$:SDG	(993)	10	195,7	(195,7)	10	(295,0)	295,0
US\$:SSP	(4 654)	10	(21,9)	21,9	10	(443,5)	443,5
US\$:NGN ¹	(5 352)	10	(535,2)	535,2	10	–	–
EUR:SDG	(1 491)	10	(149,1)	149,1	10	–	–
EUR:US\$	873	10	87,3	(87,3)	10	–	–
US\$:GNF	(2 457)	10	(30,7)	30,7	10	(215,0)	215,0
US\$:ZMK	(618)	10	(61,8)	61,8	10	–	–
IRR:ZAR	5 425	10	542,5	(542,5)	10	–	–
EUR:ZAR	(812)	10	(81,2)	81,2	10	–	–
2016							
US\$:ZAR ¹	1 669	10	166,9	(166,9)	10	–	–
US\$:SYP	(452)	10	(2,2)	2,2	10	(43,0)	43,0
US\$:SDG	(1 386)	10	(21,2)	21,2	10	(117,4)	117,4
US\$:SSP	(4 909)	10	(25,2)	25,2	10	(465,7)	465,7
US\$:NGN ¹	(4 036)	10	(403,6)	403,6	10	–	–
EUR:SDG	(1 850)	10	(185,0)	185,0	10	–	–
EUR:US\$	1 592	10	159,2	(159,2)	10	–	–
US\$:GNF	(2 674)	10	(38,8)	38,8	10	(228,6)	228,6
US\$:ZMK	(792)	10	(79,2)	79,2	10	–	–
IRR:ZAR	11 752	10	1 175,2	(1 175,2)	10	–	–
EUR:ZAR	(1 845)	10	(184,5)	184,5	10	–	–

¹ Reduced by the impact of the net investment hedge as disclosed in note 7.5.

Notes to the group financial statements continued

for the year ended 31 December 2017

7 FINANCIAL RISK (continued)

7.1 Financial risk management and financial instruments (continued)

7.1.6 Market risk (continued)

7.1.6.4 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.

7.1.7 Capital management

The group's policy is to borrow using a mixture of long-term and short-term borrowing facilities to meet anticipated funding requirements. Borrowings are managed within the group's established debt:equity ratios. The group seeks 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.

Management regularly monitors and reviews net debt:EBITDA, and net interest:EBITDA ratios.

Under the terms of the major borrowing facilities, the group is required to comply with financial covenants relating to net debt:EBITDA and net interest:EBITDA. The group has complied with all externally imposed covenants during the current and prior year.

The group's net debt:EBITDA, net debt:equity and net interest:EBITDA at the end of the year are set out below. 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 finance costs less finance income and EBITDA is defined as earnings before interest (which includes gains and losses on foreign exchange transactions), tax, depreciation and amortisation and is also presented before recognising the following items:

- Impairment of goodwill.
- Loss in derecognition of long-term loan receivable.
- Net monetary gain resulting from the application of hyperinflation.
- Share of results of associates and joint ventures after tax.

	2017	2016
Net debt:EBITDA		
Borrowings and bank overdrafts (Rm)	79 720	86 954
Less: Cash and cash equivalents, restricted cash and current investments (Rm)	(22 575)	(35 052)
Net debt (Rm)	57 145	51 902
EBITDA (Rm)	46 955	40 751
Net debt:EBITDA ratio	1,2	1,3
Net debt:total equity		
Net debt (Rm)	57 145	51 902
Total equity (Rm)	94 267	105 231
Net debt:total equity (%)	60,6	49,3
Net interest:EBITDA		
Net finance costs (Rm)	(9 267)	(10 495)
EBITDA (Rm)	46 955	40 751
Net interest:EBITDA (%)	(19,7)	(25,8)