22 October 2010

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

MTN Group Limited
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Re: Exposure Draft - Revenue from Contracts with Customers

We are pleased to respond to the invitation by the IASB and the FASB ("the boards") to comment on your Exposure Draft, Revenue from Contracts with Customers. Whilst we are supportive of a single contract based asset and liability model, we believe that the proposed model may pose certain practical challenges and in some instances result in answers that do not reflect the economics of the transaction. We have discussed these below.

Our answers to the specific questions in the exposure draft are attached in the Appendix to this letter ("Appendix A").

Specific areas of concern

Relative selling prices in the context of performance obligations.

The exposure draft requires the "relative selling price" approach to be followed in allocating the transaction price to the performance obligations. For purposes of our business, as a telecommunications operator we routinely enter into revenue contracts with multiple performance obligations. The stand-alone selling prices of specific performance obligation (e.g., a handset) varies widely on a day-to-day basis and between different sellers of a product. The fair value of the stand-alone selling price of the handset is therefore not reliably estimable.

The proposed requirement will also have a major impact on our billing systems and IT infrastructure and we believe that the cost of implementing this principle in its current format would exceed the benefit.

We recommend retaining the accounting policy choice of using either the relative fair value selling price approach or the residual method as currently available under IAS 18 – Revenue.

Accounting for product warranties and latent defects

The proposed models for product warranties and latent defects pose practical problems, given that assessing whether a defect is latent or arises from normal wear and tear will require information that either may not exist or for which the cost may exceed the benefit.

We recommend that a consistent approach be applied across both models (warranties and latent defects) and are of the view that the performance obligation approach is the more practical concept.
Assessment of transfer of control

The exposure draft clearly demonstrates the principle of transfer of control for goods, but is less clear for the provision of services. We recommend additional guidance for assessing the transfer of control as it relates to services. Specifically connection fees are problematic for telecommunication operators.

Measurement of revenue (including time value of money)

Determining the time value of money component of the revenue transaction is complex. It is our view that separating the time value of money component is not always appropriate, because transactions are not always explicitly priced with consideration for the time value of money component. We believe, the boards should consider the inclusion of practical expedients for time value of money.

Measuring credit risk of the customer in recognising revenue

We believe considering the individual customer’s credit risk is complex and not practical.

Onereous obligations

The proposed approach for onerous obligations requires assessment on an individual performance obligation basis. We do not believe that this would result in the economics of transactions being reflected in instances where entities have ‘loss leaders’ or single elements that are unprofitable yet where the contract as a whole remains profitable.

Disclosure

We are of the view that the proposed disclosure requirements are onerous and excessive. Such a volume of information may serve to detract from other useful information contained in the financial statements. Additionally, we believe the disclosure of future obligations is forward looking information and should not be included in the financial statements.

Application date and retrospective application

If the boards decide to implement the solutions as proposed by the exposure draft, we recommend that the boards provide sufficient time to implement these changes. We also believe the boards should reconsider the requirement to apply the standard retrospectively.

Yours faithfully,

Philiswe Sibiya
General Manager – Group Finance

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Appendix A

Exposure Draft on Revenue from Contracts with Customers

Question 1

Paragraphs 12-19 propose a principle (price interdependence) to help an entity determine whether to:

(a) combine two or more contracts and account for them as a single contract;
(b) segment a single contract and account for it as two or more contracts; and
(c) account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

We agree with the above principle as this would represent the substance of the contract as opposed to the legal form. We suggest eliminating "price" from the proposed principle and adding price interdependency to the list of indicators. Price interdependency would be a key consideration in this regard.

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We agree with the principle, however, we are of the view that the final standard should provide greater clarity on whether performance obligations are determined based on the view of the seller or the customer. Without this clarification it may be difficult consistently to identify the same performance obligations for similar product lines. In bundled contracts there may be many components and we would need to consider if these are all performance obligations.

We therefore believe "significant" performance obligations should be accounted for separately and "significant" should be defined within the terms of the contract. A bundled offer could consist of the following within the telecommunications environment: free minutes, sim cards, dual sim cards, handsets, loyalty points, free itemised billing, data services etc.

In some instances there could be as many as 20 components and separating these would seem excessive and pose significant challenges such as the reconfiguration of our billing systems which would require major capital outlay.

Question 3

Do you think that the proposed guidance in paragraphs 25-31 and related application guidance are sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

We believe the guidance for control needs to be expanded especially in respect of the control of services. We also believe that in our legal and regulatory environment, legislation, such as our Consumer Protection Act, makes it difficult to determine if control has transferred as the customer has been provided with significant rights per the law in terms of being able to return products. These would need to be considered in the evaluation of control.

Connection fees are problematic as it seems from the proposed requirements of the standard that such fees should be accounted for over the period, as opposed to, at the inception of the contract. In some instances we believe this should be seen as a performance obligation and should be recognised upfront as this is specific to a performance (i.e. initial connection to the network).
Question 4

The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonably estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the proposed criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

We agree that the estimated transaction price should be used. However we believe that there should be greater clarity around the interaction of variable consideration and contract modifications.

In terms of our post paid contracts determining the estimated transaction price will be complex and would depend on the ARPU ("average revenue per user") achieved in the area. We believe the estimated transaction price approach applied together with the relative selling price principles would result in more revenue being recognised upfront. We believe that revenue may be manipulated if this approach is followed:

The following example demonstrates this concern:

**Contract:**

| Handset: | Stand-alone selling price: | R5 000 |
| Service contract: | Stand-alone selling price: | R2 400 (2 years x 12 x R100) |
| Additional minutes: | Stand-alone selling price: | R4 800 |

**Contract price: R2,400 plus additional minutes of R4 800 = R7 200**

**Revenue: Current method**

| Service contract: | R2 400 (recognised over the service period) |
| Handset: | Rnil (R2 400- R2,400) (recognised upon transfer of risk and rewards) |
| Additional minutes | R4 800 (recognised as services are rendered) |
| Total | R7 200 |

**Revenue: Relative selling price method:**

| Service contract/ Minutes: (includes additional minutes) | R4 249 (recognised as control passes, i.e. services are rendered) |
| Handset: | R2 950 (recognised on transfer of control, i.e. transaction date) |
| Total | R7 200 |

Relative selling price = Handset = 5000/12200 * 7200 = R2950
Relative selling price = Service contract/ Minutes = (2400+4800)/12200 * 7200 = 4,249

We do not believe recognising more revenue upfront for the sale of the handset is appropriate. The determination of the selling price of the components is complex and changes on a daily basis in some of our markets.

The above example demonstrates that revenue would have been accounted for at inception while cash would only be accounted for subsequently. This demonstrates a disconnect between revenue and cash. This would be a fundamental change and we would need to educate the users and analysts in understanding the financial statements. The MTN Group does not price transactions in this manner.
Question 5

Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why not?

We believe that the requirement to include the credit risk in the measurement of the revenue results in undue complexity. We have post paid customers and various interconnect and roaming partners across a number of geographic areas in various developing markets and it would be difficult to measure the credit risk for all customers.

We believe that adjustments to credit risk subsequent to the initial measurement should also be adjusted against revenue, consistently with other adjustments, e.g. variable consideration. In addition, we are concerned about disclosure that may be required if the credit risk is performed on a segmented basis as this information is extremely sensitive.

As illustrated in question 4, we believe recognition of revenue when there is significant uncertainty about the collection of the cash is counterintuitive.

Question 6

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree with the proposal but would like to indicate that this is practically very difficult especially in terms of multiple element transactions. We urge the boards to consider a practical expedient in this regard similar to the simplified requirements for short-term leases within the exposure draft on Leases.

Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate, and how should the transaction price be allocated in such cases?

In the telecommunications industry determining a stand-alone selling price based on a fair value or cost plus approach is complex. This results in applying the principle in practice being very difficult. We strongly recommend that the boards allow an accounting policy choice between the relative selling price- and the residual method for multiple element transactions. This has been an acceptable practice within the telecommunications industry historically and the change to relative selling price will require substantive costly system changes and complex accounting entries. Determining the stand alone selling price would need to take into consideration the competitor environment, changes expected in the competitor environment and the effect this has on the pricing.

Question 8

Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example, IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.

Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why not?

We agree with the above requirement.
Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purposes of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.

Do you agree with the costs specified? If not, what costs would you include or exclude and why?

We concur with above requirement.

Question 10

The objective of the boards’ proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

We are of the view that the disclosure requirements are onerous and may be excessive, specifically the disclosures related to future performance obligations, which we believe may result in the disclosure of forward looking information.

Question 11

The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.

Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We are of the view that the disclosure requirements are onerous and may be excessive, specifically the disclosures related to future performance obligations, which we believe may result in the disclosure of forward looking information. We believe that the billing system would need to be tailored to be enabled to prepare this information. Practically this is a major concern for our group.

Question 12

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

Yes, we agree revenue should be disaggregated into how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (i.e., as if the entity had always applied the proposed requirements to all contracts in existence during any reporting periods presented)? If not, why?

Is there an alternative transition method that would preserve trend information about revenue but at a lower cost? If so, please explain the alternative and why you think its better.

We agree the standard should be applied retrospectively but urge the boards to consider practical considerations for some relief for multiple element transactions that have occurred.

Application of the requirements retrospectively will be extremely difficult to achieve and data would need to start being collected significantly in advance of the effective date.
Question 14

The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposals operational? If not, what additional guidance do you suggest?

We agree the application guidance is useful and provides guidance on the operational aspects of the new exposure draft.

Question 15

The boards propose that an entity should distinguish between the following types of product warranties:

(a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.

(b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?

We do not believe it is beneficial to distinguish between the two types of warranties and we recommend that all warranties be treated as performance obligations.

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:

(a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and

(b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and it satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

We have not provided any response on this as we do not have such products.

Question 17

The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

Yes, we agree with above proposals.

Question 18

[IFAS only] Should any of the proposed requirements be different for non-public entities (private companies and not-for-profit organisations)? If so, which requirement(s) and why?

This question is not applicable to us as we apply IFRS.
Other considerations

System implications

As noted previously, whilst we welcome guidance for recognition of revenue, we believe the boards should be cognisant of the cost benefit implications. The implementation of the above requirements would have significant cost implications. The Group has recently implemented a new billing system in one of its operations where it has taken over 36 months to complete and proved to be extremely costly. The current costs for the new billing system were in the region of R600 million. In applying the above requirements, the same process would need to be performed. Additional staff would need to be employed and the changes will be onerous on the current business model within our group.

Variability in cash flows and stand-alone selling prices

We believe there is substantial variability in determining the cash flows and fair values under the proposed requirements. It is our view that the requirements could result in misleading revenue recognition within the telecommunications industry.

Onorous contracts

Currently, connection incentives are expensed when incurred. The MTN Group currently enters into hybrid contracts which have both post paid and prepaid components. These contracts are initially loss bearing and onerous but generally become profitable later on. The contracts would need to be disclosed as onerous and we believe this is not appropriate as these contracts were not priced as onerous on day 1. These contracts were priced in a specific manner.

Furthermore, in pricing contracts the performance obligations are not viewed independently but are viewed as a package. If such products were sold separately a different pricing structure would be used.

The Group takes into consideration mobile portability ("the possibility to move to other operators") of users when pricing contracts and uses incentives to retain customers.

However, in terms of the requirements of the proposals, these would presumably be shown as onerous contract provisions. This does not represent the substance of these contracts and we urge the boards to reconsider the onerous contract assessment or requirement.

Percentage of completion

For certain larger businesses, MTN provides the full solution which may require setting up and constructing virtual private networks. These are currently accounted for under the percentage of completion method and it is currently not clear how these would be accounted for under the new requirements. The new requirements seem to imply this would be recognised upfront. It does not seem appropriate only to account for the revenue on the date the construction and set up is complete. These are designed on request of the clients and per their requirements. The contract cannot be transferred to other users and MTN would be the only company able to complete such a project.