15 December 2010

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

MTN Group Limited
216 14th Avenue
Fairland
South Africa

Re: Exposure Draft – Leases

We are pleased to respond to the invitation by the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") ("the boards") to comment on your Exposure Draft, Leases.

Whilst we believe the accounting for operating and finance leases should be similar, the proposals as set out by the IASB are complex and not necessarily appropriate in terms of the economics of certain leases. Essentially, most operating leases are not viewed as financial arrangements but are seen to be fixed operating expenses which should be seen as part of the operating costs and not as part of the financial expenses of an entity. In terms of the telecommunication industry these costs form a significant component of operating expenses and would substantially change the reporting of MTN.

Cost versus benefit of the proposals

In addition, we would urge the IASB to consider the practical implications of the proposals as we are not convinced the benefits exceed the costs in this regard. MTN has in excess of 30,000 leases to which the proposals would need to be applied. The majority of these have options to extend and if the contingent rentals were to eventually be applied to intangible assets we believe this would significantly affect the MTN balance sheet as consideration would need to be given to the telecommunication license which is based on revenue earned.

Options to extend

The proposals for options to extend are too judgement and is inconsistent with other guidance in IFRS namely IAS 32 – Financial Instruments: Presentation as the fact that the liability could be avoided is not considered in an option to extend. We firmly believe options to extend should not be considered until these have been exercised. Furthermore, it is not clear as to whether other implicit factors such as the telecommunication licenses should be considered whilst determining the rental of base station rental sites as this would then require management to estimate how long MTN would operate the telecommunication license for.

Over and above the following noted, we are also not sure whether an option to extend with no fixed terms and conditions for example if the contract merely stipulated the contract could be extended for another 5 years with terms and conditions only to be agreed at that date or at a market rental would constitute an option to extend.
Contingent rentals

We do not believe contingent rentals should be considered in determining the lease liability and the guidance for this should be considered especially in light of the exclusion of intangible assets as many of these types of assets have terms whereby the cost is determined based on the revenue earned.

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

Yours faithfully,

[Signature]

PhiliSwe Sibiya
General Manager – Group Finance
Appendix A – Exposure Draft: Leases

Question 1: Lessees

a) Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We agree that the lessee should recognise an asset representing a right of use asset and a liability to make lease payments as this is consistent with the definition of a financial liability under IAS 32 – Financial Instruments: Presentation.

The MTN Group has in excess of 30 000 site leases for network base stations and these are all accounted for as operating leases. In accordance to the proposals, all of these leases would need to be capitalised as right-of-use assets. This would involve new systems to manage the right-of-use assets, compute the lease liability and associated interest and to produce the required disclosure information. Costs associated with implementing the proposals are thus likely to be exorbitant. More specifically MTN does not monitor the costs of operating expenses as finance transactions but more as fixed operational expenditure. This will result in a change in which the business is managed. Currently, MTN uses the Earning Before Interest, Tax, Depreciation and Amortisation (“EBITDA”) as a performance measure and this would need to be redefined for reporting purposes.

In addition, a large portion of these leases are sublet to fellow members of the mobile telecommunications industry. In accordance with the proposals an assessment needs to be made to establish whether MTN is under the Performance Obligation model or the Derecognition model. This would require MTN would need to manage, track and account for the relevant lease assets, lease liabilities, lease income and lease expense which is currently off balance sheet and seen merely as an operating income.

As noted the lessee proposals will result in significant costs for the MTN Group and as a result the lessor proposals will also require additional costs for monitoring of the above requirements.

In terms of the proposals we are also of the view that the measurement criteria for these leases in complex and not in accordance with current guidance under IFRS. Please refer to the relevant sections dealing with this matter.

b) Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?

We agree that the lessee should recognise amortization for the right-of-use asset as the value of the right of use diminishes over the lease period. We agree that a lease is a form of a financing arrangement and it would attract interest but at MTN operating leases are viewed more of a operational expenditure and do not necessarily agree with the proposed change in presentation of the expense.

Furthermore, the proposals stipulate that there are two alternatives for determining the present value of liability to make lease payments:

I. discount using the lessee’s incremental borrowing rate or,
II. discount using the rate the lessor charges the lessee.

The MTN Group’s operations are predominantly based developing countries where information related to both these alternatives might not readily available. The entities incremental borrowing rate might be available for shorter periods (e.g. three years), however many of the leases usually attract longer periods (e.g. six years). There is insufficient evidence to determine the rate for such a long period of time.
In order to determine the rate implicit in the lease the lessee needs to know the fair value of the underlying asset or a similar lease. This information might not be available and estimates would need to be established. These could bring about a high degree of estimation and could result in inaccurate amounts being capitalised, especially considering that the rate used for this purpose may not be changed subsequently.

We wish to raise awareness regarding the income statement (statement of comprehensive income) impact of the amortization expense and the interest expenses over the lease period. In accordance with IAS 17.33 operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user’s benefit. In the proposals this concept is effectively removed. In a finance arrangement the interest component has an effect of reducing over time in line with the capital component. Thus for leases that run over a few years the total lease expense would gradually diminish after having an effect of being very large at the beginning of the lease period and being small at the end of the lease. This does not reflect the benefits obtained from the leased asset.

As stated above, MTN has a number of leases being accounted for as operating leases. In the 2009 financial statements the operating lease amounted to about US$ 75 million. This lease expense line item is dominated by network bases station leases. In the statement of comprehensive income the operating leases are currently presented under operation expenses. This is because by nature they are a key part of the operation.

Under the proposals these lease expenses would need to be presented in the amortization and finance charge in the statement of comprehensive income. Thus the operating expenses of the business would not be presented in full in one place for users of the financial statements to view and consider. We believe that this is a concern as the full picture if operationally related costs shall be difficult to conclude on.

As noted above, analysts use the EBITDA measure as a key profitability measure. This is used specifically to assess operations profitability not considering financing and matters capital in nature. This measure would be rendered useless by the proposal at it would place the operational expenses, the lease expenses, elsewhere in the statement of comprehensive income thus distorting the measure.

MTN uses EBITDA as a measure for remuneration for relevant management staff as it includes revenue and operational related costs. As explained above this measure would now be useless.

We agree with the proposals that initial direct costs should be capitalised to the right-of-use asset. However we believe that the IASB should provide further guidance on this matter. For example we are uncertain of lease incentives costs should be capitalised.

Question 2: Lessor

a) Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

We agree that the lessor should apply the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and the derecognition approach otherwise.

b) Do you agree with the boards’ proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to
lessor accounting? Why or why not? If not, what alternative model would you propose and why?

We agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting.

Question 3: Short-term leases

Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

We agree with the proposal to provide relief for short term leases but believe there may be situations whereby some leases which are identical but that are slightly longer than one year may be accounted for differently. However we have a concern regarding the performance obligation approach as it requires the management, tracking and accounting for a number of aspects. These include the lease asset, the underlying asset, the lease liability and the lease expense. This exercise could prove to be tedious and costly.

Question 4 – Definition of a lease

a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

We agree with the definition of a lease.

b) Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?

We do not agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale. We believe the proposals in the Lease ED are inconsistency with the Revenue From Contracts with Customers ED. We believe that some transactions regarded as being a sale in accordance with B9 and B10 could regarded as being failed sale in the revenue ED.

We recommend that it should only be sales/purchases that meet the requirements of the Revenue From Contracts with Customers ED that should be accounted for as such. All other leases should be accounted for as in accordance with the Leases ED.

c) Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?

The guidance in paragraphs B1–B4 seems to be a replica of IFRIC 4. IFRIC 4 has a number of issues that require guidance. It is more pressing to have these issues clarified as the proposals require a fundamental change in the accounting. This is evident in cases where a distinctions needs to be made between a service contract and an operating lease. The following matters require more guidance:

- The meaning of “ability or right to operate”
- The term “specific asset”
- The term “unit of account”
Question 5: Scope exclusions

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

We agree with the scope of the proposed IFRS. However, we have a concern as to why intangible assets have been scoped out. Although we understand there is a wider project for intangible assets we are concerned that if such assets were included in the scope of the leases proposals that this would have significant concerns for our business. MTN has many telecommunication licenses and the license fees for such licenses are determined based on revenue earned. Calculation the lease liability for such licenses could be complex and extremely judgemental and we request the IASB consider this in light of the larger intangible project.

Question 6: Contracts that contain service components and lease components

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

We disagree with both the approaches to accounting for leases that contain service and lease components. This is because the approaches require the accounting for the combined contract as an asset or a liability and this could result in executor contracts being recognised in the financial statements. An example of this is where the lessee receives both IT assets and IT service from the lessor as part of a outsourcing/lease arrangement. Accounting for a full liability in relation to this could result in a liability related to services being recognised before the services are received.

Question 7: Purchase options

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

We agree that a lessee or a lessor should account for purchase options only when they are exercised. These should not be considered in determining the lease period unless a formal decision has been made by management to exercise such options.

Question 8: Lease term

Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We disagree with this principle that lease term assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.

The Framework 40(b) defines an asset as a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity. The proposed standard requires an entity to recognize a right of use asset for both the lease period and the optional lease period. The entity has control of the leased asset during the lease period does not control the asset over the optional lease period. This is because until the entity commits to the optional lease period it is uncertain as to whether this optional lease period will exist. Thus control
over the optional lease period cannot be proved. It is inconsistent with the Framework to recognize an asset that the entity does not control.

In addition to the above optional lease period has no past event. The entity is yet to commit and thus take control of this period.

Should the IASB proceed with this principle then we would recommend that the example in B17 be changed. We believe that this explanation to how the answer is derived is illogical. We recommend the example be revised. Below is the suggested solution.

\[(40\% \times 10) + (30\% \times 15) + (30\% \times 15) = 14.5\]

15 years is the answer as it is not possible to have a 14.5 years lease term in the example.

In assessing the probability of each term B18(b) states that other lessee-specific factors, such as lessee's intentions and past practice should be considered. We believe that the lessee's intention should not be considered for this purpose. Intention is not a concept considered in the Framework and even within the scope of IAS 32 we do not consider the effects of economic compulsion. Taking into account that an option to extend would be exercised as this is needed to manage the business going forward appears to consider the principles of economic compulsion. This could lead to manipulation of results and an increase in assets and liabilities of the entity.

We believe that when performing the proposed lease accounting the lessee or a lessor should determine the lease term as the period stipulated on the agreement without considering the optional extensions. This represents an asset and a liability in the hands of the lessee that meet the definitions in the accounting framework.

In a number of lease transactions post to the lease period but prior to the renegotiation of the lease term there can be a period where an asset is leased on a month to month basis. There has been no guidance on this matter in the proposals.

Furthermore, some leases provide the lessee with an option to extend but no terms are stipulated or the terms merely state at market related terms. It is not clear from the proposals whether such options should be considered.

**Question 9: Lease payments**

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?

Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

We agree that residual value guarantees should be incorporated as part of lease payments. However we do not agree that contingent rentals and expected payments under term option penalties should be included as leases payments. This is because contingent rentals do not meet the definition of a liability and do not meet the measurement criterion in the Framework. The Framework states that in order for a liability to be recognised it must be a present obligation and must be measurable. The contingent rentals become present obligations once the contingency or target has been reached. Due to its nature the contingent rental is difficult to measure. Thus it can
be said that the Framework requirements of a liability have not been met and thus no contingent rentals should be recognised.

The same can be said from the view of a lessor. The contingent lease receivable is not controlled by the entity and is not measurable. Thus the Framework requirements of an asset have not been satisfied.

Question 10: Reassessment

Do you agree that lessees and lessors should re-measure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what other basis would you propose for reassessment and why?

The proposals state that reassessment of contingent rentals, lease term, term option penalties and residual value guarantees should only be performed if there is an indication that there is a significant change in the lease payments. In order to make this assessment a new calculation of the lease liability needs to be performed to determine if there has been a significant change.

The term “significant” used for the purposes of offering some relief to the reassessment calculation has not been defined or explained. The IASB should explain the term “significant” so that financial statements prepares have a better indication when an adjustment to the lease accounting is required.

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We believe the sale and leaseback guidance should be consistent with the requirements of new revenue proposals. Therefore, if the performance obligation has not been satisfied no revenue can be recognised and therefore there would be no sale. Reference should be made directly to these new requirements as opposed to creating specific guidance in the leasing exposure draft.

Question 12: Statement of financial position

a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?

We agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease.

b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor
should disclose this information in the notes instead? What alternative presentation do you propose and why?

We agree that a lessor applying the performance obligation approach should present rights to receive lease payments and lease liabilities gross in the statement of financial position. We agree that the criteria for offsetting has not been met.

However we do not believe totalling a net lease asset or lease liability and presenting underlying assets separately should be done on the face of the balance sheet (statement of financial position). The underlying asset may be disclosed within property, plant and equipment. We agree that linking the underlying asset with its right to receive lessee payments and performance obligation liability is an important interdependency that should be presented in the financial statements. Should this information be presented on the face of the balance sheet (statement of financial position) it will create too many line items related to lease accounting and thus making the balance sheet (statement of financial position) appear disorderly. We believe that this disclosure should be done in the notes.

c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?

We agree that the lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment.

d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?

We agree that lessors should distinguish assets and liabilities that arise under a sublease in the balance sheet (statement of financial position). However we believe that this distinction should not be made on the face of the balance sheet (statement of financial position) but in the notes. We believe that this information should be presented on a gross basis in the same line items as other lessor accounting information.

Should this information be presented separately on the face of the balance sheet (statement of financial position) it will create too many line items for lease accounting, making the balance sheet (statement of financial position) appear disorderly.

Question 13: Statement of comprehensive income

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

Lessees

We agree with the lessee disclosure requirements.
Lessors

In paragraph 44 it states that a lessor shall present in profit or loss interest income on a right to receive lease payments, lease income resulting from satisfaction of a lease liability and depreciation expense on an underlying asset separately from other interest income, income and depreciation expense. This paragraph does not permit for an alternative disclosure such that this information to be disclosed in the notes. Such an alternative is available for lessees. We recommend that an alternative for note disclosure is made available. Should this information be presented separately on the face of the income statement (statement of comprehensive income) it will create too many line items for lease accounting, making the balance sheet (statement of comprehensive income) appear disorderly. In paragraph 62 it states that a lessor shall present in profit or loss interest income from rights to receive lease payments separately from other interest income. This paragraph does not permit for an alternative disclosure such that this information is disclosed in the notes. Such an alternative is available for lessees. We recommend that an alternative for note disclosure is made available. Should this information be presented separately on the face of the income statement (statement of comprehensive income) it will create too many line items for lease accounting and thus making the income statement (statement of comprehensive income) appear disorderly.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree with the proposals regarding cash flow disclosure.

Question 15: Disclosure

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

a) identifies and explains the amounts recognised in the financial statements arising from leases; and

b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We generally agree that lessees and lessors should disclose quantitative and qualitative information; exceptions to this have been detailed below.

Initial Direct Costs Capitalisation

We disagree with the requirement to disclose Initial Direct Costs. We see no value being added to Financial Statements users in this regard.
Disaggregated information

We find the requirements in respect to disaggregated information associated with the right-of-use asset disclose exhaustive. In the proposals require disaggregated information related to right of use assets by asset type and residual asset in a similar manner. This information can be best produced via relevant fixed assets register and fixed assets systems. Most entities currently have two fixed assets registers, one for accounting and the other for tax. In order for an entity to meet the requirements of the proposals an additional two fixed assets registers will be required — one for right-of-use assets by asset type and one for residual assets by asset type. This exercise could prove to be expensive.

IFRS 7 Disclosures

We agree that leases are a form of financing and thus extensive disclosure on their respective financial instruments should be disclosed. However the risks associated with Receivables/Payables and Interest Income/Interest Expense related to leases are of a different nature to Financial Instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement as stipulated in the proposals. Thus requiring the IFRS 7 disclosures could be irrelevant and exhaustive for lease receivables/payables and interest income/interest.

Maturity Analyses

We disagree with that Maturity Analysis selected by the IASB should be in line with the FASB Maturity Analysis for the purposes of comparability between the jurisdictions. The leases maturity analysis should be in line with the maturity of other financial instruments. This will ensure consistency and comparability for users for all financial instruments in the entity.

Question 17: Benefits and costs

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

We agree that the objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users of financial statements in making economic decisions. We agree that to achieve such an objective, it could come at a cost. However we believe that the costs associated to achieving this objective are exorbitant.

The following will need to be implement by the MTN Group to meet the requirements of this proposals

- Implementation of a new system to account and control for the new financial liabilities (lease liabilities) and financial assets (lease receivables). The MTN Group has over 30,000 leases. These are currently accounted for as operating leases. These leases are in respect of network base stations. In order to account for all of these this new system is similar to that of an entity in the financial services industry or the property industry. Most of these leases are sub let this lessor accounting is also required.

- The MTN Group would need to implement four fixed assets registers — one for owned assets, one for leased assets, one for tax and the other for residual assets. This would be costly to implement in 21 Countries (operations) across the Middle East and Africa. This fixed assets register would require as much as 7000 lines for the right of use assets associated with network base stat site. In a single operation there can be as much as 7000 base station sites.

- As the MTN Group has operations in a number of jurisdictions the 30 000 leases are unlikely to be homogeneous. Each operation would need separate implementation procedures as terms and conditions of contracts under different jurisdictions differ.
The MTN Group has a number of operations in third world countries where the economic environment does not bring about price stability. Thus prices of items are usually linked to CPI (Consumer Price Index). The unstable economic environment usually attracts considerable movements in the CPI. This movement could be significant from year to year resulting in a yearly adjustment to lease payments. Reassessment of contingent rental shall be difficult to implement. Costs associated with making these adjustments yearly such as hiring additional staff and investing in proved systems could be exorbitant.

The proposals may require re-negotiation of contracts with suppliers, lessors and lesees. Based on the number of contracts MTN has this could be costly.

Communication to stakeholders will need to be done to inform them on the drastic changes to the financial statements. The proposals will result in key financial ratios changing their shape. Timely and clear communication will assist in the avoidance of any misunderstanding.

Question 18: Other comments

Do you have any other comments on the proposals?

The following additional comments should be considered:

- There is a number of complex issues in the accounting standard and there have not been covered by illustrative examples provided to assist in understanding some of the principles. The examples provided highlight matters related to changes in the lease term. The IASB should include examples provided in the guidance regarding the following topics:
  - An example of a lease with contingent rentals, specifically examples where the variables regarding the contingent rentals change such that a reassessment of the lease payment is required.
  - More examples of the presentation and disclosure required in the proposals.
- MTN has a number of operations in developing countries. In the developed world it is common that transactions are concluded in a more foreign currency. This is usually done in countries where the local currency is unstable. There is no guidance in these proposals in relation to the treatment of foreign currency lease transactions. The translation of such balances into the functional currency of the MTN entity may cause significant volatility in the group’s financial statements. The Boards should clarify if such translation differences may also be accounted for against the asset.